PSF: China Jan. - June 1944

China folder
1-44

Confidential

THE WHITE HOUSE

WASHINGTON

January 3, 1944.

MEMORANDUM FOR

THE SECRETARY OF STATE:

I am enclosing herewith a message for the Generalissimo, which I wish you would read and send.

I am also enclosing a copy for your files.

F.D.R.

THE WHITE HOUSE

WASHINGTON

January 3, 1944.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY:

FOR YOUR INFORMATION.

F.D.R.

January 3, 1944.

FOR: GENERALISSIMO CHIANG KAI-SHEK

I have had the "flu" for the past few days and am only just able to attend to the vast amount of work.

The Secretary of the Treasury has sent me a recommendation which I hereby quote to you just as it was written:

" 1. 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 increased 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.

2. 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 per cent 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 3.5 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."

I think, however, that in addition to this program we should have a very high-class Commission visit Chungking and confer with both you and Dr. Kung and try to work out a complete meeting of the minds on this difficult matter.

This happens to be the first telegram I have sent in 1944 and it carries to you and to Madame Chiang very warm regards from my wife and myself.

ROOSEVELT

W. M. W. telephoned
to say C. H. suggests
that an important mission
be sent to China to study
the situation — W. M. W.
agrees —

December 18, 1943

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-

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~~STRICTLY CONFIDENTIAL~~

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.

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REGRADED UNCLASSIFIED

~~STRICTLY CONFIDENTIAL~~

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 3.5 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.

[illegible], jm
12/19/43

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~~STRICTLY CONFIDENTIAL~~

THE WHITE HOUSE

WASHINGTON

December 31, 1943.

MEMORANDUM FOR THE PRESIDENT:

The Secretary of the Treasury called me this morning to ask:

(1) If you sent the message to the Generalissimo which he gave to you about a week ago and

(2) If so, have you had any answer?

G.G.T.

Grace —
I haven't sent any message yet —
FDR

Attach to memo of 1/5/44

This is all we have in our Chiang Kai-shek file since Jan. 1st

Map Room does not have any letter to him at all —

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THE SECRETARY OF STATE
WASHINGTON

January 5, 1943

MEMORANDUM FOR THE PRESIDENT

We are sending off your message to President Chiang Kai-shek regarding the question of the loan. It occurs to me that it would be helpful were we to have Ambassador Gauss deliver the message by hand and accompany its delivery with an oral statement. Toward putting into effect such a procedure, we might give Gauss an instruction such as is indicated in the draft here attached. I would appreciate having an expression of your reaction to this proposal. If you favor this can you have one of your secretaries notify me so that I can have Ambassador Gauss withhold the telegram for a few hours until the proposed Section 2 is received?

C. H.

O.K.

F. D. R.

Section II.

It is to be expected that this message will be disappointing to the Chinese. The Department feels that it would be well for you in your discretion to deliver it in person and to accompany the delivery with an oral statement to the effect that although on its face this message may sound unresponsive to the Chinese request, it constitutes in fact an evidence of the President's confidence in President Chiang and his feeling that there exists between Chiang and himself so firm a relationship of mutual and reciprocal friendly understanding that he is willing to lay before Chiang the exact text of the opinion expressed to him by his principal financial adviser, the Secretary of the Treasury. This is a clear indication of a desire to discuss the question involved on its merits and without reservations or concealment. The many factors involved in the problem of China's finances and of affording of financial assistance by the United States to China make the whole question very complicated. The President's expression of his desire to send to China a commission of high quality for the purpose of considering and discussing with the Chinese all angles of this and related problems is clearly indicative of a

desire

desire to handle the whole matter in a manner which will be to the real advantage both of China and of the United States.

PA/H:SKH:MKW
1-5-44

PA/H

FE

(2400)

hms

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DEPARTMENT OF STATE

THE SECRETARY

January 15, 1944

MEMORANDUM FOR THE PRESIDENT

In pursuance of your memo of January 14, 1944 there is attached for your consideration the draft of a telegram which it is proposed to send to the American Ambassador at Chungking in reference to the Embassy's telegram of January 13 communicating a message from Mr. Adler to the Secretary of the Treasury.

C H

OK

FDR

Carbon initialed & returned W State 1/17/44

C.H.

xx xx

"SC"

AMERICAN EMBASSY,

CHUNGKING (CHINA).

The Treasury Department having now signified to the War Department and to us that it no longer desires that the War Department withhold action on a financial agreement with the Chinese Government, we have now reached an understanding with the War Department on the basis of which this Department will expect within two or three days to issue you instructions concurrently with action by the War Department in instructing General Stilwell. Those instructions relate to the problem presented by the difficulties mentioned in Adler's message to the Secretary of the Treasury communicated in your number 87, January 13, 2 p.m.

In this connection please consider also our telegram number 61, January 12, Midnight, reporting a conversation which officers of the Department had with the Chinese Ambassador on January 6.

FE:JWB:MKW FE

PA/H
FE

THE WHITE HOUSE
WASHINGTON

copy
E.B.

January 14, 1944.

MEMORANDUM FOR

THE SECRETARY OF STATE:

Will you please let me see the reply to this before it goes?

F.D.R.

ADVISER ON POLITICAL RELATIONS
MR. HORNBECK
JAN 14 1944
DEPARTMENT OF STATE

HEL
This telegram must be closely paraphrased before being communicated to anyone. (SC)

Chungking

Dated January 13, 1944

Rec'd 1:50 p.m.

Secretary of State,

Washington.

U.S. URGENT.

87, January 13, 2 p.m.

SECRET.

I hear from a most reliable source that:

(A) Work is proceeding on only four of seven bases China promised to construct and for which we were to pay. Three bases on which work is not proceeding are much more urgently needed than the others; in fact, delay in their construction will seriously impede war effort this theatre. Reason China is holding up work on them is that we have not committed ourselves to pay for them at official exchange rate.

(FROM ADLER TO SECRETARY OF THE TREASURY ONLY)

(B) In addition China undertook to build other bases for which she is to pay. No (repeat no) work being done on these bases.

Understand White House will be interested in this information which should not be communicated to other sources in view of its delicate character.

GAUSS

REP

E. M. Bernstein
Tel. 696 - Treas.
Asst. Chief Monetary & Reserve Div.

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THE WHITE HOUSE

WASHINGTON

January 14, 1944.

MEMORANDUM FOR

THE SECRETARY OF STATE:

Will you please let me see the reply to this before it goes?

F.D.R.

Secret telegram, 1-13-44 to Secretary of State, from Ambassador Gauss, Chungking, re work is proceeding on only 4 of 7 bases China promised to construct, for which we were to pay, reason being that we have not committed ourselves to pay for them at official exchange rate. Embodied in telegram is message from Adler to Secy. Treasury, saying that in addition China undertook to build other bases for which she is to pay - no work being done on these.

/

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file
personal

THE WHITE HOUSE
WASHINGTON

January 19, 1944.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

I find a delayed letter from Madame Chiang which suggests that the Generalissimo would be willing to send Dr. Kung to Washington. Don't you think that would be a good idea and that we should accept it?

F. D. R.

THE UNDER SECRETARY OF THE TREASURY

WASHINGTON

January 20, 1944

MEMORANDUM FOR THE PRESIDENT:

Your note of yesterday regarding the delayed letter that you had received from Madame Chiang with the suggestion that Dr. Kung come to Washington, was received by me today in the absence of Secretary Morgenthau.

I have talked to him on the telephone and also to the State and War Departments, and we all feel that Dr. Kung should come to Washington to discuss the pending matters between China and the United States. This, it would seem, changes the draft of cable which the Secretary read to you over the telephone yesterday. We have, therefore, collaborated with the State and War Departments on the attached draft of new suggested cable for you to send to the Generalissimo. The Secretary of State and the Secretary of War have approved this course of action.

D W Bell

FOR VICTORY BUY UNITED STATES WAR BONDS AND STAMPS

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Personal

THE WHITE HOUSE

WASHINGTON

January 20, 1944.

WATCH OFFICER
CODE ROOM
STATE DEPARTMENT

The President would appreciate it very much if this message could go off immediately.

Grace G. Tully
PRIVATE SECRETARY

CABLE MESSAGE FROM THE PRESIDENT TO GENERALISSIMO CHIANG KAI-SHEK

I have carefully studied your recent message transmitted through Ambassador Gauss, and I fully recognize the extent to which China's resolute war stand has rendered her economic situation acute. I am fully mindful of the importance of taking every practical cooperative step to make possible the most active prosecution of the war as well as to make possible an orderly development of industry and trade after the war.

I think it important that you should understand our special problems over here. I cannot escape the feeling that because of the distance between us there may be danger that we may fail adequately to work out our common problems and may rush into decisions which would not be in the interests of either of our peoples.

I think that your suggestion transmitted to me by Madame Chiang that Dr. Kung be sent to Washington is a good one. If he were here the various financial and economic problems involved in the situation could be fully discussed to the mutual advantage of both countries.

Meanwhile, I should like to make this specific suggestion: Just before receiving your message I had approved instructions to General Stilwell and to Ambassador Gauss to take up urgently with your Government the question of our military expenditures in China. I should like to suggest that an arrangement such as General Stilwell and Ambassador Gauss are authorized to propose be adopted tentatively on the understanding that our Army expenditures in China during the next few months can be expected to be somewhere in the neighborhood of twenty-five million U. S. dollars each month.

Recognizing the validity of your claim that your Government is not in a position to bear the financial burden of contributing to the maintenance of American troops in China, this Government is fully prepared to bear all costs of its war effort in China including housing as well as construction under the general arrangements that will be suggested by General Stilwell and the Ambassador.

ROOSEVELT

HDW

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THE UNDER SECRETARY OF THE TREASURY

WASHINGTON

January 24, 1944

SECURITY CONTROL

TO MISS TULLY:

The State Department received a cable from Ambassador Gauss asking for a clarification of the last paragraph in the President's cable of last Thursday. Ambassador Gauss thought that the Chinese might misinterpret that last paragraph because of what he feels is an inconsistency between the last paragraph and the immediately preceding paragraph.

The State, War and Treasury representatives have considered the matter and, while we do not feel there is any inconsistency, we have drafted the attached substitute for the last paragraph of that cable and sent it to Ambassador Gauss. We thought, in view of the fact that there is no change in the sense of the paragraph, that you were out of town, and that speed was important, it was not necessary to bother the President with this slight change.

This is merely for your records.

D W Bell

FOR VICTORY BUY UNITED STATES WAR BONDS AND STAMPS

The following paragraph is to be cabled by the State Department to Ambassador Gauss to be substituted for the last paragraph of the President's cable that was sent out on January 20, 1944.

Furthermore, since you say that your Government is not in a position to continue any direct maintenance of American troops in China, this Government, in order to cover all of its military expenditures in China, including such maintenance as well as construction, is prepared to place to your account the U. S. dollar equivalent of any Chinese funds made available under general arrangements that will be suggested by General Stilwell and the Ambassador.

Despatched January 24, 1944.

~~SECRET~~

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file

THE WHITE HOUSE

WASHINGTON

February 7, 1944

MEMORANDUM FOR THE PRESIDENT

Dear Mr. President:

Here is a very interesting private letter from Joe Alsop to me.

I hope you will not give it to anybody, because it would make an ungodly amount of trouble for Joe, to say nothing of Chennault.

H.L.H.

encl. letter
from Alsop dated
Jan. 14.

DECLASSIFIED
By Deputy Archivist of the U.S.
By W. J. Stewart Date FEB 7 1972

~~SECRET~~

January 14

Dear Harry:

I venture to hope you may spare time for a rather detailed report of the current situation here, since it is extremely unsatisfactory, and since I doubt if anything like the true picture can reach you, as they say, through channels.

The central fact is that since certain of the commitments made at Cairo had to be abandoned after Teheran, the Generalissimo has refused to allow the Yunnan forces to participate in the Burma campaign. This has automatically reduced the campaign, as a similar decision did last year, to an operation of the Wingate type. It has also left an almost complete vacuum, so far as future planning is concerned. Even before the Generalissimo gave his final word, General Stilwell, seeing the signs were bad, took off for Ledo and placed himself at the head of the Chinese troops there. He has passed that last weeks in a series of petty skirmishes with the Japanese, the object of which has been to demonstrate that the Chinese troops trained by him are superior in quality and may be relied on for an important effort. As the casualties have commonly been counted in dozens, the two and three and four page telegrams which daily report the Ledo operations have not been wholly convincing. But on the basis of the demonstration at Ledo, he hopes to breathe life into the Burma Campaign's corpse, by persuading the British (and I suppose the Generalissimo also) that the project is feasible even after being shorn of the supporting operations planned at Cairo. In my opinion, he has no more chance of doing so than of flying over the moon, but as he is incapable of thinking in any other terms than of marching somehow into Burma, his attempt was to be expected.

The difficulty is that while General Stilwell is playing soldiers at Ledo, the entire military machinery is paralyzed. There is much else that can be done, besides the Burma campaign. Indeed, I think it possible to demonstrate that the substitute operations will be more effective than the original plan. But the substitute operations require careful planning and some time for preparation, and every week passed in a fruitless effort to breathe life into the corpse of the Burma project progressively dinishes the chance of the substitute operations being prepared in time. Thus we are now in grave danger of losing our opportunity in China more or less completely. Stilwell's staff assert that he will return to Chungking about the end of this month, and that he will continue to interest himself only in the revival of the Burma Project until February 15. If, by then, he has not succeeded, the project will be given up as hopeless and substitutes will be reviewed. A loss of that much time will be irreparable, if the existing military organization in this area is to be relied on to pick up the pieces. For it is too unwieldy, inefficient and unimaginative to work the near miracle which will then have to be worked if preparations for other operations are to be completed in time

REGRADED UNCLASSIFIED

to take advantage of the good Chinese fighting weather next summer.

A similar paralysis afflicts the Chinese, but for a different reason--money. You are, of course, familiar with the negotiations concerning another American loan to China, and concerning the exchange rate at which we acquire Chinese dollars for military expenditures here. Had General Stilwell not flatly refused, in the first instance, to have anything to do with reciprocal lend lease. By his refusal, the present exchange racket was established, and the Chinese were accustomed to our paying $1 U. S. for every $20 Chinese which they chose to print. The vistas opened out by this arrangement were exquisitely delightful. At relatively small cost, they could hope to end the war with a kitty of around $1,000,000,000 U. S., obtained at relatively small cost, and stashed away for future use, either in Chinese internal politics, or to develop their resources. Naturally, therefore, they are clinging to the arrangement like grim death. At the present moment, construction of airfields for the Very Long Range Bomber Project is being gravely impeded, because the Generalissimo requested confirmation of the President's promise to pay for these fields, and General Marshall replied that the U. S. would indeed pay for them, but at a fair exchange rate which would have to be negotiated. Desire of obtaining the loan and the best deal possible on the exchange rate, or in other words, of taking care of their post-war financial situation, is now uppermost in the minds of both Generalissimo and Madame. The Generalissimo will not take the initiative in proposing a revised military program because he fears that by involving him in controversy with General Stilwell and his friends, so-doing will rock his financial boat.

If TV were still in the picture, this story would, I think, be quite different. He knows how matters stand, and, frankly, itches to do something about it. But although there has now been a family reconciliation, and he has seen the Generalissimo in a friendly, social way three or four times, he is not in a position to intervene.

Thus the Very Long Range Bomber Project is now the only major project which is officially planned to be undertaken in China during the next twelve months. With respect to this, my worst fears have come true. The Chinese Airforce, a couple of weeks ago, was asked to submit its plans for cooperating in the air defense of the Chengtu bases. It replied by asking who was to command the project. After some embarrassed coughing, General Stratemeyer answered from Delhi that personal responsibility for executing the directives of the Joint Chiefs of Staff for this Project would be vested in General Stilwell, and that he would delegate the responsibility of actual command to his air adviser, General Stratemeyer. I hardly know whether the injustice or the military unsoundness of the proposed arrangement is the more striking.

After all, you have in China a man who has devoted the last seven years of his life to studying how to beat the Japanese in the air

here. For the past two years, he has consistently held the Japanese at bay, inflicting serious damage on them also, with ridiculously inferior forces. The record proves, I think, that he is one of the three or four most brilliant air leaders of the war. Even I find it hard to keep in mind the true dimensions of his achievement, except at moments when it is brought squarely home by accident. (One of these occurred the other day. A Polish Major, who led the Kusciusko Squadron, highest scorer in the RAF, through the Battle of Britain, and has 17 German planes to his credit, came out here to fight for a few months with the Fourteenth Airforce. I saw him when he was leaving for home, after adding two Japs to his bag, and asked him what he thought of the picture out here. "It's the hardest air fighting in the world," he answered. "I've been seventeen years a flying officer, and I saw the worst weeks of the fight over England, but it was nothing like this. I was glad to fly as a wingman for a bearless second lieutenant until I learned the ropes. And now I want to go back and tell our people about the methods used here, because I think they will be invaluable when we go into Europe." His name is Urbanowicz; he has almost every British and Polish decoration, and he is on his way to report to the RAF and his government in London, in case you wish to check him up.) Yet although this is General Chennault's record, he has been passed over in favor of an amiable military politician, who happens to stand better with the powers that be, because he was not so outspoken in criticizing their earlier errors of theory. He is quite calm about it, having expected no better, but frankly, it makes me sick at heart. Surely our supply of winning Generals is not so great that we can afford to ignore and kick them round in this manner.

So much for the injustice. It is still worse as a military arrangement. For as I wrote you before, air operations here in China are a sort of conjuring trick, needing the most careful coordination and centralized planning. You can imagine what the results would be if two conjurors, one of them grossly inexperienced, tried to take the same rabbit out of the same hat. That is about the best parrallel I can give you for the proposed division of air command here. The operations of the Fourteenth Airforce proper and of the Very Long Range Bomber Project ought to be like a boxer's right and left. The blows of one should reinforce the blows of the other. Each should be timed in relation to the other. Each should support the other. Under the proposed arrangement, all that will be quite impossible; instead, the divided command will constitute an open invitation to Japanese counter-operations. Counter-operations can easily be prevented if the air effort is constantly planned to keep the enemy off balance. But if you confide the heaviest artillery of the air effort to an inexperienced theugh amiable man, working under rigid directives from Washington planners who cannot even remotely conceive the fighting conditions here, you virtually insure that it will be us and not the enemy who are off balance most of the time.

Nor is that all. The directives themselves, from what I hear of them, are dangerously theoretical, and written without due regard for

REGRADED UNCLASSIFIED

the local problem. More than half of the VLR Bomber strength is to be based at Chengtu, in the remote interior of Free China, as a concession to General Stilwell's oft-repeated theory that the Japanese can capture the forward airbases in East China whenever they have a mind to. The extra distance which the Bombers will have to traverse to Japan will materially reduce their bomb loads, thus weakening the military effectiveness of the effort. Furthermore, on the way out they will be flying relatively low, and heavily laden, and must pass over the entire belt of Japanese held territory North of the Yangtsze, which is thickly interspersed with fighter fields. The Japanese have a workable sort of Radar, and bringing down the bombers will be like shooting sitting ducks, no matter how powerful their armament. General Chennault pointed all this out to General Stratemeyer when the project was first proposed, but General Stratemeyer quietly forgot the argument, so that at Cairo, when General Chennault made the same points, several of the Washington planners present expressed surprise to learn of the fighter fields north of the Yangtsze. The Project was then revised to provide for basing a little less than half the strength in East China. Now if East China can be used as a base at all, despite General Stilwell's concern, there is no logical reason why, being much the best base, it cannot be used for the whole Project.

You may wonder by now what the Substitute operations for the Burma Campaign, mentioned above, may be. They are both simple and unattended by serious risk.

a. With strong air support from the Fourteenth Airforce, and slight use of heavy bombers to pulverize the enemy positions, the Chinese forces next summer should easily be able to recapture Ichang--the gateway between the two productive areas of free China, whose repossession would be the biggest single contribution to improving the Chinese economy. They might also be able to clear the Japanese from Hankow and other Yangtseze positions. They can do this because Ichang and Hankow are entirely dependent for supplies on the river line, and this supply line can be cut by air action. With their supply line cut, and their positions pounded from the air, the Japanese troops ought to cave in under relatively slight pressure.

b. The Fourteenth Airforce proper should be prepared for a serious offensive against Japanese shipping. With reasonable forces and supplies, everyone who has had experience with the test attacks on Japanese shipping to date, from the General down, agrees that a minimum of 200,000 tons monthly can be accounted for. It is downright criminal stupidity that this opportunity has not yet been taken. When it is taken, the day when the Japanese positions in the South must crumble for want of support will not be far off. The same air offensive should account for a great strength of Japanese airplanes, thus also hitting them in a second vital spot. Two weeks ago, I at least persuaded the General to

REGRADED UNCLASSIFIED

expound this plan in full to Lord Louis Mountbatten, General Wedemeyer, and the others of the SEAC group. They were so impressed by its potentia ities that they immediately recommended it be given priority over every other type of effort, including the longer range bombing of Japan. But it needs preparation. It will be based in East China, and to divise necessary transportation facilities between the Yunnan air terminals and the East China bases will alone be a work of months. The present facilit are grossly inadequate, and General Stilwell's staff has so far refused to lift a finger to improve them.

c. The Very Long Range Bomber Project, under unified command with the air offensive against shipping and air power, being used, as I have said, as the boxer's left.

A program of this sort will not only contribute greatly to hast ing the progress of the war. It will also provide a more than adequate substitute, in the mind of the public, for the Burma campaign which has failed to materialize. There are literally no obstacles to such a progra except those created by waste time, inefficiency and lack of imagination. So much time has been wasted now that I am not sure whether the existing bad machinery can put the program over. (July 1 is the date when readines should be attained for the entire effort, since the best fighting weather begins then, and is of such short duration--five months--that all of it must be used to achieve maximum effect). Frankly, I don't believe the job will now be done, unless the existing machinery is improved. The easiest way to improve it would be to confide the top command to General Wedemeyer, who knows how to work with everyone, has a real understanding of the military problem here, and is a young efficient man. Forgive me for making so impertinent a suggestion. I cannot document the kind of situation which exists here in the present staff, because I lack space. B I assure you, there never was an outfit in worse need of being pulled sharply together.

I wish I could talk to you. I am sure that if I could quote chapter and verse, as it would be easy to do for every remark in this letter, you would feel as I do. I know how difficult it is to act in these matters, in view of the various impediments to action. Yet it will be so tragic, so wasteful, if no action is taken, that I cannot forebear to play the busybody in this manner once more.

Yours as ever,

(s) Joe Alsop

P.S. One of the politicians' arguments against giving General Chennault command of the VLR Bomber Project is that he "does not understand heavy bombardment. I suggest that you check this statement with General Arnold's trusted subordinate, and one of the best heavy bomber men in the Airforce, who commanded the 308th heavy bomb group in China under the Gener

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China folder 1-44

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THE WHITE HOUSE

WASHINGTON

February 7, 1944

MEMORANDUM FOR THE PRESIDENT

My dear Mr. President:

Here is another interesting letter I got from Mr. John Davies, Jr., who was with our Embassy in China and who is now with Stilwell and Mountbatten.

H.L.H.

encl.

DECLASSIFIED
By Deputy Archivist of the U.S.
By W. J. Stewart Date FEB 7 1972

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SECRET

REAR ECHELON
HEADQUARTERS UNITED STATES ARMY FORCES
CHINA BURMA INDIA

December 31, 1943

The Honorable
Harry Hopkins,
The White House,
Washington.

Dear Mr. Hopkins:

Following up the conversations which General Stilwell and I had with you and the President at Cairo, I enclose a memorandum which I hope will be of interest.

From time to time I expect to prepare other brief memoranda on various problems confronting us in East Asia and shall send you copies.

Should you wish to discuss Far Eastern Questions with experts in Washington, I have two names to suggest: John Carter Vincent and Laurence Salisbury. Vincent's name, I recall, you knew. He is now with FEA. Salisbury is a Japanese language officer, as Bohlen is Russian and I Chinese. He has served in both Japan and China, investigated on special orders from the State Department the Japanese occupation of Manchuria and until a month or two before Pearl Harbor served as political adviser to Sayre in Manila. He has since been Assistant Chief of the Far Eastern Division, handling Japanese and Korean matters.

Sincerely yours,

(s) John Davies, Jr.
Second Secretary of Embassy
Detailed to General Stilwell

DECLASSIFIED
State Dept. Letter, 1-11-72
By J. Schaubie Date FEB ~ 1972

SECRET

CHIANG KAI SHEK AND CHINA

The Generalissimo is probably the only Chinese who shares the popular American misconception that Chiang Kai-shek is China. This congenial fiction is worth examining.

Japan's attack caught China in mid-passage between semi-feudalism and modern statehood. External pressure in the form of Japanese aggression imposed a temporary unity on the various elements struggling to determine whether China was to develop along democratic or authoritarian lines. Public pressure compelled Chiang, who was the strongest of these elements, to become the symbol of a unified national will. The internal conflict was suspended.

This situation continued so long as the Japanese attempted to bring China to its knees by military means. But after the fall of Hankow in 1938 the war entered a period of military stagnation which has continued until now. Japan adopted instead a shrewd policy of political and economic offensives designed to bring about Chinese disintegration and collapse. Confronted with this new Japanese tactic, which promised him some respite at the expense of other Chinese elements, Chiang chose to abandon Chinese unity and retrogressed to his pre-war position as a Chinese militarist seeking to dominate rather than unify and lead.

The Generalissimo seeks to dominate because he has no appreciation of what genuine democracy means. His philosophy is the unintegrated product of his limited intelligence, his Japanese military education, his former close contact with German military advisers, his alliance

DECLASSIFIED
State Dept. Letter, 1-11-72 FEB 7 1972
By J. Schauble Date_____

with the usurious banker-landlord class, and his reversion to the sterile moralisms of the Chinese classics. The primitive power complex which was his original motivation has developed into a bigoted conviction that China can realize its destiny only under his preceptorship.

Chiang's technique of domination is adroit political manipulatio of the various elements of the Chinese political scene and, subsidiar employment of a gangster secret police headed by Tai Li. He is the leader of the Kuomintang, which he would wish to make his totalitaria party. But the Kuomintang, once an expression of genuine nationalist feeling, is now an uncertain equilibrium of decadent, competing facti with neither dynamic principles nor a popular base. Such control as Chiang has over the Kuomintang is achieved through playing the factions within the party one against the other.

Likewise in the larger national scene Chiang, often utilizing the Kuomintang, manipulates a political balance among the residual warlords, dissident groups in his own army, provincial cliques, the so-called "Communists", minor parties and even the Japanese-created puppets. The unorganized liberals and intellectuals are a potential, not an immediate threat.

Chiang's paramountcy is, therefore, insecure and unsound. His reluctance to expend military strength against Japan, his anxious preoccupation with securing domestic supremacy, his suspicion of every one around him and his increasing emotional instability betray a

DECLASSIFIED
State Dept. Letter, 1-11-72
[redacted] U. Schauble Date FEB 7 1972

subconscious realization of this.

Because his Kuomintang Government has no popular base, because the centrifugal forces in China are growing under prolonged economic strain and because the Soviet Union may join the war against Japan and enter Manchuria and North China, the Generalissimo faces next year the gravest crisis of his career.

What form and course the crisis will take is impossible to predict. Certain contributory factors, however, are clear. One is the increasingly independent attitude of the Chinese Communists, who now say that they no longer fear Chungking. "If Chiang wants to commit suicide on us, that suits us." Another is the accelerating economic disintegration. A third is the growing restiveness of certain provincial and military factions. Any one or a combination of these may be sufficient to accomplish Chiang's downfall.

By reversing his policy of sixteen years' standing, reforming the Kuomintang and taking the lead in a genuine united front, Chiang could surely survive the crisis. But the Generalissimo is not only personally incapable of this, he is a hostage of the corrupt forces he manipulates.

In this uncertain situation we should avoid committing ourselves unalterably to Chiang. We should be ready during or after the war to adjust ourselves to possible realignments in China. We should wish, for example, to avoid finding ourselves at the close of the war backing a coalition of Chiang's Kuomintang and the degenerate

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State Dept. Letter, 1-11-72
By J. Schauble Date FEB 7 1972

puppets against a democratic coalition commanding Russian sympathy.

The adoption of a more realistic policy toward Chiang Kai-shek does not mean abandonment of our objectives (1) to capitalize during the war on China's position on the Japanese flank, and (2) to build up after the war a strong and independent China. On the contrary, it will mean that we shall be more likely to achieve these objectives. A realistic policy toward Chiang would be based on (1) recognition by us that the Generalissimo is highly susceptible to firm coordinated American pressure, (2) stern bargaining (in consultation with American representatives in China) and (3) readiness to support a strong new coalition offering cooperation mutually more beneficial to China and the United States.

New Delhi, India

December 31, 1943

DECLASSIFIED
State Dept. Letter, 1-11-72
By J. Schauble Date FEB 7 1972

China folder 1-44

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THE WHITE HOUSE
WASHINGTON

February 8, 1944.

MEMORANDUM FOR THE PRESIDENT:

Re: Interview with T. F. Tsiang.

T. F. Tsiang, who is currently expected to be the next Chinese Ambassador, called on me this morning. He raised several points which may be of interest to you:

1. The recent constitutional changes in Russia boded ill for China. He intimated that this paved the way for the setting up of puppet regimes in Manchuria and Outer Mongolia, and even North China. I was inclined to discount this possibility.

2. Korea. On Korea he made two points, (1) being that we should extend aid to representatives of Korea as soon as possible and (2) that America should join with China in establishing and maintaining the new government in Korea.

3. On the Chinese communists he expressed the fear that uninformed American opinion might tend to incite and encourage the Chinese communists and thus make the task of the unification of China more difficult. I observed that any outbreak of hostilities between the Kuomintang and the communists would undoubtedly be deplored by all sections of American opinion.

Lauchlin Currie

Lauchlin Currie

Price:

This is all that the File Room and I have to the Generalissimo

D J B
Please return to
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President
the Gene

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THE WHITE HOUSE

WASHINGTON

February 21, 1944.

MEMORANDUM FOR

ADMIRAL LEAHY

I have carefully checked the files and find that I have no letter even remotely resembling the information given out by Ambassador Wei. Frankly, in view of this, I think that we should run down this story, verify it, and get a denial from Ambassador Wei.

F. D. R.

file confidential

THE WHITE HOUSE

WASHINGTON

February 24, 1944.

MEMORANDUM FOR

ADMIRAL LEAHY
ADMIRAL KING

I have only one amendment to Admiral King's memorandum of February 22nd in regard to Chinese naval requests.

I agree with (a) and (b) with the understanding, of course, that the numbers and types of vessels should be suitable for Chinese needs, i.e., small vessels suitable for river and close-in-shore work.

In regard to Chinese naval personnel in our schools and on board ship, I agree that we should not undertake this at this time. I think, however, as soon as we have a base on the China coast, we should give both officers and men instructions in a school to be organized there. In other words, we can safely teach them how to run Diesel engines and what might be called preliminary instruction in boat and patrol craft handling, omitting, of course, any new things which are secret.

F. D. R.

Admiral King's memo referred to was returned to Admiral Leahy to whom it was addressed.

China folder
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THE WHITE HOUSE
WASHINGTON

February 23, 1944

MEMORANDUM FOR

The President.

The attached memorandum from Admiral King in regard to assistance that we may safely give at the present time to the Chinese Navy, is forwarded for your information.

William D. Leahy

DECLASSIFIED
By Deputy Archivist of the U.S.
By W. J. Stewart Date FEB

PSF: China ~~Gen Jones "C"~~ 3-44

March 2, 1944.

My dear Carlson:-

Your letter of the twenty-third of February has come at the very moment when I am reading of your wedding in today's paper. My hearty congratulations to you and your Missus.

You and Jimmy must have had a very interesting time at Tarawa and Makin on this last cruise. The careful preparation certainly counts in the long run.

In regard to China, I think we are going through a transition period -- especially the part relating to North China. I have done my best to keep some of the Chinese leaders from taking more positive action against the Eighth Route Army leaders, but it seems to go hard with the Generalissimo. I am sure, however, that the time will come when we will all want you back there.

My best to you,

Always sincerely,

FRANKLIN D. ROOSEVELT

Lieutenant Colonel Evans F. Carlson,
4th Marine Division,
c/o Fleet Post Office,
San Francisco,
California.

Raider Carlson On Honeymoon

SAN DIEGO, Calif., March 1 (U.P.).—Lieut. Col. Evans Carlson of Plymouth, Conn., leader of the Marine Rangers, "Carlson's Raiders," who made the now famous raid on Makin Island, and Mrs. Peggy Whyte of La Jolla, Calif., were believed honeymooning today. Carlson, who gave his age as 41, and Mrs. Whyte, 31, took out a license at the San Diego county clerk's office yesterday.

4th Marine Division,
C/o Fleet Post Office,
San Francisco, California,
23 February 1944.

Dear Mr. President:

I am again taking advantage of your gracious invitation to write to you.

Since I saw you last June I have not written because nothing occurred within my experience which, I felt, you were not receiving from other sources. During this period, as Planning Officer of this Division, I devoted myself primarily to the task of solving the problem of seizing atolls at a minimum cost in human life (to us). While Jim was going in at Makin, last November, I went in at Tarawa. We were both actuated by the same motive: to observe technique, especially from the landing force angle, and to attempt to perfect it. The essence of our observations was incorporated in the Kwajalein plan, with gratifying results. Although I was convinced, from the time we made our approach past Wotje without submarine interference, that the Japanese high command had decided to pull back to another defense line and cut his losses in the Marshalls, I still feel that at Roi-Namur we effected a sound atoll-seizing formula.

The purpose of this letter is to suggest that the time may be ripe for ground work to be done in North China by someone with my experience, looking to the time when we can link up East and West through our Pacific operations. I have the confidence of the leaders in the north, Mao Tze-tung, Chow En-lai, Chu Teh, and I have the respect of the Chungking leaders, though my criticism in the past has made me less popular with them. The fountain-head of democratic action lies in the north, and it is in that area that we will find our most reliable information and our most devoted support.

This is merely a suggestion prompted by my own intuitive feeling regarding the Western Pacific situation, and passed on in the hope that it may fit in with your own plans. As always, I am prepared to undertake any mission which you may decide will advance our collective welfare.

With warm personal regards, and with renewed assurance of my admiration and confidence, I am,

Sincerely,

Evans F. Carlson

The Honorable Franklin D. Roosevelt,
President of the United States.

4th Marine Division,
C/o Fleet Post Office,
San Francisco, California,
23 February 1944.

Dear Miss Tully:

I enclose a letter which, I would appreciate, if you would hand to the President.

I hope that things are going well with you, though I know that present conditions must impose an extraordinarily heavy task on you.

The recent operation out here was a source of deep gratification. At last we have a power house with some drive in it, a power house which makes the Jap scream "Uncle", and with a fraction of their losses to our own forces. The democratic way may be slow, but it is implacable and irresistable once in motion.

With kind personal regards,

Sincerely,

Evans F. Carlson

Lt.Col. E. F. Carlson,
4th Marine Division,
C/o Fle et Post Office,
San Francisco, Calif.

U. S.
FEB
24
1944
P.M.
NAVY

U.S. POSTAGE
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[redacted]

Miss Grace Tully,
1600 Pennsylvania Ave., N. W.,
Washington,
D. C.

Passed by
Naval Censor

T-257

China folder 1-44

THE WHITE HOUSE

WASHINGTON

March 16, 1944.

PERSONAL

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY:

To tell me what you suggest.

F.D.R.

1

Personal letter to the President from Madame Chiang Kai-shek, Kweilin, Kwangsi, 2-17-44, re the financial arrangement between the American troops and the Chinese Govt. States that the Generalissimo would like the Pres. to send to China a representative empowered with full authority to consult with China Govt. methods for solving of China's critical economic and financial problems as suggested in one of the President's messages.

HEADQUARTERS OF THE GENERALISSIMO
CHINA

Personal

President Franklin D. Roosevelt

China folder 1-44

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THE WHITE HOUSE
WASHINGTON

March 17, 1944.

MEMORANDUM FOR THE PRESIDENT:

This recounts an interesting conversation with Madame Sun Yat-sen.

Lauchlin Currie

FDR

Chungking, China,
14 February 1944.

MEMORANDUM:

SUBJECT: Conversation with Madame Sun Yat-sen

TO : Assistant Chief of Staff, G-2. (Stilwell's Gunner)

I called on Madame Sun by appointment on the afternoon of February 10th. She was more outspoken and apparently nearer to being bitter than on any of the previous four or five times that I had met her.

The following briefly summarized notes of some of her remarks may be of interest. (Our conversation was a rambling one and it is impossible to reconstruct the sequence of the topics mentioned.)

She has recently been invited by "several organizations" to visit the United States (she did not name these but I was given the impression that they were relief bodies, particularly those supporting her work in China, such as the American counterpart of the China Defense League). She had planned to accept this invitation and hoped to leave early in March. She has, however, been bluntly told that she will not be permitted to go abroad.

She believes the reason for this refusal is the violent reaction of her family and high Kuomintang officials to the publication in REYNOLD'S WEEKLY, a British Labor magazine, of a report that she had sent a message to bodies in the United States, describing the blockade against the Communists and calling for its removal so that medicines and other supplies could reach the Communists and so that all Chinese could be given an equal chance to fight Japan. Following the receipt in Chungking of copies of this article she was separately visited by Wu Te-chen, Ho Ying-chin and Chang Chih-chung. Their line, which she characterized as childist lecturing, was to upbraid her for "spreading baseless rumors", "appealing to foreigners", "washing China's dirty linen in the foreign press" and so on. She admitted that she had written concerning the blockade to American friends and supporters but pointed out that everyone has always known that these are her views and that her organization, the China Defense League, is primarily interested in getting relief to the Communist controlled areas. She mentioned that her family was "very annoyed".

Joking wryly about restrictions on movement, she mentioned that even such a person as Feng Yu-hsiang had to "request permission" to visit Kunming and had not as yet, though the request had been made for some time, received permission.

She scornfully disposed of Kuomintang stories that the recent officers' plot was Communist inspired by saying that if it was, the Kuomintang would not be willing to negotiate with the Communists. She said that the plot had been widespread, had not yet been completely uncovered, was "Fascist" in spirit and objectives, and had caused considerable concern in the "highest places".

Although she did not know the reason for the Generalissimo' trip to Hengyang -- saying "my family doesn't discuss political affairs with me" -- she mentioned that Hsueh Yueh was very

dissatisfied

dissatisfied and that Pai Chung-hsi, even though he had no troops and hence had to profess loyalty to Chiang, was unhappy.

She asked what foreigners knew and thought of T. V. Soong's fall from grace. My ignorance beyond the current rumors seemed to disappoint her; she said that she was just as much in the dark because she wasn't taken into the family councils. She mentioned, however, that T.V. was "terribly demoralized", a statement which she asked me by personal note on the following day to consider as having been "very discouraged". At this and several points in the conversation she spoke of Chiang as cold, hard, violent tempered, a warlord, and "nothing but a dictator".

Discussing the war in China, she believed that those in power encouraged the idea, pleasing to them, that the war would be won by other powers and outside of China. She remarked that there were many who did not want to have to prosecute the war actively and said that there was at present a steady flow of people to and from "the other side". As an instance she mentioned that the wife of an important Nanking official (she gave the name in Shanghai dialect but the surname was Wang) is now in Chungking staying at the home of Chu Chia-hua. Also Chu Chia-hua's wife (who was living in Hongkong when the Pacific War broke out) is now en route to Chungking. She has recently been seen several times at Macao in the company of high Japanese officers. In response to a question as to whom these representatives could contact in Chungking, she replied: "Anybody", and went on to say rather acidly that Wu Te-chen would talk to anybody anywhere and would even go to the airfield to meet them (undoubtedly a reference to the reception of Wu Kai-hsien).

Regarding Sino-American relations, she said that Doctor Kung was "very worried" over present frictions and the possibility of adverse American reaction toward China. She apparently did not know the details of the present negotiations.

Sino-British relations, she categorically said, had "deteriorated a great deal since the Cairo conference". She expressed the opinion that British policy is "more colonial than ever".

She did not know of any change in the Foreign Ministership but said definitely that Wei Tao-ming was returning to the United States and would leave Chungking in about three weeks.

As I was leaving, she apologized for having delayed my call, saying that she has house guests and has difficulty in gettin the living room alone. At the same time she thanked me profusely for taking her some new books, remarking that she has "lots of time for reading".

Madame Sun's relations with her own family and the leaders of the Kuomintang can be considered a gauge of the trend of relations between the Kuomintang and the liberal groups. I could not help getting the impression that Madame Sun's position is now a strained and difficult one and that she is more than ever a prisoner. She implied this in a rather defiant remark when discussing the displeasure over her efforts to have the anti-Communist blockade lifted: "All they can do is to keep me from traveling".

John S. Service

State Dept Sec. attached to Stilwell

PY)

Excerpt from Time of February 14, 1944

"Voice from Chungking

"Tiny, gentle Mme. Sun Yat-sen speaks rarely. But when she does speak up for the liberal, democratic program of her late great husband, her words can be strong as bitter tea.

"In a message which reached the U.S. last week, this independent member of the potent Soong Family (sisters, Mmes. Chiang Kai-shek, H. H. Kung; brothers, T. V. and T.L.) spoke in her sharpest vein. Said Mme. Sun:

"'Reaction and fascism in China are strong ... This is proved ... by the diversion of part of our national army to the task of blockading and "guarding" the guerrilla areas, by the fact that some still hold private profit above the national interest, by the oppression of the peasantry and by the absence of a true labor movement... Some Chinese reactionaries are preparing [civil war] to destroy a democratic sector in our struggle. That sector is the guerrilla bases in North Shensi and behind the enemy lines...'

"This statement amounted to a direct attack upon Generalissimo Chiang Kai-shek's policy toward China's Communist Army, a demand that the U.S. supply the Communists as well as Chungking's nationalist forces. In Chungking, no one but the Generalissimo's revered sister-in-law would have dared to raise China's most explosive problem in such a fashion, and even she must have had some pressing urge to do so.

"The Gissimo's Minister of War, bespectacled, anti-Communist General Ho Ying-chin, told New York TIMES Correspondent Brooks Atkinson: 'There will be no civil war ... The Generalissimo's plan to solve the Chinese Communist problem by pacific and political means is progressing satisfactorily with every chance of succeeding.'"

PSF: China Folder

~~(COPY)~~

WAR DEPARTMENT
THE ADJUTANT GENERAL'S OFFICE
WASHINGTON

~~SECRET~~

Auth: T.A.G.
Initials:
Date: 20 MAR 1944

20 March 1944

MEMORANDUM for: Mr. Shipman

In the interest of public safety, it is recommended that the papers on the attached list be appropriately safeguarded and restricted from public view until the termination of the present war.

JOHN W. MARTYN
Administrative Assistant.

1 Incl.
List w/attached papers.

Franklin D. Roosevelt Library
DECLASSIFIED
DOD DIR. 5200.9 (9/27/58)
Date- 3-2-59
Signature- Carl L. Spicer

~~SECRET~~

File No.	Subject and brief description of paper	Date
381 Australia (6-9-42)	Memo from President to Gen. Marshall with inclosure - letter from Australian Legation to President, 7 June 1942.	9 June 1942
	Memo for Gen. Marshall, Gen. Arnold and Harry Hopkins, from The President Requests preparation of reply to send to Chiang-Kai-Shek re Chinese requirements.	22 April 1942

Receipt Acknowledged:

_____
Signature

_____
Date

(14)

THE WHITE HOUSE
WASHINGTON

April 22, 1942.

MEMORANDUM FOR

GENERAL MARSHALL
GENERAL ARNOLD
HARRY HOPKINS

Will you jointly prepare a reply for me to send to Chiang Kai-shek?

F.D.R.

Send

Incl #9

~~Retired~~ CSS 11-29-62

Published in

Foreign Relations of the United States

1942 China

pages 33-34

TELEGRAM TO DR. T. V. SOONG FROM THE GENERALISSIMO, CHUNGKING, APRIL 19th [42]

With what has been happening lately, I am afraid you could no longer avoid having a frank heart-to-heart talk with the President, which I am sure he will not misunderstand. As you know, I have to fight continually against demoralizing doubts on the part of my officers, who conclude that American attitude towards China is in essence no different from that held by other nations, that both in the all-important matters of joint-staff conferences and war supplies, China is treated not as an equal like Britain and Russia, but as a ward.

The President has consistently shown himself to be the one great friend of China, and I may say on our part we have been loyally responsive. We have placed Chinese armies under American command, and we have shown every readiness to support American policies, sometimes even against our own judgment. All that we have and all that we are, we truly and unreservedly contribute to the cause of the United Nations.

What a contrast this is to the attitude of the British and Russians who, whenever it concerns their own interests, will not make concessions in the general interest, so that to this day they will not concede to the United States the direction and the location of the Supreme Military Council. The result of this non-cooperation is that there is in existence no organization to formulate and execute over-all strategy, and every country looks to its own immediate interests, so that the Axis is successfully imposing its grand strategy. What a difference there is between our attitude towards the United States and that of Britain and Russia!

If in future the Anglo-American joint staff is not enlarged to include China, and China is kept out of the Munitions Assignments Board, then China would be just a pawn in the game. Gandhi told me when I visited India: "They will never voluntarily treat us Indians as equals; why, they do not even admit your country to their staff talks." If we are thus treated during the stress of war, what becomes our position at the peace conference? You must insist that we have our own stand, and we have our own independent position to uphold.

25

SECRET

MEMORANDUM TO THE PRESIDENT

11-29-62 [4-19-42?]

With all the President's generous enthusiasm for China, and with the immense fund of goodwill there is for her in this country, the Generalissimo's message is one of despair. China has principally lacked artillery and planes, and after one year of Lease-Lend activities her position in these respects has hardly been improved.

In artillery, except for a few anti-tank guns, only 97 three-inch howitzers have arrived in Burma, India and China with 6500 rounds of ammunition, i.e., about 65 rounds per gun. These are the only guns available for the Chinese armies in Burma.

In aircraft, since Lend-Lease started, no combat planes have arrived in China although a handful has arrived for the American Volunteer Group. Some pursuits for the Chinese airforce that arrived in India were taken over by General Brereton's Tenth Pursuit Group. The Generalissimo has urgently asked for 300 planes to save the situation in Burma. Instead the Tenth Pursuit Group has been diverted to Wavell's command.

In shipping we sent three ships per month in January and February. In March we sent only one shipload, and in April only 1500 tons.

The President has accorded generous recognition of China as one of the four principal powers fighting against the Axis. But in the matter of supplies, Russia is protected by a protocol. The U. S. and Britain are on the Munitions Assignment Board, but they are interested parties, legitimately anxious to build up their own armies. China, in effect, is thus in the lowest priority rank, both for supplies and shipping.

When China's requirements are considered, frequently she is not even consulted. When consultations are made, Chinese representatives appear for a hearing, and a verdict is arrived at without their knowing the basis for the decision. Again, these decisions are frequently adversely changed without consultation or even explanation.

There is no intention to lodge complaints against the personnel of the War Department. They are but human. With this background and this set-up in which China does not participate in the Munitions Assignment Board, she must remain a forlorn client.

Then there is the question of Air Transport. The President was anxious to maintain a route to China after the fall of Rangoon, and assigned 100 transport planes to the India-China air service. Only a handful of them are in operation. The air transport staff on the spot has become over-cautious and stated that before November only 25 could be placed in service. Experts of the China National Aviation Corporation, a subsidiary of Pan-American Airways, testify that the whole one hundred airplanes could be employed now if a minimum of operation risks are taken. War does not admit perfectionism.

Finally, the Generalissimo feels himself entirely out of touch with the main decisions of strategy, which profoundly affect China's future. Whether an offensive will start from Australia, whether it is considered feasible to hold Burma, what steps are taken to protect the Indian Ocean route, what air forces will be sent to India, Burma and China, on all these vital questions his role is that of an occasional listener. Also, be it remembered it is from these decisions of strategy that stems the question of allocations of munitions.

Now that Burma and India are in danger and physical isolation threatens China, the symbol of China as an active and full partner to the United States becomes even more important to combat war weariness and the powerful propaganda of the Japanese that theirs is a war for the vindication of Asia.

On these grounds the Generalissimo bases his two requests:

(1) That the Anglo-American Joint Staff be enlarged to include China,

(2) That China be represented on the sub-committees for Ground and Air of the Munitions Assignment Board.

25

SECRET

HEADQUARTERS OF THE GENERALISSIMO
CHINA

(Translation)

Chungking, 10th March, 1942.

Dear President Roosevelt:

The bearer of this letter General Hsiung Shih-Fei, a committee member of the Council of Military Affairs, is coming to your country to represent China on the Allied Military Council. For many years General Hsiung has been one of my closest colleagues and his ability is outstanding. Regarding Japanese military and political problems, he has not only expert knowledge but also penetrating insight. He is particularly well acquanted with my views on political and military questions.

In my judgement he is the man for the post to which he is now appointed. I hope you would place confidence in him and give guidance for his work. Any courtesy you show him will be deeply appreciated. I trust that General Hsiung will make whatever contribution he is capable of if he is consulted.

Yours sincerely,

(signed) Chiang Kai-shek

25

PSF: China ~~Gen Corres C~~

3-44

file personal

Personal

4th Marine Division,
C/o Fleet Post Office,
San Francisco, California,
25 March 1944.

Dear Mr. President:

Thank you for your very thoughtful note of 2 March. It was very gracious of you to notice my wedding. Peg and I are supremely happy, and I consider myself most fortunate.

My trip to New York was unexpected, and was arranged evidently by Pearl Buck with the Secretary, to enable me to speak on the occasion of the Sun Yat-sen memorial. I'm afraid my speech did not aid my case with the Generalissimo for on such an occasion it was necessary to emphasize the democratic features of Doctor Sun's program. They tell me the Chinese Minister wiped his brow profusely during the talk.

I gleaned from conversations with friends in New York who have recently returned from the Far East that the internal political situation there is critical. It is most unfortunate that the Generalissimo has so many undemocratic leaders around him. The democratic urge among the people is strong, and if the democratic elements were integrated and given sound support the effort against Japan there would be tremendously augmented. For my part, those democratic elements are the only ones I trust.

Thank you for your confidence. I shall endeavor to be worthy of it.

With warm regards, I am,

Sincerely,

Evans F. Carlson

The Honorable Franklin D. Roosevelt,
President of the United States,
The White House,
Washington, D. C.

4th Marine Division,
C/o Fleet Post Office,
San Francisco, California,
25 March 1944.

Dear Miss Tully:

I have had a number of surprises during the past month. When I wrote in February I did not expect to be able to return so soon for my wedding. And the New York trip was a complete surprise. Pearl Buck had asked, early in February, that I speak, and I had declined because of my presence here in the Pacific. When I appeared in the States for my marriage she apparently got busy with the Secretary, with the result that my leave was extended for the purpose of making the trip east.

It was good to hear your voice on the telephone, and I appreciate your effort to make an appointment for me to see the President. I had not expected to be able to do so, both because I know how busy he is, and because I could give you no advance notice. I had more than my share of his time last summer, though I must confess that it is always stimulating to talk with him. I have supreme faith in him.

Thahk you for your grand letter, which I received when I returned to La Jolla. Peg and I are very happy. I hope you may meet her sometime.

I returned here Monday, and began burning the midnight oil immediately. When this war is over I shall have had my fill of the Pacific. I've trudged it east and west, north and south, by sea and by air, until I know every telephone pole.

Will you please hand the enclosed note to the President?

With kind regards and best wishes, I am,

Sincerely,

Evans F. Carlson

Miss Grace Tully,
The White House,

Lt.Col. E. F. Carlson,
4th Marine Division,
C/o Fleet Post Office,
San Francisco, Calif.

U. S.
MAR
26
1944
P.M.
NAVY

Passed by
Naval Censor

Miss Grace Tully,
1600 Pennsylvania Avenue,
Washington,
D. C.

China folder
1-44

DEPARTMENT OF STATE

OFFICE OF
COORDINATION AND REVIEW

~~SECRET~~ MAR 28 1944

Mr. Latta:

This was sent to the President for approval on March 15.

Did he decide not to send it? It has not been returned.

B Hall

China folder 1-44

file confidential

THE WHITE HOUSE

WASHINGTON

March 8, 1944.

MEMORANDUM FOR

THE ACTING SECRETARY OF STATE

I am inclined to think that we ought to advise Chiang Kai-shek of this (Stockholm #757). You might prepare something for my signature.

F. D. R.

Dispatch from Minister Johnson, dated March 6, 1944, re German officials interviewing scores of English speaking men and women of German and other nationalities for voyage to China as pseudo missionaries. Several persons interviewed came away with impression that plot was being hatched against Chiang Kai-shek and his wife.

~~CA:Chase~~

SECRET CAS 11-9-66
"SC"

NO DISTRIBUTION - NO STENCIL

Do not send

AMEMBASSY,

CHUNGKING (CHINA).

~~SECRET~~.

Please communicate to President Chiang Kai-shek the substance of the following message from the President:

QUOTE According to a report received from a Danish seaman, scores of English speaking men and women of German and other nationalities have recently been interviewed at Berlin by German officials in connection with a plan to send pseudo missionaries to China. The officials appeared to be seeking persons whose accent would enable them to pose as mid-western Americans. Several of those interviewed received the impression that the project involved a plot against you and Madame Chiang.

While this report is unconfirmed and may well be without foundation, I feel it my duty to inform you thereof.

FRANKLIN D. ROOSEVELT. UNQUOTE

CA:ASC:ALM

REGRADED UNCLASSIFIED

filed 8/4/44
File: Not Sent

China folder 1-44

ADDRESS OFFICIAL COMMUNICATIONS TO
THE SECRETARY OF STATE
WASHINGTON, D. C. 25

DEPARTMENT OF STATE
WASHINGTON

March 15, 1944

MEMORANDUM FOR THE PRESIDENT

In compliance with your instruction of March 8 to the Acting Secretary of State there is hereunder draft of a telegram to President Chiang Kai-shek. Before, however, decision is reached to dispatch the telegram, it is urged that note be taken of the following considerations, especially number (4):

(1) The source of the report and the character of the "plot" both arouse a strong belief that the whole thing is a fiction of someone's imagination or at best a misinterpretation of a hearsay report.

(2) The possibilities of putting into effect any such scheme are so remote as to be well-nigh inconceivable.

(3) However, Chiang, receiving the information from the President, will obviously be inclined to give undue weight to it in spite of the concluding sentence in the telegram.

(4) The position of many American missionaries in China even now is not enviable. They are spied upon by local and party officials; their movements are circumscribed; and their work is subjected to unnecessary supervision. The receipt by Chiang of the report in reference from the President may very probably result in worsening this situation for the missionaries, particularly those in regions close to occupied China.

FOR VICTORY
BUY
UNITED STATES DEFENSE
BONDS AND STAMPS

Enclosure:

To Chungking.

CH

PREPARING OFFICE WILL INDICATE WHETHER

Collect { Full rate / Day letter / Night letter }

Charge Department: Full rate / Day letter / Night letter

Charge to $

Not sent

TELEGRAM SENT

Department of State

Washington,

TO BE TRANSMITTED

X SECRET X

CONFIDENTIAL

RESTRICTED

CLEAR

AIRGRAM

"SC"

NO DISTRIBUTION - NO STENCIL

AMEMBASSY,

CHUNGKING (CHINA).

REGRADED UNCLASSIFIED

~~SECRET~~.

Please communicate to President Chiang Kai-shek the substance of the following message from the President:

QUOTE According to a report received from a Danish seaman, scores of English speaking men and women of German and other nationalities have recently been interviewed at Berlin by German officials in connection with a plan to send pseudo missionaries to China. The officials appeared to be seeking persons whose accent would enable them to pose as mid-western Americans. Several of those interviewed received the impression that the project involved a plot against you and Madame Chiang.

While this report is unconfirmed and may well be without foundation, I feel it my duty to inform you thereof.

FRANKLIN D. ROOSEVELT. UNQUOTE

S/CR

MAR 15 1944 P.M.

CA:ASC:ALM

CE FE NOE

Enciphered by

Sent by operator M., 19

U. S. GOVERNMENT PRINTING OFFICE 16—95209-1

— original memo returned to Hon. Cordell Hull, 4/5/44. China folder 1-44

CH
OK
FDR

April 4, 1944

[redacted]

My dear Mr. Secretary:

With reference to the message from General Stilwell to the War Department (CFB 15551, April 1, 1944), I fully concur in the desirability of there being sent an observers' mission to the so-called Communist area of China. With regard to the contents of the proposed message from the President to Generalissimo Chiang Kai-shek, it is suggested that the last sentence of that proposed message be revised along lines as follows:

> "I feel that assent by you to extend this important facility to the United States forces in the China theatre will have a very helpful effect in enhancing the good-will toward China of the American people and in maintaining and strengthening their continued confidence in China's wholehearted cooperation in an all-out effort to defeat our common enemy, Japan."

Sincerely yours,

Cordell Hull

DECLASSIFIED
State Dept. Letter, 1-11-72
By J. Schauble Date FEB 7 1972

The Honorable

Henry L. Stimson,

Secretary of War.

ADDRESS OFFICIAL COMMUNICATIONS TO
THE SECRETARY OF STATE
WASHINGTON, D. C.

DEPARTMENT OF STATE
WASHINGTON

April 4, 1944

S[redacted]

MEMORANDUM FOR THE PRESIDENT

I enclose for your information and consideration a copy of a letter which I am forwarding to the Secretary of War commenting upon a proposal by General Stilwell, concurred in by Ambassador Gauss, that you send a message to the Generalissimo urging his assent to the dispatch immediately of a military observers' mission to the so-called Communist area in China.

CH

Enclosure:

To the Honorable
Henry L. Stimson,
Secretary of War.

DECLASSIFIED
State Dept. Letter, 1-11-72
By J. Schauble Date FEB 1972

FOR VICTORY
BUY
UNITED STATES DEFENSE BONDS AND STAMPS

file personal

China folder 1-48

April 8, 1944

Dear Madame Chiang:

I am glad to receive your letter of February 17, 1944. I appreciate your visiting the several air centers where American troops are stationed and, of course, I am very pleased to learn of the progress being made.

With regard to the magnitude and scope of American army operations in China, I feel that this is primarily a military matter which is to be settled among the military leaders concerned. General Stilwell, as my representative, will, I am sure, be able to work out with the Generalissimo, as soldier to soldier, a solution to the problem. In the discussions between them, I am sure that due consideration will be given to the ability of China's economy to support any contemplated military program.

I am informed that during the last month progress has been made in the discussions on the question of providing the local currency for American military operations in China, and we are looking forward to an agreement being reached on this matter in the very near future.

With regard to the other matters raised in your letter, I am giving them the most careful consideration.

Please be assured that the American people continue to have the deepest sympathy with the desire of the Chinese people for liberty and liberation and will continue to do all possible to help them achieve these aims in the shortest possible time.

Sincerely yours,

Madame Chiang Kai-shek,
Headquarters of the Generalissimo,
Chungking, China.

THE WHITE HOUSE

WASHINGTON

March 16, 1944.

PERSONAL

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY:

To tell me what you suggest.

F.D.R.

Copy

HEADQUARTERS OF THE GENERALISSIMO
CHINA

Personal

Kweilin, Kwangsi
February 17, 1944

Dear Mr. President,

The Generalissimo and I have just completed an inspection tour of the Hunan front and are now on our way home. The Generalissimo held a five day conference with the military commanders of this area in spite of the fact that the "Island Dwarfs" bombed our vicinity every night.

On this trip I visited several of the air centers where American troops are stationed. I took every opportunity to talk to your boys and to assure them of the importance of the task with which they are grappling, and the concern which you personally feel for their welfare. Some of these boys were rather lonely, for they have been out here for over two years; and, as the ground crew does not see action except when enemy planes are directly overhead, naturally they wonder whether what they are doing is worth anything at all. It is difficult to keep on working when one doesn't see concrete and tangible results of one's work.

But the air force at Hengyang, for instance, has a remarkable record, and in spite of the paucity of planes and equipment during the past two years they have shot down 140 planes. The officer in charge, however, told me that the new Japanese planes -- the Tojos -- are so superior to the P-40's that unless he gets new equipment very soon he will have to pull out of that area just as he had to pull out from the Lingling area a short time ago. These boys are doing fine work; and so I hope that somehow new equipment will be gotten to them.

Here in Kweilin there are several thousand men of the 14th Air Force. The Chinese-American Composite Wing is also stationed here and from every source I learned that the co-operation between our air force is excellent. There is one squadron in the Composite

Wing now being entirely manned by Chinese pilots and ground crew. The American commanding officer is full of praise not only for this squadron but also for the squadrons with mixed crews.

The Generalissimo and I had occasion to talk to the men of the infantry training center also located at Kweilin. You will be happy to hear that everything is going along beautifully and that the commanding officer, General Branch, tells me that he has no complaints of any sort whatever. Probably you know that this center trains one thousand officers every four weeks. These officers are selected from armies in active service. They go through a course of training with American officers. Upon the completion of their training they, with the American officers, are sent back to the army group and there they establish schools to train other officers. Unlike the air force, the results are tangible and visible, and as a result, everybody's spirit is high. This is the third group in training since the school started in November. As time goes on, the cumulative effects of this system of training will reach unforseen consummation. The only suggestion that the Generalissimo had to make was that a part of the artillery equipment in the Yunnan school should be brought to Kweilin so that there could be a training in co-operation between the infantry and the artillery.

Dr. Kung is still in consultation with Ambassador Gauss and Mr. Acheson regarding the financial arrangement between the American troops and the Chinese Government. It seems that the amount needed by the American military in China is of such an astronomical figure when translated into Chinese Yuan that China's economy cannot withstand the strain and is imminently threatened by collapse, for the more paper money is in circulation, the greater the inflation with its attendant evils. Both the Generalissimo and Dr. Kung are studying this question, but it seems that the conditions advanced by the Treasury Department as through Mr. Acheson will affect China's ability to continue resistance to such an extent that there is no way to comply to them. The Generalissimo is very much worried, for he realizes so well the difficulties you are facing, and he would so like to lighten your burden, but so far there seems to be no solution.

Dr. Kung would like very much to go to America in response to your invitation but both he and the Generalissimo feel that unless there is tangible possibility of a loan the disappointment of our people will be such that it would unfavorably affect the

fighting morale of the whole nation. The Generalissimo, therefore, would greatly appreciate your sending to China a representative empowered with full authority to consult with our Government methods for the solving of China's critical economic and financial problems as suggested in one of your messages. Such a person would be greatly welcomed.

Harassed as we are by the difficulties of our continued resistance, the Generalissimo and I take comfort in the fact that America and you are our friends who would do everything possible to help us fight to victory.

With all good wishes,

Yours sincerely,

(signed) Mei-ling Soong Chiang

(Madame Chiang Kai-shek)

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

THE WHITE HOUSE

WASHINGTON

March 16, 1944.

PERSONAL

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY:

To tell me what you suggest.

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Copy

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With all good wishes,

Yours sincerely,

(signed) Mei-ling Soong Chiang

(Madame Chiang Kai-shek)

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

D J B

Will you ask Judge Latta where he thinks this should file?

G.

China folder in act files

50 C 54 = 1 Burma Road China folder 1-40

FOREIGN ECONOMIC ADMINISTRATION

WASHINGTON 25, D. C.

file MAY 2 '44

A month's production of C 54's will give us one Burma Road

In reply refer to:
SU-974-MP

April 29, 1944

MAY 2 1944

To: Laurence J. Martin, Director
Transportation and Storage

From: Max S. Polin
Air Transport Division MSP

Subject: C-54-A Cargo Carrying Capacities and Operating Cost Over Various "Hump" Routes

May I bring to your attention the importance of allocating long range big load carrying aircraft to commercial carriers presently or in future operating over existing or new "hump" routes so that maximum quantities of CDS and U.S. Army supplies may move into China and our strategic war materials move out of China.

For instance, at present CNAC is operating about 30 air transports (mostly C-47's with a few C-53's) between China and Assam airports under an existing contract between the U.S. Army SOS and CNAC. Because of the need to carry sufficient gasoline for the round trip, the Dinjan-Kunming route represents the maximum range of these types of aircraft.

By utilizing C-54-A's, longer routes may be flown enabling a much speedier and more economical movement of U.S. Army and CDS supplies into China and our strategic materials out of China with direct deliveries to our Army forward bases and direct cargo pickup from more distant areas eliminating to a considerable extent the need for transshipment by slow, costly and dwindling truck transportation.

Based on an on-the-spot study of air transport operating conditions of the China-Assam areas, together with information gathered from commercial airline operators and aircraft manufacturers in the U.S.A., I submit below a statement of the monthly cargo carrying capacities of ten C-54-A's over existing "hump" routes and other "hump" routes which may be established in the near future together with flight hours and speed:

Length of Route	x500 miles	xx600 miles	700 miles	800 miles	950 miles
India Bound Tonnage per month	3,030	2,910	2,790	2,640	2,460
China Bound Tonnage per month	2,430	2,220	2,010	1,800	1,500
Flight Hours per trip	2.52	3.	3.47	3.95	4.42
Speed - M.P.H.	197	200	201	202	204

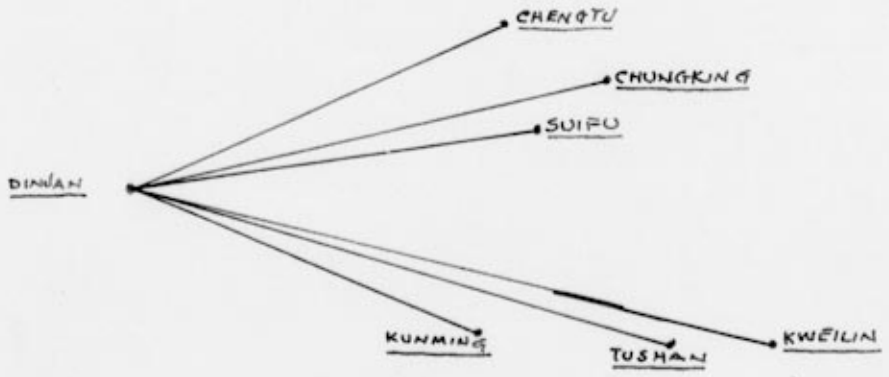
All tonnage figures quoted above are based on only one round trip per day and take-off weight of 65,000 pounds.

(x) On the Dinjan-Kunming route two round trips per day may be flown increasing the above monthly tonnage from 5,460 tons to 10,920 tons whereas on the Dinjan-Suifu and/or the Dinjan-Chengtu routes two round trips per day also may be flown thereby increasing the monthly tonnage of routes from 5,130 tons to 10,260 tons.

(xx) On the Dinjan-Chungking route $1\frac{1}{2}$ round trips may be flown daily increasing the monthly tonnage from 4,800 tons to 7,200 tons.

500	miles	represents	the	distance	between	Dinjan	and	Kunming.
600	"	"	"	"	"	"	"	Suifu
600	"	"	"	"	"	"	"	Chengtu
700	"	"	"	"	"	"	"	Chungking
800	"	"	"	"	"	"	"	Tushan
950	"	"	"	"	"	"	"	Kweilin

For ready reference, routes specified herein are sketched below.



3--Laurence J. Martin

An estimate of the cost of operating C-54-A aircraft per ton, per ton mile and per pound, is as follows:

Miles	500		600		700		800		950	
	India Bound	China Bound	India Bound	China Bound	India Bound	China Bound	India Bound	China Bound	India Bound	China Bound
Per Ton	$105.	$131.	$125.	$163.	$146.	$202.	$174.	$255.	$212.	$347
Per T/M	.212¢	.262¢	.207¢	.272¢	.209¢	.289¢	.217¢	.319¢	.223¢	.365¢
Per Lb.	.0525¢	.0655¢	.0625¢	.0815¢	.073¢	.101¢	.087¢	.1275¢	.106¢	.1735¢

The bases of calculation for arriving at estimated cost of operating a fleet of ten (10) C-54-A's over routes specified herein are as follows:

Value of plane: $400,000
Depreciation: 3 yrs. at 10 hrs. per day - $37 per flight hour.
Maintenance: $32 per F/H.
Overhead: $35 per F/H.
Crew: $20 per F/H.
Gas: $1 per gallon (approx. current India cost to commercial operators).
Oil: $2 per gallon.
Insurance Reserve: $22 per F/H (20%).

A statement showing pounds of cargo carried per pound of fuel consumed is as follows:

Length of Route	500 miles	600 miles	700 miles	800 miles	950 miles
India Bound	5 lbs.	4.2 lbs.	3.6 lbs.	3.1 lbs.	2.5 lbs.
China Bound	4 lbs.	3.2 lbs.	2.6 lbs.	2.1 lbs.	1.5 lbs.

Of utmost importance is the fact that C-54-A's carry sufficient gasoline to fly from Assam to any of the China airports listed herein and return to Assam without lifting any gasoline previously flown into China.

A brief resume of the comparative estimated performance characteristics of the C-47 and the C-54-A as applicable to the 500 mile Dinjan-Kunming (maximum range of the C-47 without China gas pickup) route, follows:

Aircraft	C-47	C-54-A
Tons per month per plane	x72	x273
Gals. fuel consumed per delivered ton	132	74
Cost per delivered ton	$279	$118
Flight crews-man hours per 5,000 tons	20,200	4158

(x) Based on one round trip per day. The C-47 is capable of flying 1½ round trips daily and the C-54-A two round trips daily thereby increasing C-47 monthly tonnage to 108 tons per plane and the C-54-A monthly tonnage to 546 tons per plane.

The C-46 in the "hump" service has been handicapped by its inability to carry heavy loads at high altitudes in consequence of which its load factor is only moderately greater than the C-47.

It will be noted that fifty C-54-A's are capable of flying more than 12,000 tons of cargo per month from Dinjan to Kunming and over 15,000 tons per month from Kunming to Dinjan. Such quantities actually exceed the prewar average monthly capacity of the Burma Road.

With the availability of C-54-A's for "hump" routes, of high importance will be the Dinjan-Tushan route (800 air miles). Tushan is the western terminus of free China's longest and best equipped railroad, serving the important cities of Kweilin, Luichow, Hengyang and more eastern points.

This joint air-rail operation will completely eliminate our dependence on trucks now used in the Tushan-Kunming service thereby removing a bottleneck which in the past has frequently seriously delayed the movement of U. S. war supplies to east China. Such trucks released may then be diverted to other areas where urgently needed.

The estimated tonnage figures submitted herein show that ten (10) C-54-A's operated over the Dinjan-Tushan route are capable of transporting 1,800 tons per month to China and 2,640 tons to India, or a total of 4,400 tons payload per month.

On the cost side it will be noted the C-54-A (all air) cost per delivered ton from Dinjan to Tushan is U. S. $255 and from Tushan to Dinjan U. S. $174 per ton, or an average of U. S. $214.50 whereas our present rail-truck-air cost for the same hauls amount to U. S. $2,540 (20 to 1 exchange) per ton. Summarized, the U. S. Government's present rail-truck-air cost to transport 4,400 tons of cargo amounts to the astronomical figure of U. S. $11,170,000, whereas the cost by C-54-A's is only about U. S. $918,000,

or a saving of over U.S. $10,000,000 on a monthly carriage of 4,400 tons which should be accomplished by the use of only ten C-54-A's in the Dinjan-Tushan service.

The main advantages of the C-54-A are:

1. Expedite the movement of increased tonnage over longer routes.
2. Carries adequate fuel for a round trip eliminating pickup of gasoline previously flown into China.
3. Higher percentage of completed schedules because of its ability to operate at higher altitudes with greater safety for crews, planes and cargo.
4. Tremendous saving in transportation cost.
5. Permits diverting urgently needed motor trucks to other China areas.
6. Relieves certain China airports of traffic congestion and lessens flight collision hazards.
7. Requires less than half the flight personnel per delivered ton as compared to other aircraft at present in the "hump" service.

To augment ATC's China-Assam operations and make possible the maximum movement of CDS and U.S. Army supplies into China and U.S. Government strategic war material out of China, and in view of the conditions recited herein, it appears highly important that CNAC's present fleet of about 30 C-47's now operating on the 500 mile Dinjan-Kunming route under a U.S. Army SOS and a CNAC contract, be replaced by C-54-A's for operation on the 800 mile Dinjan-Tushan route under such contract.

Furthermore, it is recommended that when additional C-54-A's become available such aircraft be allocated to other commercial carriers now under contract to the U.S. Army for operation over important "hump" routes.

China folder 1-44

file personal.

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羅斯福總統閣下

國民政府軍事委員會緘

中華民國三十三年五月六日

國民政府軍事委員會用牋

羅斯福大總統閣下茲派遣商震將軍
前來
貴國充任中國軍事代表團團長特命其
賫函晉謁致敬商將軍為余倚畀深切之
同僚亦為隨余參加開羅會議之一員彼
對於中國抗戰具有豐富之經驗與知識
對中國與聯合國共同作戰之經過有透
澈之瞭解尤其彼曾任外事局長與

國民政府軍事委員會用牋

貴國及聯合國軍事人員接觸最多使彼
擔任此項新職特為適宜敬請
閣下惠予信任時加指導俾得達成其任
務不勝感幸謹祝
健康

蔣中正

中華民國三十三年五月六日

HEADQUARTERS OF THE GENERALISSIMO
CHINA

Chungking, Szechuan
May 7, 1944

My dear Mr. President,

General Shang Chen whom I have appointed as head of the Chinese Military Mission is leaving shortly for the United States. I give him this letter so that after his arrival in Washington he may present it to Your Excellency in person and convey to you my best regards.

As a colleague of mine General Shang enjoys my great confidence, being one of the officers who accompanied me to the Cairo Conference. He has a rich knowledge and experience of China's war of resistance as well as a thorough understanding of the efforts China has made in fighting shoulder to shoulder with the other United Nations. It was especially during his tenure of office as Director of the Foreign Affairs Bureau of the National Military Council that he was able to have a great deal of contact with the military personnel of your country and other United Nations. General Shang is therefore particularly fitted for the new post to which I have appointed him.

I shall feel greatly obliged if Your Excellency will receive him favorably and give him all necessary guidance so that he may successfully discharge his mission.

Wishing you the best of health, I remain,

Sincerely yours,

(Signed) Chiang Kai-shek

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

file

China folder 1-44

CHINESE EMBASSY
WASHINGTON

May 17, 1944

My dear Mr. President:

I beg to enclose a telegram from President Chiang dated May 13, 1944, which I was hoping to present to you in person. I hope to have another early opportunity of being received by you as you so kindly suggested last week.

With high esteem, I remain

Yours sincerely,

Wei Tao-ming

Enclosure

President Franklin D. Roosevelt
The White House

TRANSLATION

Telegram to President Roosevelt from President Chiang Kai-shek
Chungking, May 13, 1944.

I am extremely glad to learn that you have fully regained your good health.

The Chinese expeditionary force completed yesterday the forcible crossing of the Salween River and is now vigorously attacking the enemy. China is anxious to do the utmost within her power to support the Allied Forces operating in India and Burma, which I know is also your earnest desire. As you are well aware, however, China is, to start with, a weak nation financially and militarily, and after seven long years of war, she is confronted with hardships and difficulties unequaled by those besetting any other of the Allied Nations. Moreover, the Chinese forces are at present engaged in operations which are in the course of developing on a large scale in the middle of the China theater, on the plains of Honan, and, at the same time, are pressing forward with the operations on the Salween River. China is, therefore, facing a more difficult and critical situation than ever before when, in her present state of weariness she is called upon to undertake the heavy responsibility of fighting on two fronts. I hope you will understand and appreciate the difficulties now confronting us.

(Signed) Chiang Kai-shek

China folder 1-44

(3016)
Hmo

THE WHITE HOUSE

WASHINGTON

May 29, 1944.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

What do you think?

F. D. R.

Letter from the Secretary of War, 5/26/44, with enclosure, in re Resume of Chinese Exchange Situation. Copies retained for our files.

SECRET

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DOD DIR. 5200.9 (9/27/58)

Date- 2-13-70
Signature-

MAY 26 1944

The President,

The White House.

Dear Mr. President:

I submit herewith a chronological resume of the negotiations with the Chinese Government with respect to the rates of exchange covering our expenditures in China. Since the resume necessarily is somewhat long, I am also summarizing herewith its context.

When our troops first arrived in China they found an agreed exchange rate of $20 (Chinese) for $1 (U.S.), which even then had no realistic relationship to the purchasing value of the Chinese yuan. However, our requirements for food and housing were small and the expenditures were assumed by the Chinese Government which also undertook the requisite airport construction. In the fall of 1943 when General Somervell visited Chungking, this situation had changed and important construction was delayed, as the Chinese Government had not provided sufficient funds. General Stilwell was making direct expenditures to obtain necessary speed in completing urgently needed facilities.

General Somervell proposed to Dr. Kung the establishment of a more favorable exchange rate. He suggested a rate of 100 to 1 in comparison with the then black market rate of 120 to 1. To save Chinese face, he proposed that we continue to procure $20 (Chinese) for each $1 (U.S.) with the Chinese either to donate or to make available under reverse lend-lease $80 (Chinese) for each $1 (U.S.).

At the Cairo Conference the United States agreed to finance further construction expenditures. However the exchange rate was not discussed. The Generalissimo on his return cabled you requesting either a loan of $1,000,000,000 (U.S.), or the payment of Chinese expenditures at a 20 to 1 rate. As this would have made our expenditures in China astronomical, you disapproved the proposal and urged the Generalissimo to accept proposals offered by our representatives.

The Chinese had been threatening to discontinue construction. With the receipt of your message, they agreed to provide $2,500,000,000 (Chinese) and we in turn agreed to deposit $25,000,000 to Chinese account in this country. This was in effect a 100 to 1 rate, but the Chinese would not continue the arrangement on a monthly basis. We also forwarded $20,000,000 (U.S.) at Chinese request for purchase by the Chinese in the black market to lower the rate. There was little confidence in this proposal and the money has not as yet been turned over to the Chinese. Nevertheless, the Chinese continued to advance funds for the construction program subject to our shipment of $5,000,000,000 (Chinese) per month into China. This is continuing and work to date has not been held up.

SECRET

The Chinese have advanced us $7,000,000,000 (Chinese) and have received in partial payment the one deposit of $25,000,000. Manifestly, they are worried as to the rate for repayment. For the first time we occupy the favorable position. We have advised the Chinese consistently of our willingness to bear these expenditures at a reasonable exchange rate. The 60 to 1 rate recently proposed by Dr. Kung with $20 (Chinese) to be purchased for each $1 (U.S.) and $40 (Chinese) to be provided under reverse lend-lease is not realistic in view of the present black market rate. We are not adverse to a reverse lend-lease arrangement of this type, though we do object to an unrealistic rate; and although it would result in the Chinese obtaining a greater credit for future settlement, it would appear most unlikely that funds received under reverse lend-lease at any rate approaching realism would at any time even closely approach the dollar value of direct lend-lease aid.

Perhaps our war program in China has contributed somewhat to inflation. However, the number of our troops and the magnitude of our construction are not sufficient to have a major effect. The Chinese report expenditures at approximately $10,000,000,000 (Chinese) for support of our troops and for construction prior to the Cairo Conference. They have advanced $7,000,000,000 (Chinese) for construction authorized at Cario. In turn the United States has lend-leased goods valued at $413,000,000 (U.S.). The Treasury Department granted a credit to the Chinese Government of $500,000,000 (U.S.), against which it drew $243,000,000. The FEA has purchased goods for $48,000,000 (U.S.) at a 20 to 1 rate. Our forces in China have expended through February 1944 a total of $155,000,000 (U.S.) at the rate of 20 to 1. The financial contribution of the United States has been most substnatial and greatly in excess of the Chinese expenditures even at the 20 to 1 rate. A settlement of the $7,000,000,000 (Chinese) construction advance alone at the 20 to 1 rate would involve a premium payment of over $300,000,000 (U.S.) compared with a rate of 150 to 1, and the latter is below current black market.

The black market is continuing to rise. The rate at the present time should not be less than 150 to 1 and even this rate should be revised periodically unless the Chinese Government controls inflation.

The War Department believes that our representatives should continue to stand firm for a realistic rate. In view of the effect of any rate on military planning, commitments should not be made in Chungking without clearance in Washington by the Treasury Department and your approval.

Respectfully yours,

HENRY L. STIMSON

Secretary of War.

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Date- 2-13-70
Signature- JVR

Inclosure (1)

SECRET

19 May 1944

RESUME OF CHINESE EXCHANGE SITUATION

1. The exchange situation in China first was brought to the attention of the War Department by General Stilwell early in 1943, at which time he reported that the official rate of exchange of 20 to 1 was not realistic, inasmuch as the open market rate at that time was around 40 to 1 and increasing rapidly. He called attention to the fact that with the large expenditures contemplated by the Army, definite steps should be taken to have a new official rate established.

2. The official rate of exchange of 20 to 1 was established in August 1941 and has been supported by the U. S. Government as a measure of making effective the stabilization agreement entered into with China at the same time. This stabilization agreement expired in January 1944.

3. When the matter of the rate was first reported by General Stilwell the Treasury Department was requested to give some consideration to having the Chinese effect a change in the rate and during the latter part of 1943, that department endeavored to obtain some relief in the matter. These efforts included a change in the official rate, the granting of a special rate to the United States or the sale of gold at an advantageous price to use the proceeds to decrease the excessive costs of the War Department's expenditures in China because of the unrealistic rate.

4. With a knowledge of the State and Treasury Department and undoubtedly with the full knowledge of the Chinese Government, the War Department has been paying its personnel in China U. S. currency and permitting that personnel to go into the open or black market and purchase Chinese currency at any available rate. Later, the State and Treasury Department requested the War Department to ship United States currency to China for use in paying personnel and operating expenses. The War Department has been reluctant to having its soldiers dealing in black market operations, but for morale purposes, it could not do other than authorize such a procedure in view of its failure to find other means of giving its men in China sufficient local currency to offset the unrealistic exchange rate. In addition to the morale factor, there has been the ever increasing expenditures by the War Department for supplies and construction.

5. Failing to secure relief through a change in the official rate, the War Department, early in 1943 felt the need for a reciprocal Lend-Lease agreement with China and the Chinese Government indicated that they may be willing to enter into such an agreement. Accordingly, an agreement was drafted for submission to the Chinese. In view of the exchange situation and the fact that the Treasury Department expressed the view that efforts up to that time to secure a better official rate of exchange had proved fruitless, it was decided to include in the reciprocal Lend-Lease agreement, in addition to the provisions to direct aid in kind, a section to the effect that the Chinese Government would provide funds in Chinese currency to be used by the U. S. in direct purchase of supplies, materials, facilities and services in lieu of reciprocal aid in kind and to meet the essential governmental and military needs for Chinese currency. The understanding was that this currency received under the agreement could be used in reducing the excessive cost to the U. S. of expenditures for personnel and other purposes on account of the unrealistic Chinese exchange rate.

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This reciprocal Lend-Lease agreement was presented to Dr. Soong, Foreign Minister of the Chinese government by the State Department in Washington in May 1943 with a memorandum explaining the purpose of the financial provisions thereof. The agreement was submitted to General Stilwell in China and was concurred in by him in view of the apparent impossibility of securing a proper exchange rate.

6. In October 1943 General Somervell visited Chungking. He was advised by General Stilwell that delays occuring in construction necessitated direct contractual expenditures by United States forces. The artificial exchange rate of 20 to 1 as compared with a black market rate of 120 to 1 was resulting in exorbitant costs. General Stilwell believed that a better arrangement was essential to our planned operations. General Somervell, with the knowledge and consent of the Ambassador, proposed to Dr. Kung, subject to ratification by the U. S. authorities in Washington, that the Chinese Government make available to our forces the requisite Chinese currency to support these forces and the military construction under one of two alternatives:

a. The United States would deposit to Chinese account in the United States $1 U.S. for each $100 CN furnished, this deposit to be credited against an official exchange rate of 20 to 1, with the remaining $80 CN to be a contribution of the Chinese Government to our joint war effort (this arrangement would proect publicly the 20 to 1 artificial rate); or,

b. The Chinese Government would provide the requisite funds with the United States depositing to Chinese account $1 U.S. for $20 CN of each $100 CN made available, the remaining $80 CN to be provided under a reverse lend-lease agreement.

Dr. Kung appeared to view these proposals as feasible and promised to place them before the Generalissimo for approval.

7. Shortly after General Somervell's return to the United States in November, and before the proposals could be carried further, the Cairo Conference was held. The Generalissimo attended this conference. It is understood that he was advised that the United States was prepared to bear the cost of its military effort in China. It is not understood that the question of exchange rates was considered. Subsequent to the conference, as indicated in the report of Ambassador Gauss, January 16,1944, the Generalissimo in a message to the President urged that a loan of $1,000,000,000 U.S. be made to China, or that, otherwise, the United States assume full responsibility for its expenditures in China at a 20 to 1 rate.

8. The Treasury Department was then negotiating with the Chinese Government with a view to transporting gold to China for purchase of Chinese currency in the open market to control inflation and to secure a better exchange rate. These negotiations did not appear to be progressing rapidly. The Secretary of Treasury recognizing the urgency of the airport construction program authorized the War Department to proceed with its own negotiations.

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Representatives of the State Department concurred in this arrangement. Our military representatives were authorized to advise the Chinese that the United States was prepared to accept full responsibility for its military expenditures subject to the establishment of a reasonable exchange rate which would have some relationship to the actual purchasing power of the Chinese dollar. On 15 January our Commanding General in China and State Department representatives were advised to press for an early completion of a reverse lend-lease agreement concurrently with an agreement to be presented by military representatives with respect to the funds to be made available by the Chinese Government to cover our military expenditures. The military representatives were advised to keep in constant touch with the State Department and Treasury Department representatives so that any action taken in Chungking would be jointly understood. Mr. Edward C. Acheson was sent to China to assist the Commanding General in presenting the proposed fiscal arrangement.

9. In reply to the Generalissimo's request, referred to above, the President urged the acceptance of the proposal submitted by our military and diplomatic representatives. It is to be noted that the authorities in this country were in agreement that there was little merit in the proposed loan to China.

10. Our military and diplomatic representatives proceeded with the negotiations. In the latter part of January estimates became available with respect to the substantial construction costs involved in the new airport projects. Meanwhile the black market exchange rate had continued to advance and payments in American dollars at a 20 to 1 rate would have become astronomical in comparison to the value received in work. The War Department would have found it necessary to have requested additional funds for the purpose from Congress and was apprehensive that the exorbitant costs would have serious repercussions. Again on 24 January our military representatives were advised to maintain a firm stand, but to inform the Chinese Government that the United States was prepared to place to Chinese account the U. S. dollar equivalent of any Chinese funds made available under general arrangements which they would suggest to the Chinese Government.

11. Dr. Kung was designated by the Generalissimo to receive the United States' proposals. Our representatives proposed as an interim measure that the United States would purchase $1,000,000,000 CN at the rate of 40 to 1 through the deposit of $25,000,000 U.S. to Chinese account in this country. The Chinese Government would add $1,500,000,000 CN to this account. This proposal would have established an interim exchange rate of 100 to 1. The Chinese Government did advance the first funds and the $25,000,000 U.S. in payment thereof was deposited to Chinese account. However the Chinese Government did not accept the proposal as a continuing measure. On 3 February Dr. Kung made a counter-proposal to continue the official exchange rate of 20 to 1 with the Central Government contributing $10 CN more for each $1 U.S. under reverse Lend-Lease. Our representatives turned down this proposal. They advised us on 12 February that they could see no benefit in further proposals. However, Dr. Kung was asked to advance $1,000,000,000 CN per month during the remainder of the negotiations with the repayment rate to be decided during negotiations.

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12. Report of expenditures at this time indicated that our own expenditures in China had increased from $400,000 in January 1943 to $23,000,000 in December. Estimates for airport and other construction indicated a requirement of approximately $2,500,000,000 CN monthly. Payment for these funds at a 20 to 1 rate as compared with the proposed 100 to 1 rate would have resulted in an annual premium to the Chinese Government in excess of $1,000,000,000. However, the proposed rate of 100 to 1 was still below the real purchasing value which was more adequately expressed by the black market rate which had reached 150 to 1. On February 20 General Stilwell was advised that he must continue to take a firm stand while still expressing the willingness of the United States to bear full costs at a reasonable exchange rate. On February 25 we were advised by our military representatives that Dr. Kung had asked for $20,000,000 U.S. to be flown to China as an advance to the Chinese account with the rate to be determined later. These funds Dr. Kung proposed to use for the purchase of Chinese currency in the black market in an effort to drive down the black market rate. At the suggestion of our representatives, and with the approval of the Treasury Department, this money was flown to India in the understanding that $5,000,000 U.S. was to be made available to the Chinese Government to test the effect of the proposed purchases prior to utilizing the full amount. These funds have not as yet been turned over to the Chinese Government as our representatives on the ground felt that the transfer might prove detrimental in view of the existing status of negotiations.

13. On March 2 our representatives advised us that the Chinese Government had agreed to furnish not to exceed $5,000,000,000 CN per month to our forces provided the requisite money in Chinese currency was shipped from the United States, with March and April requirements to be shipped by air. Arrangements were made to meet this request.

14. During the period of negotiations the construction work has been proceeding satisfactorily. As our proposal with respect to the deposit of $25,000,000 U.S. per month to the Chinese account in the United States in exchange for $2,500,000,000 CN had not been accepted by the Chinese Government, only the initial deposit was made. Since we were obtaining all of the funds needed without an exchange commitment, our representatives in China believed it undesirable to submit further proposals to the Chinese. They awaited counter-proposals from the Chinese Government. On May 7 our representatives advised us that the Chinese were pressing hard for a financial agreement at a 60 to 1 rate, $40 CN of each $60 CN furnished to be credited as reverse lend-lease. As the black market was continuing to rise, our representatives were unwilling to accept this offer and insisted on a three months' agreement for a rate of 150 to 1. Our representatives in the field reported that the Chinese Government would make a direct appeal to the United States.

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15. It is important to note that the Chinese Government has receded considerably from its stand taken in 1943, and from its even more adamant stand taken in December 1943 and January 1944, as a result of the firm position taken by the United States. While the work undertaken by the American forces and payment therefor may aggravate the distress of the Chinese economy, it is very doubtful if its influence on the inflation difficulties is a major contributing factor. In local areas where work is being carried on, our expenditures will have more serious effect on inflationary difficulties than elsewhere, but even there our expenditures are not the primary cause of their economic disturbance. In any event, it is difficult to understand the effect of the rate of exchange on this economy as the United States funds made available to China would accumulate as a credit to be drawn against after the war. It would be difficult to justify an artificial exchange rate which would make the cost of American participation in the war in China out of all proportion to the actual value of the work received, particularly taking into consideration the relatively low cost of labor in China as compared with the United States.

16. The extent of United States aid to China must also be taken into consideration in determining the exchange rate which is to be accepted. Lend-Lease aid to China has aggregated more than $400,000,000 U.S., although some of the Lend-Lease material is still stock piled in India as transportation has not been available for its movement into China. At a realistic rate, this Lend-Lease expenditure alone is equivalent to $60,000,000,000 CN.

In addition thereto, the Treasury Department granted a credit to the Chinese Government of $500,000,000 U.S. in March 1942 against which $243,000,000 has been drawn at the end of 1943.

The Foreign Economic Administration will have purchased in China from 1941 through June 1944 approximately $48,000,000 U.S. which at the official rate would purchase $960,000,000 CN worth of merchandise (strategic materials). At a realistic rate of 100 to 1 as a conservative average for the period, these purchases would have cost only $9,600,000 U.S. This means that over the period the Chinese Government had been benefited as a result of the unrealistic exchange rate by a premium of $38,400,000 U.S.

Likewise, our forces in China have expended for the period 1 January 1943 to include February 1944 a total of $155,550,000 U.S. which at the official rate of exchange total $3,111,000,000 CN. Expenditures during the month of March and April 1944 have been on the basis of the new agreement, whereby the Chinese advanced to us the currency required for our needs and we in turn deposited U. S. currency to the credit of the Chinese Government in such amount as the Commanding General, U. S. forces reports as properly due.

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The total amount reported by the Commanding General, U. S. Forces under this agreement to have been received up to April 23 is $7,680,000,000 CN. (How much of this should be credited as a Chinese contribution to the war effort, and how much the United States Government is expected to reimburse the Chinese cannot be determined in Washington at this time in view of the fact that negotiations in this respect are being carried on by General Stilwell in China.) This is a total expenditure in Chinese currency to date of $10,791,000,000 CN. This would cost the U. S. at the official rate of 20 to 1, $539,550,000 U. S. whereas at a realistic rate of 150 to 1 it would cost only $72,000,000. This means that the U. S. pays a premium on these expenditures of $467,550,000 due to the unrealistic rate.

Dr. Kung in a letter to the Secretary of War has reported Chinese expenditures during part of February and all of March and April as aggregating $7,016,000,000 CN. The Chinese state, however, in addition to this amount the Chinese Government has paid out since September 1942 for construction of airfields, barracks, air force supplies and improvement of roads at the request of the United States authorities a total of $10,878,260,457 CN.

While the cost of the services furnished the United States Forces in China cannot be verified, his estimate of construction cost in 1944 of $7,000,000,000 CN is in agreement with our own figures. The United States has deposited against this advance of $7,000,000,000 CN the sum of $25,000,000 U.S. to Chinese credit in the United States.

17. In view of the large sums involved and the continuing expenditures, it is apparent that the agreed exchange rate may have a decided influence on military operations and on military planning. While it is desirable for a firm agreement to be effected at the earliest possible date, the importance of such agreement to contemplated military operations warrants its careful consideration in Washington before it is accepted formally. It is suggested, therefore, that any arrangements which may be proposed in Chungking be tentative until their effect on military operations can be studied by our Government in Washington so that all factors may be taken into consideration. It is apparent that the American position has constantly improved during the progress of the negotiations as a result of the firm stand taken by all of our representatives working in close agreement. Meanwhile, military construction has proceeded without delay.

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Date- 2-13-70
Signature- [illegible]

(3046) hmo

Copy of this memorandum returned to Mr. Stettinius, 6/6/44.

China folder 1-44

DEPARTMENT OF STATE
WASHINGTON

June 3, 1944

MEMORANDUM FOR THE PRESIDENT

The following telegraphic message from the President of China has just been communicated to the Department by the Chinese Ambassador:

"To President Roosevelt:

"The Ministry of Foreign Affairs has informed me of Ambassador Wei's conversations with Secretary Hull on the proposed conference at Washington to discuss the creation of an international organization for the maintenance of world peace. China has always been an advocate of the early creation of such an organization, if possible before the termination of the war; and we are gratified that you are taking the leadership in realizing this idea. I am particularly grateful to you and Secretary Hull for the insistence on the necessity of China's being represented at the conference. Without the participation of Asiatic peoples, the conference will have no meaning for half of humanity.

(Signed) Chiang Kai-shek"

If the president perceives no objection, the substance of President Chiang's message will be communicated to Ambassador Gauss at Chungking.

E. R. Stettinius Jr.

"O.K. F.D.R."

China folder 1-44

file
Confidential

THE WHITE HOUSE
WASHINGTON

June 5, 1944

Dear Grace:

I think the President would be interested in this bit of scandal, forwarded to me from China.

Sincerely,

Lauch

Lauchlin Currie

Miss Grace Tully,
The White House,
Washington, D. C.

Attachment

[redacted]

May 10, 1944

SUBJECT: Domestic Troubles in the Chiang Household

TO : Assistant Chief of Staff, G-2

Chungking is literally seething with stories of the domestic troubles of the Chiang household. Almost everyone has new details and versions to add to the now generally accepted story that the Generallissimo has taken a mistress and as a result his relations with the Madame are -- to say the least -- strained. Where there is so much smoke, it would seem that there must be some fire.

Normally such gossip about the private lives of government leaders would not be considered as within the scope of political reporting. This is hardly the case, however, in China where the person concerned is a dictator and where the relationship between him and his wife's family is so all-important. That relationship is already weakened by the strained relations between the Generalissimo and T. V. Soong. If the Madame, whose nature is both proud and puritanical, should openly break with her husband, the dynasty would be split and the effects both in China and abroad might be serious. Even if the present situation becomes generally known abroad, as it almost certainly and eventually will, there will be a great loss of prestige to both the Generalissimo and the Madame.

The stories generally agree that the Generalissimo (whose early sexual life was not particularly monogamous -- there is argument as to whether the Madame is his third or fourth wife, and he is supposed to have been a gay blade in his Shanghai broker days) took up with his present attachment while the Madame was in the United States.

Stories of the lady's identity differ. The chief are:

that she is Miss CHEN Chieh-ju, the Generalissimo's concubine just before his marriage to the Madame, who was supposedly pensioned off and put out of sight;

that she is a cousin of CHEN Li-fu, of considerable youth and beauty, introduced by him during the Madame's absence in America as a not-very-original effort to solidify his own and the C-C clique's position;

that she (or by some accounts a second girl) is a beautiful Fukienese who found her way to the Generalissimo's favor by introduction of the Cheng Hsueh Hsi (Political Science Group) as their attempt to play petticoat politics.

There is, however, fairly general agreement that the lady is pregnant and that the Generalissimo will be a father in about two months.

Reports as to her present whereabouts agains differ. Some say categorically that she has been sent "far away" to have the child. Others that she is living at the Generalissimo's house on the South Bank.. Another story, which seems circumstantial, is that she is living in a house near the ChiuLungpo airfield about 6 miles outside of Chungking.

One explanation of the story that there were two women is that the second -- a Miss T'ao, Jao, or Yao -- is a friend of the Generalissimo's eldest son, Ching Kuo, and has been at the "palace" a number of times at his invitation.

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OSD Letter, 5-3-72
APR 11 1974

The prevalence and belief of these stories, and the humorous elaborations which are passed around, are at least indications of the unpopularity of the Madame (it is generally regarded by Chinese as a joke at her expense) and the decline in respect for both her and the Generalissimo (I have never heard anyone try to deny the stories, or refuse to be a party to such scandal mongering).

Typical of these anecdotal stories are:

The Madame now refers to the Generalissimo only as "That Man."

The Madame complains that the Generalissimo now only puts his teeth in when he is going to see "that woman".

The Madame went into the Generalissimo's bedroom one day, found a pair of high heeled shoes under the bed, threw them out of the window, and hit a guard on the head. (The guard's supposed remark on the troublesomeness of women does not translate well into English.)

The Generalissimo at one time did not receive callers for four days because he had been bruised on the side of the head with a flower vase in a spat with the Madame.

All these stories may be nothing more than malicious gossip. But a number of surface indications might be interpreted as indicating at least serious tension between the Generalissimo and the Madame.

The Madame has spent much of the time since her return from the United States living with her elder sister, Madame Kung.

She has avoided social life and public appearances. She has been seen rarely with the Generalissimo and when together they have seemed to observers to be very cool.

The Madame is not well: her complaint, a skin irritation, is regarded medically as being a result of nervous strain. She avoids photographers. And people who have seen her at close range have remarked on the hardening of lines in her face and that she seems irritable.

If the situation as reported is true, it has undoubtedly been a great strain on the Madame -- because of her pride as a woman, her puritanical Methodism (there are generally accepted stories of several government officials in the past who have suddenly lost their positions because their wives were able to call the attention of the Madame to their husband's peccadillos), and her knowledge of the effect it will have on her prestige.

Nonetheless, most observers believe that the stakes of power are so important to the Soong family that they (with the exception of Madame Sun but the important addition of H.H. Kung) will do everything possible to prevent an open break and that she will swallow her pride and put up with the situation.

Critics of the Generalissimo regard it all as evidence of the hollowness of his Christian and New Life moralizing, and another indication that he is after all not far from being an old-fashioned "warlord"!

(3056)
hmo

China folder
1-44

THE WHITE HOUSE

WASHINGTON

June 7, 1944.

MEMORANDUM FOR

HON. E. R. STETTINIUS, JR.
ACTING SECRETARY OF STATE:

To prepare reply and inform Secretary Morgenthau. I cannot be here until about the 22nd of June.

F.D.R.

Memorandum from Mr. Stettinius, 6/6/44, a carbon of which has been retained for our files, in re visit of Dr. Kung to Washington.

June 6, 1944

MEMORANDUM FOR THE PRESIDENT

Subject: Dr. Kung

The Chinese Ambassador called upon me this morning and advised me that he had just received a message from Chungking saying that Dr. Kung was now ready to come to Washington, and, in all probability, would leave Chungking approximately June 15th.

(Signed) E. R. Stettinius, Jr.

(3082) Signed original of this letter sent to the Department of State for delivery by pouch, 6/12/44.

hms

China folder 1-44

June 10, 1944

Dear Generalissimo Chiang:

I have been informed that the United States military installations in China have now been practically completed, notwithstanding the monetary and financial difficulties China has to contend with. I wish to express my own deep appreciation to you and to express the thanks of the American people for this splendid achievement.

This manifestation of our common effort gives to the world additional evidence of the good faith and the high principles which motivate the United Nations in their determination to destroy the forces of aggression. You and the Chinese people have fought valiantly the common enemy for seven long years, and I know that you are heartened, as we are, with the realization that the day draws ever closer when our objective of final victory will be won.

China's achievements in the face of tremendous obstacles inspires faith and hope in free men of all countries.

Sincerely yours,

FRANKLIN D. ROOSEVELT

Generalissimo Chiang Kai-shek,
Headquarters of the Generalissimo,
Chungking, China.

THE SECRETARY OF THE TREASURY
WASHINGTON

June 8, 1944.

My dear Mr. President:

I have received your memorandum of June 1, 1944 enclosing the Aide-Memoire brought to you by General Shang Chen from the Chinese Ambassador. This same Aide-Memoire was handed to me by Ambassador Wei on May 19, 1944 and it suggests an arrangement whereby we can sell gold and currency in China to meet our financial problems there. This proposal is being seriously considered by War, State and ourselves and may prove to be of some assistance, although it cannot be a solution to our financial problems in China.

I should like to take this opportunity to congratulate you, as Commander-in-Chief of our Armed Forces, upon having faced and passed an important military crisis. General Somervell informs me that the U. S. Army installations in China are now practically completed. Thus, the problem which you faced in January has been overcome and your major objective has been achieved.

The difficulties of financing our military program in China began, you recall, at the Cairo Conference, where the Chinese leader requested a $1 billion loan. You accepted my recommendation that this loan be denied, and the Generalissimo in January threatened that the Government of China would not make any further material contribution to the war effort, including construction of military works, unless we agreed to grant the loan, or alternatively, to purchase Chinese currency at the official rate of exchange for our military expenditures. We refused to accede to the Generalissimo and continued negotiations. However, during these negotiations, construction activities on behalf of our Army were going forward and have now been substantially completed, and we are now in the favorable bargaining position. Dr. Kung in a letter of April 19, 1944 informed me that the Chinese Government is "resolutely determined that nothing should be allowed to interfere with the present and contemplated operations of the U. S. Army in the China Theatre", and that the Chinese Government renounces "any request for a new loan (i.e. the $1 billion loan requested by the Generalissimo at the Cairo Conference)". Thus a most difficult

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situation has been bridged and our military installations in China stand ready for use.

The Secretary of War, in his letter dated May 26, 1944, has submitted to you an excellent account of the negotiations to date regarding the U. S. dollar costs of our military expenditures in China.

As you know, we have been informed that Dr. Kung will come to the United States soon as head of the Chinese delegation to the United Nations Monetary and Financial Conference. This will give us the opportunity to continue the financial negotiations with him in the United States.

That the position we have taken in these negotiations is justified is shown by the declining value of the Chinese yuan. The official exchange rate for Chinese yuan has been 5 cents since 1941; before China entered the war it was 30 cents. The unofficial or black market rate for yuan was only 2 cents by the end of 1942 and by the end of 1943 only 1 cent. At the present time the yuan is worth about one-half of a cent.

The rise in value of the U. S. dollar in terms of Chinese yuan is shown by some typical foreign exchange quotations in Kunming and Chungking since the latter part of 1942:

		Chungking	Kunming
1942	August	36 yuan for $1	44 yuan for $1
	December	45 yuan for $1	48 yuan for $1
1943	August	80 yuan for $1	88 yuan for $1
	December	85 yuan for $1	95 yuan for $1
1944	February	175 yuan for $1	300 yuan for $1
	March	250 yuan for $1	220 yuan for $1
	April	200 yuan for $1	205 yuan for $1
	May	175 yuan for $1	190 yuan for $1

Gold has always sold at a much higher value in terms of Chinese yuan. Thus, at the end of 1943 a U. S. dollar note sold for about 90 yuan while $1 worth of gold sold for about 300 yuan. In May, 1944, when the U. S. dollar sold for about 175 yuan in Chungking, $1 worth of gold sold for approximately 450 yuan.

You may feel assured that despite the financial problems which arose to disturb the cordial relations of this Government with the Chinese Government, the course of the present financial negotiations is satisfactory and moving in the proper direction.

China folder
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THE WHITE HOUSE

WASHINGTON

June 1, 1944.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY:

This memorandum is from the Chinese Ambassador and was brought to me by General Shang Chen direct from Chungking. I think you might have a talk with the Chinese Ambassador in regard to the Chinese exchange situation. I do not think he feels it is much better.

F.D.R.

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DDO D.R.
Date- 2-13-70
Signature- JVA

SECRET

WAR DEPARTMENT
WASHINGTON

May 26, 1944.

The President,

The White House.

Dear Mr. President:

I submit herewith a chronological resume of the negotiations with the Chinese Government with respect to the rates of exchange covering our expenditures in China. Since the resume necessarily is somewhat long, I am also summarizing herewith its context.

When our troops first arrived in China they found an agreed exchange rate of $20 (Chinese) for $1 (U.S.), which even then had no realistic relationship to the purchasing value of the Chinese yuan. However, our requirements for food and housing were small and the expenditures were assumed by the Chinese Government which also undertook the requisite airport construction. In the fall of 1943 when General Somervell visited Chungking, this situation had changed and important construction was delayed, as the Chinese Government had not provided sufficient funds. General Stilwell was making direct expenditures to obtain necessary speed in completing urgently needed facilities.

General Somervell proposed to Dr. Kung the establishment of a more favorable exchange rate. He suggested a rate of 100 to 1 in comparison with the then black market rate of 120 to 1. To save Chinese face, he proposed that we continue to procure $20 (Chinese) for each $1 (U.S.) with the Chinese either to donate or to make available under reverse lend-lease $80 (Chinese) for each $1 (U.S.).

At the Cairo Conference the United States agreed to finance further construction expenditures. However the exchange rate was not discussed. The Generalissimo on his return cabled you requesting either a loan of $1,000,000,000 (U.S.), or the payment of Chinese expenditures at a 20 to 1 rate. As this would have made our expenditures in China astronomical, you disapproved the proposal and urged the Generalissimo to accept proposals offered by our representatives.

The Chinese had been threatening to discontinue construction. With the receipt of your message, they agreed to provide $2,500,000,000 (Chinese) and we in turn agreed to deposit $25,000,000 to Chinese account in this country. This was in effect a 100 to 1 rate, but the Chinese would not continue the arrangement on a monthly basis. We also forwarded $20,000,000 (U.S.) at Chinese request for purchase by the Chinese in the black market to lower the rate. There was little confidence in this proposal and the money has not as yet been turned over to the Chinese. Nevertheless, the Chinese continued to advance funds for the construction program subject to our shipment of $5,000,000,000 (Chinese) per month into China. This is continuing and work to date has not been held up.

SECRET

The Chinese have advanced us $7,000,000,000 (Chinese) and have received in partial payment the one deposit of $25,000,000. Manifestly, they are worried as to the rate for repayment. For the first time we occupy the favorable position. We have advised the Chinese consistently of our willingness to bear these expenditures at a reasonable exchange rate. The 60 to 1 rate recently proposed by Dr. Kung with $20 (Chinese) to be purchased for each $1 (U.S.) and $40 (Chinese) to be provided under reverse lend-lease is not realistic in view of the present black market rate. We are not adverse to a reverse lend-lease arrangement of this type, though we do object to an unrealistic rate; and although it would result in the Chinese obtaining a greater credit for future settlement, it would appear most unlikely that funds received under reverse lend-lease at any rate approaching realism would at any time even closely approach the dollar value of direct lend-lease aid.

Perhaps our war program in China has contributed somewhat to inflation. However, the number of our troops and the magnitude of our construction are not sufficient to have a major effect. The Chinese report expenditures at approximately $10,000,000,000 (Chinese) for support of our troops and for construction prior to the Cairo Conference. They have advanced $7,000,000,000 (Chinese) for construction authorized at Cairo. In turn the United States has lend-leased goods valued at $413,000,000 (U.S.). The Treasury Department granted a credit to the Chinese Government of $500,000,000 (U.S.), against which it drew $243,000,000. The FEA has purchased goods for $48,000,000 (U.S.) at a 20 to 1 rate. Our forces in China have expended through February 1944 a total of $155,000,000 (U.S.) at the rate of 20 to 1. The financial contribution of the United States has been most substantial and greatly in excess of the Chinese expenditures even at the 20 to 1 rate. A settlement of the $7,000,000,000 (Chinese) construction advance alone at the 20 to 1 rate would involve a premium payment of over $300,000,000 (U.S.) compared with a rate of 150 to 1, and the latter is below current black market.

The black market is continuing to rise. The rate at the present time should not be less than 150 to 1 and even this rate should be revised periodically unless the Chinese Government controls inflation.

The War Department believes that our representatives should continue to stand firm for a realistic rate. In view of the effect of any rate on military planning, commitments should not be made in Chungking without clearance in Washington by the Treasury Department and your approval.

Respectfully yours,

Henry L. Stimson

Secretary of War.

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Date- 2-13-70
Signature-

Inclosure (1)

19 May 1944

RESUME OF CHINESE EXCHANGE SITUATION

1. The exchange situation in China first was brought to the attention of the War Department by General Stilwell early in 1943, at which time he reported that the official rate of exchange of 20 to 1 was not realistic, inasmuch as the open market rate at that time was around 40 to 1 and increasing rapidly. He called attention to the fact that with the large expenditures contemplated by the Army, definite steps should be taken to have a new official rate established.

2. The official rate of exchange of 20 to 1 was established in August 1941 and has been supported by the U. S. Government as a measure of making effective the stabilization agreement entered into with China at the same time. This stabilization agreement expired in January 1944.

3. When the matter of the rate was first reported by General Stilwell the Treasury Department was requested to give some consideration to having the Chinese effect a change in the rate and during the latter part of 1943, that department endeavored to obtain some relief in the matter. These efforts included a change in the official rate, the granting of a special rate to the United States or the sale of gold at an advantageous price to use the proceeds to decrease the excessive costs of the War Department's expenditures in China because of the unrealistic rate.

4. With a knowledge of the State and Treasury Department and undoubtedly with the full knowledge of the Chinese Government, the War Department has been paying its personnel in China U. S. currency and permitting that personnel to go into the open or black market and purchase Chinese currency at any available rate. Later, the State and Treasury Department requested the War Department to ship United States currency to China for use in paying personnel and operating expenses. The War Department has been reluctant to having its soldiers dealing in black market operations, but for morale purposes, it could not do other than authorize such a procedure in view of its failure to find other means of giving its men in China sufficient local currency to offset the unrealistic exchange rate. In addition to the morale factor, there has been the ever increasing expenditures by the War Department for supplies and construction.

5. Failing to secure relief through a change in the official rate, the War Department, early in 1943 felt the need for a reciprocal Lend-Lease agreement with China and the Chinese Government indicated that they may be willing to enter into such an agreement. Accordingly, an agreement was drafted for submission to the Chinese. In view of the exchange situation and the fact that the Treasury Department expressed the view that efforts up to that time to secure a better official rate of exchange had proved fruitless, it was decided to include in the reciprocal Lend-Lease agreement, in addition to the provisions to direct aid in kind, a section to the effect that the Chinese Government would provide funds in Chinese currency to be used by the U.S. in direct purchase of supplies, materials, facilities and services in lieu of reciprocal aid in kind and to meet the essential governmental and military needs for Chinese currency. The understanding was that this currency received under the agreement could be used in reducing the excessive cost to the U.S. of expenditures for personnel and other purposes on account of the unrealistic Chinese exchange rate.

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This reciprocal Lend-Lease agreement was presented to Dr. Soong, Foreign Minister of the Chinese government by the State Department in Washington in May 1943 with a memorandum explaining the purpose of the financial provisions thereof. The agreement was submitted to General Stilwell in China and was concurred in by him in view of the apparent impossibility of securing a proper exchange rate.

6. In October 1943 General Somervell visited Chungking. He was advised by General Stilwell that delays occuring in construction necessitated direct contractual expenditures by United States forces. The artificial exchange rate of 20 to 1 as compared with a black market rate of 120 to 1 was resulting in exorbitant costs. General Stilwell believed that a better arrangement was essential to our planned operations. General Somervell, with the knowledge and consent of the Ambassador, proposed to Dr. Kung, subject to ratification by the U. S. authorities in Washington, that the Chinese Government make available to our forces the requisite Chinese currency to support these forces and the military construction under one of two alternatives:

a. The United States would deposit to Chinese account in the United States $1 U.S. for each $100 CN furnished, this deposit to be credited against an official exchange rate of 20 to 1, with the remaining $80 CN to be a contribution of the Chinese Government to our joint war effort (this arrangement would proect publicly the 20 to 1 artificial rate); or,

b. The Chinese Government would provide the requisite funds with the United States depositing to Chinese account $1 U.S. for $20 CN of each $100 CN made available, the remaining $80 CN to be provided under a reverse lend-lease agreement.

Dr. Kung appeared to view these proposals as feasible and promised to place them before the Generalissimo for approval.

7. Shortly after General Somervell's return to the United States in November, and before the proposals could be carried further, the Cairo Conference was held. The Generalissimo attended this conference. It is understood that he was advised that the United States was prepared to bear the cost of its military effort in China. It is not understood that the question of exchange rates was considered. Subsequent to the conference, as indicated in the report of Ambassador Gauss, January 16,1944, the Generalissimo in a message to the President urged that a loan of $1,000,000,000 U.S. be made to China, or that, otherwise, the United States assume full responsibility for its expenditures in China at a 20 to 1 rate.

8. The Treasury Department was then negotiating with the Chinese Government with a view to transporting gold to China for purchase of Chinese currency in the open market to control inflation and to secure a better exchange rate. These negotiations did not appear to be progressing rapidly. The Secretary of Treasury recognizing the urgency of the airport construction program authorized the War Department to proceed with its own negotiations.

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Representatives of the State Department concurred in this arrangement. Our military representatives were authorized to advise the Chinese that the United States was prepared to accept full responsibility for its military expedenditures subject to the establishment of a reasonable exchange rate which would have some relationship to the actual purchasing power of the Chinese dollar. On 15 January our Commanding General in China and State Department representatives were advised to press for an early completion of a reverse lend-lease agreement concurently with an agreement to be presented by military representatives with respect to the funds to be made available by the Chinese Government to cover our military expenditures. The military representatives were advised to keep in constant touch with the State Department and Treasury Department representatives so that any action taken in Chungking would be jointly understood. Mr. Edward C. Acheson was sent to China to assist the Commanding General in presenting the proposed fiscal arrangement.

9. In reply to the Generalissimo's request, referred to above, the President urged the acceptance of the proposal submitted by our military and diplomatic representatives. It is to be noted that the authorities in this country were in agreement that there was little merit in the proposed loan to China.

10. Our military and diplomatic representatives proceeded with the negotiations. In the latter part of January estimates became available with respect to the substantial construction costs involved in the new airport projects. Meanwhile the black market exchange rate had continued to advance and payments in American dollars at a 20 to 1 rate would have become astronomical in comparison to the value received in work. The War Department would have found it necessary to have requested additional funds for the purpose from Congress and was apprehensive that the exorbitant costs would have serious repercussions. Again on 24 January our military representatives were advised to maintain a firm stand, but to inform the Chinese Government that the United States was prepared to place to Chinese account the U. S. dollar equivalent of any Chinese funds made available under general arrangements which they would suggest to the Chinese Government.

11. Dr. Kung was designated by the Generalissimo to receive the United States' proposals. Our representatives proposed as an interim measure that the United States would purchase $1,000,000,000 CN at the rate of 40 to 1 through the deposit of $25,000,000 U.S. to Chinese account in this country. The Chinese Government would add $1,500,000,000 CN to this account. This proposal would have established an interim exchange rate of 100 to 1. The Chinese Government did advance the first funds and the $25,000,000 U.S. in payment thereof was deposited to Chinese account. However the Chinese Government did not accept the proposal as a continuing measure. On 3 February Dr. Kung made a counter-proposal to continue the official exchange rate of 20 to 1 with the Central Government contributing $10 CN more for each $1 U.S. under reverse lend-lease. Our representatives turned down this proposal. They advised us on 12 February that they could see no benefit in further proposals. However, Dr. Kung was asked to advance $1,000,000,000 CN per month during the remainder of the negotiations with the repayment rate to be decided during negotiations.

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12. Report of expenditures at this time indicated that our own expenditures in China had increased from $400,000 in January 1943 to $23,000,000 in December. Estimates for airport and other construction indicated a requirement of approximately $2,500,000,000 CN monthly. Payment for these funds at a 20 to 1 rate as compared with the proposed 100 to 1 rate would have resulted in an annual premium to the Chinese Government in excess of $1,000,000,000. However, the proposed rate of 100 to 1 was still below the real purchasing value which was more adequately expressed by the black market rate which had reached 150 to 1. On February 20 General Stilwell was advised that he must continue to take a firm stand while still expressing the willingness of the United States to bear full costs at a reasonable exchange rate. On February 25 we were advised by our military representatives that Dr. Kung had asked for $20,000,000 U.S. to be flown to China as an advance to the Chinese account with the rate to be determined later. These funds Dr. Kung proposed to use for the purchase of Chinese currency in the black market in an effort to drive down the black market rate. At the suggestion of our representatives, and with the approval of the Treasury Department, this money was flown to India in the understanding that $5,000,000 U.S. was to be made available to the Chinese Government to test the effect of the proposed purchases prior to utilizing the full amount. These funds have not as yet been turned over to the Chinese Government as our representatives on the ground felt that the transfer might prove detrimental in view of the existing status of negotiations.

13. On March 2 our representatives advised us that the Chinese Government had agreed to furnish not to exceed $5,000,000,000 CN per month to our forces provided the requisite money in Chinese currency was shipped from the United States, with March and April requirements to be shipped by air. Arrangements were made to meet this request.

14. During the period of negotiations the construction work has been proceeding satisfactorily. As our proposal with respect to the deposit of $25,000,000 U.S. per month to the Chinese account in the United States in exchange for $2,500,000,000 CN had not been accepted by the Chinese Government, only the initial deposit was made. Since we were obtaining all of the funds needed without an exchange commitment, our representatives in China believed it undesirable to submit further proposals to the Chinese. They awaited counter-proposals from the Chinese Government. On May 7 our representatives advised us that the Chinese were pressing hard for a financial agreement at a 60 to 1 rate, $40 CN of each $60 CN furnished to be credited as reverse lend-lease. As the black market was continuing to rise, our representatives were unwilling to accept this offer and insisted on a three months' agreement for a rate of 150 to 1. Our representatives in the field reported that the Chinese Government would make a direct appeal to the United States.

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15. It is important to note that the Chinese Government has receded considerably from its stand taken in 1943, and from its even more adamant stand taken in December 1943 and January 1944, as a result of the firm position taken by the United States. While the work undertaken by the American forces and payment therefor may aggravate the distress of the Chinese economy, it is very doubtful if its influence on the inflation difficulties is a major contributing factor. In local areas where work is being carried on, our expenditures will have more serious effect on inflationary difficulties than elsewhere, but even there our expenditures are not the primary cause of their economic disturbance. In any event, it is difficult to understand the effect of the rate of exchange on this economy as the United States funds made available to China would accumulate as a credit to be drawn against after the war. It would be difficult to justify an artificial exchange rate which would make the cost of American participation in the war in China out of all proportion to the actual value of the work received, particularly taking into consideration the relatively low cost of labor in China as compared with the United States.

16. The extent of United States aid to China must also be taken into consideration in determining the exchange rate which is to be accepted. Lend-Lease aid to China has aggregated more than $400,000,000 U.S., although some of the Lend-Lease material is still stock piled in India as transportation has not been available for its movement into China. At a realistic rate, this Lend-Lease expenditure alone is equivalent to $60,000,000,000 CN.

In addition thereto, the Treasury Department granted a credit to the Chinese Government of $500,000,000 U.S. in March 1942 against which $243,000,000 has been drawn at the end of 1943.

The Foreign Economic Administration will have purchased in China from 1941 through June 1944 approximately $48,000,000 U.S. which at the official rate would purchase $960,000,000 CN worth of merchandise (strategic materials). At a realistic rate of 100 to 1 as a conservative average for the period, these purchases would have cost only $9,600,000 U.S. This means that over the period the Chinese Government had been benefited as a result of the unrealistic exchange rate by a premium of $38,400,000 U.S.

Likewise, our forces in China have expended for the period 1 January 1943 to include February 1944 a total of $155,550,000 U.S. which at the official rate of exchange total $3,111,000,000 CN. Expenditures during the month of March and April 1944 have been on the basis of the new agreement, whereby the Chinese advanced to us the currency required for our needs and we in turn deposited U. S. currency to the credit of the Chinese Government in such amount as the Commanding General, U. S. forces reports as properly due.

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The total amount reported by the Commanding General, U. S. Forces under this agreement to have been received up to April 23 is $7,680,000,000 CN. (How much of this should be credited as a Chinese contribution to the war effort, and how much the United States Government is expected to reimburse the Chinese cannot be determined in Washington at this time in view of the fact that negotiations in this respect are being carried on by General Stilwell in China.) This is a total expenditure in Chinese currency to date of $10,791,000,000 CN. This would cost the U. S. at the official rate of 20 to 1, $539,550,000 U.S. whereas at a realistic rate of 150 to 1 it would cost only $72,000,000. This means that the U. S. pays a premium on these expenditures of $467,550,000 due to the unrealistic rate.

Dr. Kung in a letter to the Secretary of War has reported Chinese expenditures during part of February and all of March and April as aggregating $7,016,000,000 CN. The Chinese state, however, in addition to this amount the Chinese Government has paid out since September 1942 for construction of airfields, barracks, air force supplies and improvement of roads at the request of the United States authorities a total of $10,878,260,457 CN.

While the cost of the services furnished the United States Forces in China cannot be verified, his estimate of construction cost in 1944 of $7,000,000,000 CN is in agreement with our own figures. The United States has deposited against this advance of $7,000,000,000 CN the sum of $25,000,000 U.S. to Chinese credit in the United States.

17. In view of the large sums involved and the continuing expenditures, it is apparent that the agreed exchange rate may have a decided influence on military operations and on military planning. While it is desirable for a firm agreement to be effected at the earliest possible date, the importance of such agreement to contemplated military operations warrants its careful consideration in Washington before it is accepted formally. It is suggested, therefore, that any arrangements which may be proposed in Chungking be tentative until their effect on military operations can be studied by our Government in Washington so that all factors may be taken into consideration. It is apparent that the American position has constantly improved during the progress of the negotiations as a result of the firm stand taken by all of our representatives working in close agreement. Meanwhile, military construction has proceeded without delay.

REGRADED UNCLASSIFIED

AIDE MEMOIRE

To meet the requirements of the United States Army in China the Chinese Government has advanced in toto the sum of eighteen billion yuan.

The United States Government has signified its intention of paying for its military expenditure in China which is greatly appreciated by the Chinese Government. As a basis of settlement of the funds advanced by the Chinese Government, United States Army representatives in China have made proposals at different times since February for the conversion rate to be fixed variously at; U.S. $1 to 100 yuan, 200 yuan, 120 yuan, and 150 yuan. The Chinese Government, however, is unable to consider these proposals to alter the exchange rate of 20 yuan to one U.S. dollar, because the lowering of the exchange rate under the present circumstances would further undermine confidence in Chinese currency, as well as stimulate the rise in commodity prices.

The Chinese Government, therefore, suggests the following solutions:

(a.) The agreement for Reverse Lend-Lease as proposed by the United States and agreed to by China shall be signed and implemented as soon as possible.

(b.) China undertakes to pay for land needed for the construction of air fields.

(c.) China

(c.) China undertakes to pay for the food and lodging of the United States Army in China, such payments to be credited under Reverse Lend-Lease.

(d.) For United States Army expenses other than those covered in (b) and (c) above, the Chinese Government offers the following alternative solutions:-

1.) China shall contribute twenty yuan as Reverse Lend-Lease, in addition to twenty yuan exchanged at official rate for every United States dollar credited to China. China is further prepared to raise such Reverse Lend-Lease contribution to forty yuan for each United States dollar placed to her credit.

2.) Alternatively, if the above arrangement (d.1.) is considered not satisfactory, the Chinese Government shall be prepared to permit the United States authorities in China to sell in open market United States currency notes, United States Government bonds, gold, and commodities for the purpose of

securing

securing Chinese currency needed to
meet United States Army expenditure.

The Chinese Government also believes that the most effective measure of controlling inflation in China is increased importation of commodities for daily use, especially if such importation is combined with the arrangements under (d. - 1 or 2)

It is to be observed that for every yuan issued, the Chinese Government and banks assume the obligation of its redemption according to law. In comparing China's present foreign exchange accumulation to the amount of yuan issued China's exchange reserve is infinitesimal and far below her minimum requirements, not to mention China's post-war needs for rehabilitation and reconstruction, and her monetary stability which especially needs assistance. Hence any appreciable increase in China's foreign exchange and reserve would greatly mitigate her difficulties and be of vital importance to development of American trade with China.

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China folder 1-44

THE WHITE HOUSE

WASHINGTON

June 12, 1944.

MEMORANDUM FOR

HON. HENRY MORGENTHAU, JR.

TO READ AND RETURN FOR MY FILE.

F.D.R.

Private and Confidential letter to the Pres. April 19, 1944 from Dr. H.H. Kung, Chungking, in regard to China's financial situation, with attached Table of Total Payments Made by the Chinese Government at the Request of the U.S. Army Authorities (from Sept. 1942 to April 19, 1944.)

HEADQUARTERS OF THE GENERALISSIMO
CHINA

(Translation)

April 18th, 1944.

My dear President:

Ambassador Wei Tao-ming is requested, upon his return to Washington, to hand you this letter with my cordial greetings.

He is charged to convey to you my views on the latest developments in the Far East and the fundamentals of our future strategy in the China theater. I trust you will accord him a fairly long interview so that he may tell you in detail all that he has to say and to give you any information which you may desire.

Wishing you the best of health.

Yours sincerely,

(signed) Chiang Kai-shek.

羅斯福總統閣下

國民政府軍事委員會緘

中華民國三十三年四月十八日

國民政府軍事委員會用牋

羅斯福總統閣下茲乘魏大使回任之際特
函達余對
閣下相念之殷並致誠摯之問候關於最近
東方情勢及中國戰區今後作戰之要領均
囑魏大使面為陳達敬請　予以較充分之
時間俾得詳陳一切如
閣下有所垂詢時魏大使當能奉告也順頌
尊體康勝

蔣中正

中華民國三十三年四月十八日

PSF: China folder 1-44

File

THE WHITE HOUSE

WASHINGTON

June 15, 1944

MEMORANDUM FOR THE PRESIDENT:

I attach the gist of some recent reports I have received from China.

Lauchlin Currie

Lauchlin Currie

MEMORANDUM FOR THE PRESIDENT

Confidential reports from Chungking are that Kuomintang-Communist negotiations are getting nowhere because the Kuomintang has no real desire to compromise and will not meet Communist requests for relaxation of the anti-Communist blockade, reestablishment of radio communication between Chungking and Yenan, and release of Communist political prisoners.

American observers on the spot therefore reach the conclusion that the Kuomintang began negotiations with the Chinese Communists primarily to put up a good front against foreign criticism. The same motive is behind the visit of foreign correspondents to Yenan.

The Communist representatives in Chungking claim that their economic and political strength has increased in the Communist area and that there has even been an increase in their military strength. Be that as it may, there seems to be little doubt that they are genuinely interested in fighting Japanese and would like to have American military delegations sent to their areas.

The session of the Central Executive Committee of the Kuomintang which began May 20th was kept very secret. The trend of the meetings was definitely reactionary and Dr. Sun Fo who had voiced criticisms received no support.

Regarding American criticism of China, the Generalissimo was reported to have said:

"As for foreign criticism, I at first paid some attention to it but it has passed the point of being reasonable. Formerly if the foreigners found 1% good about China, they said that China was 100% good. Now if they find 1% bad, they say that the other 99% is also bad. We should stop worrying about such criticism just as I now disregard it.

"Censorship must be maintained to protect us against these unfair criticisms. All that is censored now, despite foreign complaints, are false rumors and reports."

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By Deputy Archivist of the U.S.
By W. J. Stewart Date FEB 7 1972

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THE SECRETARY OF THE TREASURY
WASHINGTON

file Confidential

June 28, 1944

My dear Mr. President:

In accordance with your wishes, I am returning herewith, for your files, the letter dated April 19 from Dr. Kung, which you asked me to read.

Yours sincerely,

H Morgenthau Jr.

The President,
The White House.

國民政府行政院
THE EXECUTIVE YUAN.
NATIONAL GOVERNMENT.
CHINA.

FDR
To read & return for my file
FDR

Private & ~~Confidential~~ Chungking, April 19, 1944.

The Honorable Franklin D. Roosevelt,
President of the United States,
The White House,
Washington, D.C., U.S.A.

Dear Mr. President,

I am taking the opportunity of Ambassador Wei's return to the United States to send you my warmest personal greetings. I would also like to thank you for your kind invitation to me to visit your country. Although circumstances and the pressure of urgent duties unfortunately prevent me from leaving, I do hope that the day will soon come when I shall be able to do so.

I was very glad to hear from President and Madame Chiang on their return from Cairo of your great desire to assist us in the solution of our current problems. Therefore, it would not be amiss to bring you au courant with respect to current economic and financial developments in China. Dr. Wei is supplied with detailed information which he will be glad to provide in order to supplement this letter. It is no exaggeration to state frankly that, in the economic and financial sphere, China is experiencing its most difficult year since the beginning of the war. The seven years of uninterrupted warfare with its attendant devastation, blockade and growing financial burden have taken their toll. As you are certainly aware the National Government, under the leadership of President Chiang, are doing everything within their power

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State Dept. Letter, 10-5-72
By R. H. Parks Date 10-10-72

to intensify the common war effort. But our financial and economic problems are increasing in acuteness.

Had our position been less unfavorable, we should have gladly undertaken the burden of financing all United States Army expenditures in China as a voluntary contribution to the United Nations' war effort. As it is, the activities of the United States Army in the China Theatre, important and indispensable as they are for intensifying our war effort, are dangerously accelerating our inflation. To date we have appropriated over 17 billion Yuan for airfields and other military outlays for the American Army, of which 10 billion, a sum equivalent to the US$500 million loan which was extended to us in 1942, was paid by February. I am appending a detailed list of such expenditures for your reference. The mere provision of currency notes for U.S. Army expenditures has exhausted our currency reserves in China and used up all notes shipped in from India. In order to keep the U.S. Army supplied with notes so that their activities can continue without interruption, we are compelled to restrict temporarily cash outpayments by the banks for commercial and industrial purposes pending the further arrival of new supplies of notes from America by air.

In order not to impair seriously China's effectiveness in the common war effort, it is essential that confidence in our currency be maintained. An essential precondition for the con-

tinuation of confidence in our currency is the maintenance of a minimum reserve of foreign exchange, gold or silver, against our currency. It would be most dangerous for us to continue to issue currency notes to cover current U.S. Army requirements without a minimum replenishment of such reserves. Unfortunately, this obvious consideration appears to have been overlooked by some who apparently feel that we should provide the U.S. Army Yuan currency on terms which would involve an actual rate of 100 Yuan to 1 U.S. dollar. Such a course amounts to a depreciation of the external value of our currency by 500 percent and would be fatal to us in our present predicament.

Those who urge for a further depreciation of our currency were obviously misled by the comparatively high price commanded by U.S. dollar notes in the black market. It is important,however, to grasp the fact that the supply for U.S. dollar notes in the black market is very small and that the chief demand is created by the hoarders and speculators who smuggled U.S. dollar notes to Shanghai and by smugglers in China who find it profitable to acquire U.S. dollar notes even at high prices for the purpose of taking to India to buy rupees in order to bring contraband goods and gold from India. Thus the price the U.S. dollar notes command in the black market is fictitious and cannot be regarded as true indicator of the external value of Chinese currency. The Chinese Yuan was worth about 30 cents U.S. currency at the outbreak of

the war in 1937. We maintained that free market rate at considerable sacrifice until March, 1938. Since then, it has gradually depreciated until the Stabilization Board of China fixed the rate at about 5 cents in August, 1941. Since the basic idea behind the plan for a United Nations' Monetary Conference which is being prepared under the leadership of the United States Treasury, is sound money, I am sure you appreciate our reluctance in taking steps to further depreciate our currency. I have explained in detail in my messages to Secretary Morgenthau dated January 6 and February 25, about which I presume you were informed, the reasons for not changing our exchange rate. The psychological effect alone of such a drastic revision of the exchange rate as some contemplate would be very serious and would, of necessity, lead to an upward revision of internal prices and serious loss of confidence in the Yuan.

It is not generally realized and we do not wish it to be known that China has had to conduct her war effort with less aid in the form of materials and supplies than any major member of the United Nations, and this in spite of the fact that she is confronted with difficulties such as beset the path of no other belligerent country. The powers of endurance of the Chinese people have proven themselves under the tremendous strain of the seven long years of war. Since, according to this year's budget, nearly 50% of the expenditures is already covered by taxation,

the National Government is extremely anxious to avoid taxing these sacrificial powers beyond endurance, for the consequences might be disastrous both to China herself and to the United Nations as a whole. We had all been hoping for the removal of the blockade of China some time in 1944. Now that appears to be a remote contingency. If the present economic and financial difficulties continue and if we take steps that would drastically depreciate our currency, thus bringing about further inflation, the consequences may be grim indeed.

We are not making any request for a new loan because we are well aware of the difficulties that may beset the path for the granting of a loan at the present time. We are exerting our utmost to do our share in facilitating the activities of the U.S. Army in China by providing land for the construction of airfields and by advancing large sums for the payment of construction and other activities. As you have kindly informed President Chiang, the United States, in order to cover all of its military expenditures in China, including such maintenance as well as construction, is prepared to place to China's account the U.S. dollar equivalent of any Chinese funds made available under general arrangement with U.S. representatives in China. The only difficulty that prevents us from reaching a complete understanding with respect to this matter is the rate of conversion. On account of this difficulty, except for the US$25 million paid in

March, none of the rest of the U.S. dollar counter-part of the billions advanced by China has yet been turned over to China. Since, for reasons stated above, we cannot depreciate our currency further without seriously jeopardizing our currency position, we have been trying to find other ways of solving the problem. Some time ago, we have informed your Government our agreement to the U.S. proposed arrangement for Reverse Lend-Lease and I hope the arrangement will soon be carried out. I am sure you will agree with me that this whole matter is not a subject for bargaining. We have already fought shoulder to shoulder for over two years. We have shared considerable sacrifices and, it appears to me, we should each contribute according to our capacity for the common victory.

It was with great pleasure that I learned of Vice-President Wallace's forthcoming visit to China in which event I am sure he will become fully acquainted with China's war effort and the problems incidental thereto. We welcome such interchange of visits as a valuable means of exchanging mutual information and understanding between the Allies and also hope that some day in the not too distant future Mrs. Roosevelt will allow us to repay the hospitality so generously extended to Madame Chiang by you and your people.

With best personal regards,

Yours sincerely,

H. H. Kung

H. H. Kung

Table of Total Payments Made by the Chinese Government at the Request of the United States Army Authorities (From September, 1942 to April 19, 1944).

A) Paid out by the National Treasury, Ministry of Finance.

1.- For construction of airfields.	Yuan 8,018,932,286.25
2.- For construction of barracks for Composite Wing in Air Force.	355,580,500.00
3.- For War Area Service Corps expenditures (mostly board and lodging for U.S. Air Force in China).	1,483,407,953.78
4.- For transport of U.S. Air Force supplies.	404,442,917.92
5.- For the improvement of roads at specific request of U.S. Army authorities.	615,896,800.00
Total	Yuan 10,878,260,457.95

B) Advanced by the Central Bank.

1.- Advanced for the construction of air bases:-

(a)	March 11, 1944	Yuan 1,743,000,000.00
(b)	April 7, 1944	1,000,000,000.00
(c)	April 14, 1944	1,503,000,000.00
(d)	April 19, 1944	520,000,000.00

2.- Advanced for the account of the U.S. Army:-

(a)	February 10, 1944	Yuan 1,000,000,000.00
(b)	March 6, 1944	1,000,000,000.00
(c)	April 15, 1944	250,000,000.00
	Total	Yuan 7,016,000,000.00

GRAND TOTAL --- Yuan 17,894,260,457.25