October 5, 1943

AMERICAN EMBASSY,

CHUNGKING.

Please convey the following message from the President to Generalissimo Chiang Kai-shek upon the occasion of his inauguration on October 10 as President of the Republic of China:

QUOTE On the occasion of your inauguration as President of the Republic of China, I wish to convey to you my congratulations and best wishes for your success and personal well-being. Your elevation to the highest office in the Government of the Republic of China is recognition of the inestimable service you have rendered the Chinese people in the past and of the services you are to render in the future in leading them to victory, peace and freedom.

UNQUOTE

(Signed) ROOSEVELT
Send to

Mrs. Blanche Halla

Rm 207

State
For the President's approval.
CHUNGKING 52 11 2240 CHG

PRESIDENT FRANKLIN D ROOSEVELT
THE WHITE HOUSE WASHINGTON

I AM DEEPLY GRATEFUL FOR YOUR COURTEOUS CONGRATULATIONS ON MY INAUGURATION AS PRESIDENT OF THE NATIONAL GOVERNMENT STOP ON BEHALF OF THE CHINESE GOVERNMENT AND PEOPLE AND IN MY OWN NAME I WISH TO SEND YOU RECIPROCAL GREETINGS AND GOOD WISHES

CHIANG KAI SHEK
MK133 10-11-43

SSS CHUNGKING 193/187 11 2240 CHG ETAT QXTP

PRESIDENT FRANKLIN D ROOSEVELT
THE WHITE HOUSE WASHINGTON

I WISH TO THANK YOU MOST SINCERELY FOR SENDING ME AND THE PEOPLE OF CHINA THE GREETINGS AND CONGRATULATIONS OF THE AMERICAN PEOPLE ON THE ANNIVERSARY OF OUR NATIONAL DAY STOP I AM HAPPY TO RECALL THAT IT WAS ON THIS DAY

WRITE YOUR MESSAGE ON THE GREEN-TOP BLANK. FILE THROUGH POSTAL TELEGRAPH BY MESSENGER, TELEPHONE OR POSTAL TELEGRAPH PRINTER. BE SURE TO SPECIFY "VIA MACKAY RADIO." IF DESIRED, MESSAGES MAY BE TELEPHONED DIRECT TO MACKAY RADIO BY CALLING NATIONAL 1246.
MK133/2/50 PRES WA

LAST YEAR THAT THE AMERICAN GOVERNMENT GAVE FRESH PROOF OF ITS TRADITIONAL FRIENDSHIP FOR THE CHINESE PEOPLE BY PROPOSING THE IMMEDIATE ABOLITION OF EXTERRITORIALITY AND RELATED RIGHTS ENJOYED BY AMERICANS IN CHINA AND THAT THE SUBSEQUENT NEGOTIATIONS CARRIED ON IN A MOST CORDIAL ATMOSPHERE LED TO THE SPEEDY CONCLUSION OF
The following Message was received "VIA MACKAY RADIO,"

MK133/3/50 PRES WA

A NEW TREATY OF EQUALITY BETWEEN OUR TWO COUNTRIES WHICH WILL
FOREVER REMAIN A MOST VALUABLE MONUMENT TO SINOAMERICAN GOODWILL
STOP THE CHINESE PEOPLE ARE DEEPLY GRATEFUL FOR THE SYMPATHY
AND ASSISTANCE THEY HAVE RECEIVED FROM THE UNITED STATES IN
THEIR RESISTANCE TO JAPAN'S BRUTAL AGGRESSION AND THEY ARE FIRMLY
The following Message was received "VIA MACKAY RADIO,"

MK133/4/37 PRES WA

CONVINCED THAT THE WHOLEHEARTED COOPERATION OF THE UNITED NATIONS WILL INSURE NOT ONLY AN EARLY VICTORY OVER OUR COMMON ENEMIES BUT ALSO AN ERA OF LASTING PEACE AND UNPRECEDENTED PROSPERITY IN THE POSTWAR WORLD

CHIANG KAI SHEK
Jeff. National Airport
Room 1845
Army Air Force Annex
No. 1
General C. R. Smith's office
October 18, 1943.

My dear Generalissimo:-

Mrs. Roosevelt is sending a small package to Madame Chiang and I am enclosing in it for you a belt made by the American Indians. It represents a revival of their ancient silversmith work.

By the time you get this you will have heard from me in regard to a coming conference and, therefore, I am looking forward, with great hope, to a meeting with you relatively soon.

With my warm regards,

Very sincerely yours,

Generalissimo Chiang Kai-shek, President of the Republic of China, Chungking, China.
Chungking, 20 October, 1/43.

My Dear Mr. President,

I take the opportunity of General Somervile's return to Washington to send you a little note to express my appreciation of what you are doing to help China.

General Somervile was
doubtless report in detail all that has taken place since his coming to Chungking. In addition he vice convey to him by the Generalissimus' views on certain matters entrusted to him by the Generalissimus. Indeed, I need only add that the Generalissimus is most favorably impressed with General Somervilles personality and ability as a soldier. On my part I am exceedingly
pleased to renew my acquaintance with him, and find him the same delightful and engaging friend whom I met while visiting you and Mrs. Roosevelt.

I wish to assure you that in view of the importance of the coming Burma campaign, and in appreciation of your efforts to hasten the opening of a lifeline for China, I am devoting all my time and energy in helping to facilitate the work of the Americans.
military staff. Important, as it doubtless is, to continue the direction of women's war work and other relief organizations, I am sure that I am in no wise agree with me that the greatest contribution I can make to hasten our common victory is to concentrate my attention on the furtherance of the Russian campaign.

The Generalissimo joins me in sending warm regards to you and Mrs. Roosevelt.

Sincerely yours,
Mayo Robespierre
MEMORANDUM FOR MISS TULLY:

There is transmitted herewith a copy of the message sent by the President to Generalissimo Chiang Kai-shek.

George T. Summerlin
October 20, 1943.

U.S. URGENT

AMERICAN EMBASSY,

CHUNGKING (CHINA).

Please convey the following message from the President to Generalissimo Chiang Kai-shek on his birthday October 31.

QUOTE Upon the anniversary of your Excellency’s birthday it gives me great pleasure to extend heartiest good wishes for your health and happiness and for the well-being of the people of China, who have the sympathy and admiration of the people of this country for their valiant defense against aggression. The American people are joined in spirit and in arms with the people of China and the people of all of the United Nations in the firm determination that freedom and justice shall be preserved and peace made secure. I am confident that this goal will be achieved for the Chinese people under your Excellency’s wise and able leadership. Franklin D. Roosevelt.

UNQUOTE.

FE: EPS: MJK

FE

FR
November 3, 1943

Respectfully referred for the
files of the Department of State.

M. H. McIntyre
Secretary to the President

Transmitting copy of radiogram which the President received
from Chiang Kai-Shek, Chungking, received November 2, 1943,
thanking for the President's message of birthday greetings.
Original message retained for our files.
The following Message was received “VIA MACKAY RADIO,”

MK41/2

CHUNGKING 88 2 1830 GHG

PRESIDENT FRANKLIN D ROOSEVELT

THE WHITE HOUSE WASHNDC

PLEASE ACCEPT MY HEARTY THANKS FOR YOUR KIND MESSAGE OF

CONGRATULATIONS ON MY BIRTHDAY STOP YOUR WARM FRIENDSHIP FOR CHINA

IS SINCERELY APPRECIATED BY THE PEOPLE OF THIS COUNTRY WHO ARE MOST

GRATEFUL TO THE UNITED STATES FOR HER SYMPATHY AND ASSISTANCE

WRITE YOUR MESSAGE ON THE GREEN-TOP BLANK. FILE THROUGH POSTAL TELEGRAPH BY MESSENGER, TELEPHONE OR POSTAL TELEGRAPH PRINTER. BE SURE TO SPECIFY “VIA MACKAY RADIO”. IF DESIRED, MESSAGES MAY BE TELEPHONED DIRECT TO MACKAY RADIO BY CALLING NATIONAL 1246.
The following Message was received “VIA MACKAY RADIO,”

MK41/2/38

STOP WE FULLY SHARE YOUR CONFIDENCE IN THE VICTORY OF THE UNITED NATIONS AND HAVE THE DEEPEST ADMIRATION FOR THE GREAT ROLE THE AMERICAN PEOPLE ARE PLAYING IN OUR COMMON WAR EFFORT UNDER YOUR LEADERSHIP STOP

CHIANG KAI-SHEK
HEADQUARTERS OF THE GENERALISSIMO
CHINA

Cairo
26 November 1943

My Dear Mr. President:

I am very glad to hear from you, and I hope, judging by your letter, that you are in reasonably good health. I am still in Camp, and the letters are not very readable. But the Generalissimo wishes me to tell you again how much he appreciates what you have done and are doing for China. When he said good-bye to me in the afternoon, he could not find words adequately
express to convey his emotions and feelings, nor to thank you sufficiently for your friendship. It's felt too the warmth of farewell, although he feels that only a short while will elapse before his next meeting with you. Meanwhile, he hopes that much nice considers him as a friend whom you can trust. He on his part finds joy and comfort in the bonds of affection and confidence between him and him. The strengthened will in please one look this
HEADQUARTERS OF THE GENERALISSIMO
CHINA

The inadequate interpretation of this view, Mr. Shaw had a full day, and my brain simply
cannot encompass what he conveyed to me to pass on to

On my own behalf, Mr. Presid-
ent, please remember that as I
write this, my heart overflows
with affection and gratitude for
what I have been done, and for what
I am now.

Very truly,

[Signature]
MEMORANDUM FOR THE PRESIDENT

SUBJECT: Ambassador Gauss' despatch No. 1693
on China's War Effort

An interesting despatch dated October 18 has recently been received from Ambassador Gauss. The conclusion of the despatch is as follows:

"In conclusion, I would say that while we have perhaps succeeded in impressing upon some officials the need for increased and more effective war effort on the part of China and while also there may be resulting some minor improvement in some aspects of the situation, we cannot safely count under present conditions (which involve of course the question of equipment for the Chinese forces) on effecting any significant psychological change in the Chinese attitude which will impel China's leaders and soldiers to put forth materially greater effort in the war against Japan. The Chinese have persuaded themselves that the war in Europe will shortly end and that the United States, possibly with help from Great Britain, will defeat Japan; that the Chinese are too tired and too worn and too ill-equipped to make greater effort, especially when such effort may not be necessary; and that the Chinese can sit back, holding what they have against the Japanese, and concentrate their planning upon China's post-war political and economic problems."
MEMORANDUM FOR GENERAL WATSON:

Dear Pa:

I am enclosing herewith a copy of a note which has been received from the Chinese Ambassador, quoting a message to the President from General Chiang Kai-shek.

George T. Summerlin

Enclosure:
Copy of note dated December 8, 1943.
CHINESE EMBASSY
Washington
December 8, 1943

My dear Mr. Secretary:

I have the honor to inform you that I have just received the following message, dated December 7, 1943, addressed by the Chairman of the National Government of the Republic of China to the President of the United States of America:

"I find it difficult to express the great pleasure I felt in meeting you. Madame Chiang was particularly delighted to see you again shortly following the memorable visit to your country.

"Our recent conference in the neighborhood of Cairo is momentous and historic. The official communique is hailed by the Chinese army and people, just as it is hailed elsewhere. In heralding a sure and complete victory, the conference crystalized as never before our war aims in the Far East. It vindicated the full cooperation and firm solidarity of the United Nations. While giving renewed impetus to every soldier and civilian on our side, it sealed the fate of Japan, our ruthless common enemy. It has in fact laid the corner stone of a just and lasting peace after the unconditional surrender of the Axis powers. Because of your high ideal of justice, the conference proved a success which will, I am certain, have favorable repercussions in the world military situation.

"May I express to you my deep appreciation for the noble spirit and broad vision you have consistently shown

Honorable Cordell Hull,
Secretary of State."
shown in dealing with world problems particularly for the unfailing assistance you have repeatedly rendered to China.

"Madame Chiang joins me in sending you our heartiest greetings and she wishes to be kindly remembered to Mrs. Roosevelt."

I shall be greatly obliged if you will be good enough to transmit the above message to its high destination.

I am, my dear Mr. Secretary,

Very sincerely yours,

WEI TAO-MING
This telegram has been distributed to:

Please advise the Division of Communications and Records if further distribution should be made.

[Handwritten annotations]
This telegram must be closely paraphrased before being communicated to anyone. (SC)

Secretary of State,
Washington.

Dated December 9, 1943
Rec'd 7:28 p.m.

2361, December 9, 3 p.m. (SECTION ONE)

STRICTLY CONFIDENTIAL FOR THE PRESIDENT AND THE SECRETARY AND UNDER SECRETARY. NOT FOR DISTRIBUTION.

One. The Embassy has recently had several intimations that China proposes soon to ask the United States for another substantial political loan.

We here perceive no sound basis, political or economic, for supporting any such loan proposal at this time.

China does not lack substantial United States dollar resources, government and private. Including the 200,000,000 included for the purchase of American gold, government balances in the United States are believed to be in excess of 300,000,000 and to be mounting very substantially each month. Private holdings are estimated at between 4 and 500,000,000.

It is not feasible for China to mobilize her United States dollar resources to combat internal inflation.
inflation, and the manner in which the half billion dollar American credit was employed does not inspire confidence that a further loan would be better handled. Further, China has not yet begun to use the British sterling credit granted at the same time as the American loan.

Even if the Burma Road is re-opened, China has adequate resources to finance purchase of such commercial goods as could be permitted to be brought in. While the war continues the Burma Road would need to be restricted principally to military supplies and equipment and most of these would be Lend-Lease.

From the political angle, there is now no need for any further loan. The military action of the United Nations promising eventual complete victory and restoration to China of all lost territory, there is no reason to fear that China might seek a separate peace. It is true that there is gradual increasing deterioration in the whole Chinese structure, military, economic and administrative but a further American loan at this time would not improve that situation or retard the deterioration.

China's
China's political and territorial aspirations have largely been assured by the pledge to continue the war until the unconditional surrender of Japan, by recognition of China in the Moscow Declaration and at the Cairo Conference as one of The Big Four Powers, and by the Cairo Declaration, which appears to be particularly reassuring in reference to Manchuria toward which area China has feared possible Soviet ambition.

Two. Constant careful observation of the situation in China, leads to the conviction: (a) that there is a strong disposition in the Chinese Government to exploit to the full the existing open handedness and good will of America, with little or no thought of accepting any refusal of Chinese requests or of giving any quid pro quo or even of considering mutual benefits; (b) that there is growing complacency in regard to the war, extending up to many influential officers and advisers to President Chiang, who are disposed to feel that China has done her full part in resisting the Japs for more than six years and that America should now undertake the full burden of the conflict; and (c) that in discussions for the formulation of plans for a new
a new and powerful China the tendency is distinctly toward a closed economy designed solely for Chinese benefit and definitely away from those liberal principles for mutually beneficial world economy set forth in Secretary's address on July 16, 1937, the Hull quo exchange of notes of May 1941, the Mutual Aid Agreement of June 2, 1942 and other expressions of our post-war objectives.

No fair minded observer can fail to credit China for containing in this country a substantial Jap force which might otherwise be used against us elsewhere. (Soviet Russia has done likewise on the Siberian-Manchurian border).

GAUSS

EDA
EMH
This telegram must be closely paraphrased before being communicated to anyone. (SC) Chungking

Dated December 9, 1943
Rec'd midnight, 10th

Secretary of State,
Washington.

2361, December 9, 3 p.m. (SECRET TWO)

No one familiar with the condition of China's armies and the logistics of the military situation in the China theater could expect any substantial major military effort by China against Japan. But there is nevertheless a great deal that China can and should do but is not doing, within the scope of Chinese resources and ability, to help herself and thus further the war effort by giving whole-hearted assistance to the American air force and other American operations in this theater and by reasonable and equitable arrangements for the American financing the war in the China area.

Within recent months at the instance of General Stilwell the Embassy has been exerting constant quiet in political quarters to impress upon China the necessity of getting on with such works as the construction of new air fields, construction and improvement of roads for military transport
military transport and communication purposes, etc. Investigation has shown that Chinese budgets for such purposes have been cut and have only been restored under pressure and that funds appropriated have been long delayed in being issued by the Treasury thus delaying the work. Quiet confidential investigation in assistance to our army has disclosed indications of extensive corruption, jealousies, delays and sabotage of honest effort.

Our army is paying out large sums monthly in financing airfield installations, paying transportation charges, etc. These payments run to twenty or more million American dollars monthly and are constantly rising. Our costs are stated to be from eight to ten times those which would be incurred in the United States (repeat in the United States) for similar facilities and services due to Chinese insistence on maintaining a fantastically arbitrary exchange rate for Chinese dollars against United States dollars.

With the runaway inflation in China prices of commodities and services have increased sixteen to eighteen thousand percent (160 to 180 times) over 1937 levels and are continuing to increase at a rate of about ten percent monthly.
percent monthly. But the Chinese dollar has been pegged at five cents United States currency against a prewar rate of thirty-three cents. In relation to price levels and prewar exchange rates the Chinese dollar should not now be worth more than one half cent to one cent. Proposals made for some exchange adjustment or arrangements under reverse lend-lease have been evaded. The army continues its heavy and increasing monthly expenditures at the arbitrary rate and China meanwhile is quietly building up a substantial United States dollar reserve at our expense.

Some may argue that in her present deplorable economic position China is unable to assist the United States financially in our war expenditures in this country. I do not suggest that China should bear such expenses but I suggest that China should not exploit the United States in the matter. China should be encouraged to realize that it is blessed to give as well as to receive and that by helping us she will be helping herself.

In the face of all the foregoing, I am of opinion that no further American political loan to China can be justified at this time.
Three. I am convinced that there should be a quiet but persistent forming of our attitude toward China that it should be emphasized that mutual benefit is requisite in all our inter-governmental arrangements and exchanges, that Chinese should be impressed with the necessity of an all-out effort within the limits of her resources and ability toward winning the war toward helping herself by helping us in our war effort in the China theater and that a more realistic and equitable attitude must be insisted upon from China in reference to the exchange financing of our American expenditures for military and government purposes in this theater.

Four. On the subject of Chinese tendency toward a closed economy in the postwar period strongly recommend that we should without further delay quietly put China on notice as to our expectations before she adopts policies which for reasons of oriental face she may not later be willing to alter, by opening negotiations for our commercial treaty, advancing our proposals regarding the treatment of American commerce and American financial and industrial interests, emphasizing the necessity for mutual consideration and mutual benefit and insisting that Americans and American interests in China all enjoy rights and
6261, December 9, 3 p.m. (SECTION T.O) from Chungking

rights and privileges comparable to those enjoyed by
Chinese in the United States.

END OF MESSAGE.

GAUSS

MRM
A strictly confidential telegram of December 9, 1943, from the American Embassy at Chungking reads substantially as follows:

Recently numerous intimations have been received by the Embassy that the Chinese Government will approach the Government of the United States for another substantial loan of a political character.

The Embassy does not see any sound basis for giving its support at this time to any such a proposed loan either on economic or political grounds.

There is no lack in China of government and private United States dollar resources. Government balances in the United States, including the dollars 200 million allocated for the purchase of American gold, are thought to be over 300 million dollars and to be increasing each month very substantially. It is estimated that private holdings are between 400 million and 500 million dollars. As a means of combating internal inflation it is not practicable for China to mobilize her United States dollar inflation and the way in which the 500 million dollar American credit was used does not lead to confidence that there would be a more effective handling of a further loan. Moreover, the British sterling credit made available at the same time as the American loan China has not yet commenced to use.

China has sufficient resources to finance the purchase of such commercial commodities as could be allowed to be introduced even if the Burma Road is reopened. The Burma Road would have to be restricted as long as the war continues principally to military equipment and supplies, most of which would be Lend-Lease.

There is now no need for any further loan from a political standpoint. There is no reason to apprehend that China might seek a separate peace in the light of the military action taken by the United Nations promising complete victory eventually and the restoration of all lost territory to China. It is a fact that, in the whole of China's structure, economic, administrative, and military, there is a gradual increasing deterioration but that situation would not be improved, or deterioration retarded by a further American loan at this time. The pledge to continue the war until Japan has surrendered unconditionally, recognition in the Moscow declaration and at the Cairo conference of China as one of the four great powers, and the Cairo declaration which seems to be reassuring, especially in
reference to Manchuria, in regard to which China has been apprehensive of possible Soviet ambitions, have, for the most part, made sure China's territorial and political aspirations.
Two. The situation in China having been under careful and constant observation leads us to have the convictions which follow: (i) complacency in regard to the war is growing and extends through advisers and influential officers to the Generalissimo. Their disposition is that in resisting the Japs for more than six years China has done her full share and that the full burden of the conflict should now be undertaken by the United States. (ii) A strong disposition exists in the Chinese Government to exploit to its fullest American good will and open handedness which exist and with apparently little or no thought being given by America to refusing China's requests. (iii) Tendency in the formulation of plans and discussions in connection with a powerful and new China shows a definite trend towards a closed economy by which China would be the sole beneficiary and veers distinctly away from those liberal principles set forth in the Hull-quo (sic) exchange of notes of May 1941, the Secretary of State's address of July 16, 1937, the Mutual Aid Agreement of June 2, 1942 and other expressions of our post-war objectives for a mutually beneficially world economy.

China must be given credit by any fair minded observer for continuing to keep occupied in China a very large Japanese force which would be used elsewhere if not fully occupied in China. On the Siberian-Manchurian border Soviet Russia has done likewise.
No substantial major military effort by China against Japan could be expected by anyone familiar with the logistics of the military situation in the China theater and with the condition of China's armies. Nevertheless, there is much that could and should be done by China but that China is not doing, within the scope of its ability and resources, to help herself and thus promote the war effort by wholehearted assistance to the American Air Force and to other American operations in this theater and by making equitable and reasonable arrangements for the American financing of the war in this area.

At General Stilwell's instance, the Embassy within recent months has been exerting in political quarters a constant quiet effort to impress upon China the necessity of getting ahead with works, such as new air fields, building and improving roads for military transport and communication, etc. It has been found by investigation that China has cut its budgets for such purposes and only under pressure have they been restored. It has also found that there has been long treasury delay in issuing appropriated funds and that the work has thus been delayed. Investigations quietly and confidentially made in assistance to our army have shown indications of extensive corruption, of jealousies, of delays, and of sabotage of honest effort.

Large monthly sums are being paid out by our army to finance air field installations, pay transportation charges, etc. The monthly amounts run to twenty million American dollars or more and are constantly rising. It is stated that our costs are from eight to ten times what would be incurred in the United States for similar facilities and services, this being because the Chinese insist on maintaining a rate for Chinese dollars against United States dollars which is fantastically arbitrary. Runaway inflation in China is such that prices of goods and services have increased 160 to 180 times (16,000 to 18,000 percent) over 1937 levels and the increase in prices continues at a rate of about ten percent per month. The Chinese dollar, however, has been pegged at five cents United States currency (the pre-war rate was thirty-three cents). The Chinese dollar, in relation to price levels and pre-war exchange rates, should not now be worth more than one-half cent to one cent. China has evaded proposals which have been made for some adjustment of exchange or some arrangements under reverse lend lease.

The heavy and increasing monthly expenditures of the Army continue at the arbitrary rate while China quietly builds up at our expense a substantial United States dollar reserve.

It may be
It may be argued by some that China in its present deplorable economic position is not in a position to assist the United States financially in our war expenditures within China. It is not my suggestion that such expenses should be borne by China but I suggest that China should not exploit the United States in the matter. Realization by China that it is blessed to give as well as to receive and that she will be helping herself by helping us should be encouraged.

I am of the opinion that at this time no further American political loan to China can be justified in the face of all the foregoing.

3. It is my conviction that our attitude toward China should be quietly and persistently firmed; it should be emphasized that there is need for mutual benefit in all our intergovernmental arrangements for exchanges; the necessity of an all-out effort within the limits of China’s resources and ability toward winning the war and helping herself by helping us in our war effort in this theater should be impressed on the Chinese, and that there be insistence upon a more equitable and realistic attitude by China in regard to the exchange financing of our American expenditures in this theater for governmental and military purposes.

4. Referring now to the Chinese tendency toward a closed post-war economy, I recommend strongly that without further delay we should quietly put China on notice as to what we expect before policies are adopted by China which later for reasons of oriental face she may not be willing to change, by opening negotiations for our commercial treaty, advancing our proposals in respect of the treatment of American commerce and American financial and industrial interests, emphasizing that mutual consideration and mutual benefit are necessary, and insisting that rights and privileges comparable to those which Chinese enjoy in the United States should be enjoyed by all Americans and American interests in China.
MEMORANDUM FOR THE PRESIDENT

You have spoken of the request of Generalissimo Chiang-Kai-Shek for an additional $1 billion of financial aid to China to be used to help control inflation and for postwar reconstruction.

I

The facts regarding inflation in China and the possibility of its control through the use of dollar resources are as follows:

Inflation in China, as you well know, arises from the grave inadequacy of production for war needs and essential civilian consumption. Supplies have been drastically reduced by enemy occupation and the cutting off of imports except the small amounts that come by air or are smuggled from occupied territory.

The Chinese Government cannot collect sufficient taxes or borrow from the people in adequate amounts. As a consequence, the Government has been issuing 3.5 billion yuan a month, twice the rate of a year ago.

The official exchange rate for yuan is now 5 cents; before China entered the war it was 30 cents. The open market rate for yuan in U. S. paper currency is one cent and in terms of gold one-third of a cent.

You have suggested the possibility of our selling dollar currency for yuan to be resold to China after the war at no profit to us. No doubt something could be done to alleviate inflation through the sale of gold or dollar currency in China. I have received the following message from Dr. Kung dated December 14:

"You will be pleased to hear that the recent gold shipment is one of the outstanding factors contributing to the strengthening of fapi, because people believe that the arrival of gold has in-

FOR VICTORY
BUY UNITED STATES WAR BONDS AND STAMPS
creased the much needed reserve of our currency, thereby influencing the stability of prices. The action of the United States Government re-affirms to the Chinese people that, despite difficulties arising from the blockade and the cumulative effects of over six years of war against the invasion, China has a powerful friend desirous of strengthening China's economy as conditions permit."

However, while something could be done to retard the rise in prices, the only real hope of controlling inflation is by getting more goods into China. This, you know better than I, depends on future military operations.

II

China has tried two similar monetary remedies for alleviating inflation without marked success.

1. The Chinese Government issued and sold dollar securities for yuan, setting aside $200 million of the aid granted by this country for the redemption of the securities. (These securities were sold at exorbitant profit to the buyers. For instance, a person holding $100 in U. S. currency could have quadrupled his money in less than two years by selling the currency for yuan on the open market and buying the dollar securities issued by the Chinese Government.) I believe that the program made no significant contribution to the control of inflation.

2. The Chinese Government has recently been selling gold at a price in yuan equivalent to $550 an ounce, about fifteen times the official rate. We have shipped to China more than $10 million of gold and they have sold about $2 million of gold for yuan. This program has not been tried sufficiently to warrant any definite conclusion as to its possible effect.

China now has $460 million of unpledged funds in the United States and is getting about $20 million a month as a result of our expenditures. China could use these funds in selling gold or dollar assets for yuan, although in my opinion such schemes in the past have had little effect except to give additional profits to insiders, speculators and hoarders and dissipate foreign exchange resources that could be better used by China for reconstruction.
Under the circumstances, a loan to China for these purposes could not be justified by the results that have been obtained. It is my opinion that a loan is unnecessary at this time and would be undesirable from the point of view of China and the United States. Large expenditures on ineffective measures for controlling inflation in China would be an unwise use of her borrowing capacity which should be reserved for productive uses in other ways. On reconstruction, it is too soon for us to know the best use or the best form of the aid we might give to China.

Recommendations

For the past five years I have had a deep admiration for the valiant fight that the Chinese people, under the leadership of Chiang-Kai-Shek, have waged against Japanese aggression. Therefore, I am in complete sympathy with your position that no stone be left unturned to retard the rise in prices. Using the tools we have at hand, I recommend the following:

1. All U. S. expenditures in China, currently 400 million yuan a month and rising rapidly, be met through the purchase of yuan with gold or dollar currency at whatever price we can get them for in the open market. This is equal to more than 10 percent of the present rate of issue.

2. Accelerate the shipment of gold purchased by China to twice the amount we have previously planned to send. It should be possible to raise gold shipments from $6 million a month to about $12 million. At the present price for gold in the open market this would be equal to the present 5.5 billion of yuan currency that is being issued.

The impact of this two-fold program should contribute to retarding inflation, always bearing in mind that the basic reason for inflation in China is the shortage of goods.

Henry Morgenthau, Jr.
Published in

*Foreign Relations of the United States* 1943  China

pp. 178-180.
MEMORANDUM FOR THE PRESIDENT:

One of the Air Corps officers on the plane with the Generalissimo and Madam Chiang Kai-shek, brought this personal letter to you and one to Mrs. Roosevelt. They also sent a present to Mrs. Roosevelt. Her letter and present have been delivered by the officer to Malvina, and I hand you herewith this letter from the Generalissimo.

E. M. W.
HEADQUARTERS OF THE GENERALISSIMO
CHINA

Confidential

Chungking, Szechuan
December 5, 1943

My dear Mr. President:

The Generalissimo and I arrived in Chungking on the morning of December 1st. On our way we inspected the training of the Composite Wing in Karachi. We also stopped at Ramgarh for the day to inspect the troops and to attend the practice of tanks and artillery and finally, late that night, we stopped at Chabau where we had a conference with the generals commanding the forces at the Ledo front. Admiral Mountbatten met us at Ranchi and accompanied us to the Ramgarh manoeuvres. You will be glad to know that the Generalissimo was delighted with the training and spoke to the troops exhorting them to give their best in the coming Burma campaign.

Since our homecoming the Cairo communiqué has been published. Its effect of uplifting the morale of our army and the people has been electric; in fact the entire nation is articulate to a degree that has never been known before in unanimously hailing the conference as a sure sign-post leading the Far East towards post-war peace. The leadership which you so eminently displayed and the magnificent spirit permeating all that you are undertaking for the good of humanity are subjects of conversation amongst all Chinese circles. The consensus of opinion is that "President Roosevelt is a great man and he does things in a truly great spirit."

Immediately upon our return the Generalissimo consulted with Dr. Kung regarding the feasibility of the plan which you suggested in our conference regarding the alleviation of China's urgent economic situation. Dr. Kung has studied its possibilities
with great care and he wishes me to tell you that, in his opinion, your suggestion is both generous and kind and he thinks some feasible procedure could be worked out with the aid of Secretary Morgenthau. He appreciates the interest and concern you have shown in helping us to fight aggression not only with the military machine, but with economic weapons as well. He is impressed with the fact that you see with such clear foresight and vision that, in order to continue resistance, methods and means must be evolved to hold intact China's economic security, a fact which you doubtless will remember that the Generalissimo emphasized was even more critical than the military.

The Generalissimo is now thinking of asking Dr. Kung or his appointee, empowered with full credentials, to go to Washington to discuss the details with the American Government and would like to know whether this is satisfactory to you. It would, of course, be best if Dr. Kung could go himself, but, failing that, he will send one of his trusted men to go in his stead.

I need not tell you how grateful we feel that you have promised to speak to the Treasury about the two hundred million gold bar arrangement.

The Generalissimo wishes me to thank you again for your promise to help stabilize the Fapi.

With all good wishes,

Yours very sincerely,

[Signature]

(Madame Chiang Kai-shek)

President Franklin D. Roosevelt
The White House
Washington, D.C.

P.S. I do hope "Uncle Joe" came up to expectations. Did he?
THE WHITE HOUSE
WASHINGTON

December 23, 1943.

MEMORANDUM FOR THE PRESIDENT:

The situation to which the Ambassador calls attention is causing great resentment on the part of all Government and private agencies dealing with China.

Lauchlin Currie
Excerpt from Cable #2365 from Ambassador Gauss, Dec. 10, 1943.

"It is felt by me that since China is highly sensitive to U.S. public criticism and opinion, some carefully controlled publicity regarding existing arbitrary exchange situation in China as affecting the costs which must be paid by us for financing the war effort here -- costs 8 to 10 times those payable for comparable services and facilities in the United States -- and a possible suggestion of interest in the matter on the part of Congress would be beneficial here in lighting a fire under those persons inclined to be evasive and non-cooperative and desirous of continuing to exploit the situation for the purpose of accumulating large reserves of U.S. dollars out of our expenditures for the War effort."