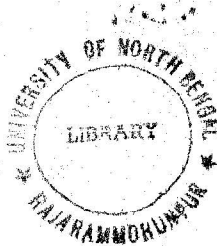


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CHINA AND JAPAN

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EASTERN ASIA
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**I. PRINCIPAL FACTORS IN THE FAR-
 EASTERN SITUATION**

The present undeclared war in China is the latest phase of a process of Japanese encroachment on the East Asiatic mainland which, beginning with the acquisition of Korea after the Sino-Japanese War of 1894-5, has continued intermittently during the last half century, and has intensified since 1931. If regarded as the result of normal expansionist tendencies on the part of a virile and ambitious people, with a rapidly increasing population living in circumscribed conditions, Japan's conflict with her nearest continental neighbour—the possessor of limitless territory and great natural resources—assumes a simple appearance. In fact, however, Japan's "economic urge" is by no means sufficient explanation of the present struggle in China; any attempt to distinguish its root-causes must take account of sundry other and quite different factors. The relative importance to be given to each of these gives rise to wide differences of opinion and it will be left to the reader to form his own deductions. The purpose of this memorandum is to draw attention to the principal developments which compose the "background" of the situation as it exists to-day, and to furnish a resumé of the actual events leading up more or less directly to the hostilities now in progress.

The present armed conflict may properly be regarded as an extension of the "Manchurian Affair" of 1931-3. Politically speaking, Japan's objectives have remained the same. In particular, the detachment of North China and Inner Mongolia, at which the present Japanese military effort is primarily directed, would, if accomplished, mean the enlargement of the Japanese sphere of control already established in "Manchukuo" and would serve the same purposes. An examination of the motives of Japan's invasion of Manchuria in 1931 is therefore highly pertinent to an understanding of the present developments.¹

Japan's encroachment on the Asiatic mainland from 1931 onwards can, as the foregoing suggests, be attributed to any or all of three distinct causes, each of which has been represented by one or other section of foreign press comment, according to the several "schools of thought," as the fundamental motive. First there was the "economic urge," that is to say, the urge on Japan to acquire control of sources of raw material in order to feed her industries and thus support a fast-expanding population. It is generally accepted that land utilization in Japan has reached, or is nearing, its limits and that the country is suffering seriously from "agrarian over-population." To relieve this state of affairs Japan had embarked on an intensive development of light

(1) See below, Part II, Chapter I, section 4.

manufacturing industries, largely for export. In many of the essential classes of raw materials the Japanese Empire is notably deficient,¹ and is largely dependent on imports. Manchuria, North China, and Inner Mongolia offered a potential source of supply of several of Japan's most pressing requirements, such as iron-ore, fuel, raw cotton, and salt. To obtain control over these sources of supply, with power to develop and transport them, and, as a corollary of this, to gain freedom from dependence on foreign imports, e.g. American oil and raw cotton, which might be cut off in times of war or international tension, was clearly an inducement to the rulers of Japan to extend their authority over the regions in question.

The second factor was strategic. Japan's geographical position, analogous in many respects with that of the British Isles, made it a vital interest that no hostile power should establish itself too firmly on the sea-board of the neighbouring continent. The recovery by her old enemy Russia of her power in the Far East, which the Revolution of 1917 had temporarily eclipsed, became for Japan a matter of growing concern. The development of aircraft and submarines had greatly increased the importance of Vladivostok as a base for attacks on her own territory. To cope with a threat from Russia, strategic requirements demanded that Japan should be able to strike at the latter's lines of communications and military strong-points far in the interior. Japan, as some writers have expressed it, saw her natural strategic frontier as lying deep in the continent of Asia, possibly as far west as Lake Baikal. In order to have the means of transporting forces through Manchuria and along the "Mongolian corridor," it was desirable to have the political control of these areas and to safeguard the flank from any interference by China. The acquisition of an industrial base for the heavy industries required for the production of armaments may be ranked as a further "strategic" consideration, as may also the desire entertained by the Japanese General Staff to separate Russia and China by driving a wedge between them, so as both to hinder their military co-operation in the event of war and, by controlling direct channels, to check the intercourse between Russia and the Chinese Communist movement.

Finally, account must be taken of the "prestige motive" reinforced by the Japanese feeling that it is, to use a favourite Japanese phrase, Japan's "manifest destiny" to become the dominant influence in Eastern Asia. This ambition, which can be traced far back in Japanese history, was openly displayed in the famous Amai Declaration of April 1934 which virtually amounted to the enunciation by Japan of a "Monroe Doctrine" for East Asia.²

It is noticeable that none of the three factors dealt with above has special reference to China, the other party in the present struggle.

- (1) See below, Part III, section 2.
- (2) See below, Appendix IV.

This fact may suggest two questions: firstly, how far do the issues underlying the contest lie between China and Japan; secondly, to what extent can the responsibility for the conflict rightly be attached solely, or in the main, to Japan. As regards the first of these questions the reference already made to the strategic aspects of the struggle is sufficient to show that issues unconnected with China are deeply involved. If those observers are right who see in the fear of Russia the prime motive of Japan's recent actions in Manchuria and North China, then it is hardly too much to say that China is providing the immediate battleground in a secular struggle between the two essential protagonists, Japan and Russia. But, further than this, it is possible to maintain that on the same battleground we are witnessing Japan's struggle for supremacy against the Western Powers which, in the course of the last century, have entrenched their naval and commercial positions in the Far East.

To answer the second question the foreign observer must consider the charges which Japan has brought against China and decide to what extent these charges, if justified, show China to share in the responsibility of "aggression."

In any judgment concerning China's share of responsibility for the conflict which arose between the two nations, account must be taken of the fact that the provocative acts of which Japan has complained have taken place within the limits of China's own territory and have only affected those Japanese interests which had established themselves on Chinese soil. Against an important part of these interests the Chinese have objected that they were acquired illegally or extracted under duress (e.g. as part of the Twenty-one Demands).¹ The alleged official cultivation of anti-Japanese sentiment in China, with its corollary in the form of unofficial boycotts, may, or may not, be regarded as coming within the category of "unfriendly acts" between nations, though it is obviously impossible to refuse this description to manifestations of this sentiment in the form of acts of violence against Japanese individuals and property, such as took place particularly in the summer of 1936. Finally, one must consider the excuse for intervention implicit in Japanese official pronouncements concerning Japan's relations with China. This is that the Chinese Government has been unable, or unwilling, to maintain that degree of domestic order and political stability which can rightly be required of it by an adjacent State with closely interlocked interests—that China has been, in short, a "bad neighbour." If the Japanese charge of lack of responsible government in China is in any degree accepted, assessment of blame for the present conflict must obviously depend on the view held as to the moral right of one nation to take the law into its own hands and to replace the existing administration of the alleged disorganized region by one of its own creation: for such is the meaning of

(1) For a note on these see Appendix I.

the Japanese claim to be recognized as the supreme "stabilizing force in East Asia."

THE JAPANESE VIEW

The view of the Sino-Japanese conflict which the spokesmen of the Japanese Government have enunciated in recent speeches centres upon the pretension which has just been mentioned—the right of Japan, which she claims to derive from her geographical position, from her peculiar interests in the regions in question, and, as has sometimes been openly implied, from her natural superiority, to act as the peace-preserver and political arbiter of East Asia (a conveniently vague phrase which has never been clearly defined). On the basis of this claim, Japan has arrogated to herself the function, alone or jointly with China, of controlling the spread of Communism—as a force disruptive to peace—and has required of China that she should allow her to take a hand in combatting Communism within China's own boundaries. China's refusal of this demand was one of the chief causes of the failure of the attempt which was made in the autumn of 1936 to adjust relations between Japan and China by diplomatic negotiation. This refusal, and the Chinese Government's unreadiness to "co-operate" with Japan by sanctioning joint enterprises in the field of economic developments in North China, the establishment of air services, etc., have, together with the alleged evasions of undertakings given by the Government of Peiping in agreements made with the Japanese authorities and comprehended under the name of the Ho-Umetsu Agreement, been designated by Japanese statesmen as proof of "lack of sincerity" on the part of China. A complaint more readily intelligible to the uninitiated foreigner, which has figured prominently in statements by the Japanese Minister for Foreign Affairs since the outbreak of hostilities, is that the Chinese Government have, as a matter of policy, fomented and exploited the growth of anti-Japanese sentiment and anti-Japanese movements in order to arouse a national consciousness among the Chinese people. It is alleged that the authorities have actively encouraged feeling against Japan through the agency of school text-books and have refrained from exercising proper control over the Chinese press, the cinemas, and voluntary societies and organizations, and, further, that the boycotting of Japanese goods has been stimulated by official pressure. The Chinese Government are thus regarded as directly responsible for the occurrence of such incidents as the shooting of a Japanese naval officer and a Japanese seaman at the Hungjao aerodrome outside Shanghai on August 9, the occurrence of which led to the subsequent outbreak of hostilities in that area.¹

(1) A comparison may be drawn between the reaction of the Japanese Government to anti-Japanese movements in China and that of the British Government when faced with a wave of anti-British agitation, resulting in boycotts and violence,

In brief, the Japanese view as presented to the outside world may be said to be that Japan is entitled to have her interests treated with special respect by her continental neighbour and, furthermore, to intervene on the mainland when she sees developments taking place which she considers to be a menace to the political stability of that region, and thus—in Mr Hirota's words—to “stop the Communist invasion of the Orient”; that China has thwarted those interests, has failed to present an efficient barrier to Communism, has indulged a national spirit of Japanophobia, resulting in insults to Japan and damage to Japanese lives and property; that the Government in Nanking has in its behaviour exceeded the limits of endurance and that it must now be “punished” and compelled to alter its ways.

In the customary manner of countries launching war on a neighbouring State, Japan, through her spokesmen, insists that their quarrel is not with the Chinese people as a whole, but with their Government, Army, and, with such organizations as the Blue Shirts and the All-China National Salvation Union, which have stirred up popular feeling and advocated resistance to Japanese demands on China.

A logical consequence of the Japanese view of the conflict, as it has here been indicated, has been the attitude which the Japanese Government has adopted towards all suggestions of mediation by Governments of other Powers. The spokesman of the Japanese Foreign Office has consistently treated such proposals as being quite unacceptable to his Government.

Before the commencement of the present hostilities a growing current of opinion had shown itself in Japan, among the business community and the more liberal politicians, which rejected the use of coercive measures against China and favoured the policy of gentler methods of persuasion to bring the Chinese authorities to the acceptance of the principle of “co-operation” with Japan. To all outward appearance this more moderate element of public opinion in Japan has dissolved in the heat of the war fever which took hold on the country once fighting had started.

THE CHINESE VIEW

The Chinese view of the conflict has followed the natural line of representing Japanese action in Manchuria and China as sheer unprovoked aggression. China, it is claimed, has made unavailing concessions to Japan during the last few years. The more she gave the more was demanded of her. When, after the attack on her economic

in 1925-6. The British Government proceeded to deal with the causes of friction and Chinese ill-will by recognizing the moral right of Nationalist China to the gradual extinction of the peculiar disabilities imposed by the earlier treaties and initiated a policy aiming at their progressive removal. The change of feeling towards Great Britain which this policy produced had become obvious to all observers within a few years.

existence by the organized smuggling which started in 1935, on her territorial integrity by the raids into the Inner Mongolian provinces, and on her administrative integrity by the attempts by the Japanese military to create an autonomous State in North China, she was required "to allow foreign armies to come and go freely within Chinese territory while the Chinese Army must abide by imposed restrictions and allow others to fire on Chinese soldiers who might not return the fire," the limits of endurance had been reached. Such was the situation as outlined by General Chiang Kai-shek in a speech to educational leaders on July 18, 1937. If he continued, China should submit to the Japanese conditions, "the Peiping of to-day would become a second Mukden . . . and what is there to prevent Nanking from becoming a second Peiping? . . . If we reach the stage when it is impossible to avoid the inevitable, then we cannot do otherwise than resist . . . This resistance is forced upon us; we are not seeking war, we are meeting attacks upon our existence."

Chinese public opinion as expressed in the press has identified itself with the Prime Minister's statement of the case, maintaining the view that Japan has brought China to the point where she must resort to armed resistance or renounce her existence as an independent State.

"It can easily be understood that the mass inertia of a big, old country is tremendous, and progress was made only by successive shocks from outside."

Lin yutang - My Country and My People. (1939 edition) p. 335.

William Heinemann.

History of the Press and Public Opinion in China - By Lin yutang.

Paul Hignebourg - The Political Doctrines of Sun Yat-sen: An Exposition of the Sun Mich Chai. (Baltimore: Johns Hopkins, 1937. 278 pp.)

II. POLITICAL FACTORS IN CHINA AND JAPAN

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The position in regard to internal solidarity is an element of such importance in war that it is necessary to include in the present memorandum a summary review of political conditions in China and Japan as they affect national unity.

In the case of China the degree of unification achieved by the Central Government, the position of General Chiang Kai-shek himself, and the relations between him and the Chinese Communists are vital factors determining the length to which resistance to Japan is capable of being carried. In Japan the outlook largely depends upon how far the military element now in control of foreign policy is assured against the opposition of political forces which may develop strength in the course of a prolonged and exhausting war.

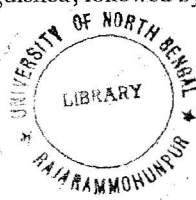
1. THE POLITICAL STATE OF CHINA

The key to an understanding of the present state of politics in China lies in the fact that China is still in the aftermath of revolution. The Chinese revolution, which started in Canton in the 'nineties of last century, had at first the threefold character of an uprising against the Manchu dynasty, a movement for reform of the political and administrative systems on Western democratic models, and a revolt against the foreign economic penetration of China. The movement matured during the first decade of the present century under the leadership of Sun Yat-sen, and during this period the Nationalist Party, or Kuomintang, came into existence. In 1911 came the civil war which ended Imperial rule in China. The time, as it proved, however, was not ripe for the substitution of a democratic form of government. The reform movement was not yet rooted in the masses; its leaders had no other governmental system to offer than an imitation of Western parliamentarianism which was unsuited to China; finally, the leaders themselves, especially the generals of the revolutionary armies, included a number of deserters from the old régime whose conversion was half-hearted and whose motives were mainly, when not purely, personal. Power fell into the hands of these army commanders, and during the next decade and a half the greater part of China was at first governed despotically by Yuan Shih-kai, and later, after his death in 1916, divided under the regional rule of rival "war-lords." Sun Yat-sen and his band of reformers maintained the embers of the revolutionary movement precariously alive in the South, and, during the interval of national chaos, formulated a scheme of democratic government designed to meet the peculiar needs of China. The scheme was theoretically planned in three stages: first, military rule, to last until the power of the "war-lords" had been extinguished; followed by a period

Sun Yat-sen
and the
Kuomintang

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of political tutelage under the Kuomintang while the masses were being trained in self-government; and, eventually, the introduction of popular constitutional government.

*Russian
Collaboration,
1923-7*

The plan was drawn up with the collaboration of the Russian advisers, to whom Sun Yat-sen had turned for help in 1923, and whose influence in the "sovietizing" of China was to have far-reaching effects down to the present time. In 1926, a year after Sun Yat-sen's death, the Southern "Nationalists," as they had come to be called, launched their campaign to overthrow the "war-lords" and unite China under the rule of the Kuomintang. The Army, under the supreme command of General Chiang Kai-shek, duly accomplished the first part of this task (culminating in the eviction of Marshal Chang Tso-lin from Peking and his withdrawal to Manchuria, whither the Nationalist Army refrained from penetrating, under warnings from the Japanese). In 1928, after the period of "military rule" had been declared at an end, the Nationalist Government of China in its present form was established in Nanking. Prior to this General Chiang, who, as Generalissimo, had acquired the leadership, had expelled the Russian advisers and broken with the Communist element in China, but the seeds of agrarian Communism which the former had sown in the course of the military campaign had taken root in the southern and central provinces, providing the foundation for the subsequent establishment of a "Soviet Republic" in the heart of China.

*The Civil
War 1926-8*

*Establishment of the
Nanking
Government*

Although the victory of the "Nationalists" had been notably more thorough in the campaign of 1926-8 than in the 1911-12 revolution, consolidation was still far from complete. The power of the Central Government, radiating from Nanking, was at first effective only within a small circle of provinces, and although the perimeter was steadily enlarged there remained a broad outer fringe in which control was still mainly in the hands of provincial commanders of the old school, whose resistance to the process of unification led to a series of civil wars. The southernmost provinces, which had split with the North when Yuan Shih-kai assumed power, remained quasi-independent till the summer of 1936, when, after an almost bloodless campaign, the Central Government established effective control over the province of Canton with the manifest approval of the local population, which withdrew support from the former military commander. At the same time Chiang came to a reasonable compromise with the leaders of the clique in control of the province of Kwangsi. Furthermore he recovered a large measure of authority in the western province of Szechuan, which for a number of years had been virtually detached. In the North the province of Hopei had already, in 1935, under Japanese pressure, been granted semi-autonomy under the government of a "Political Council"—which, by Japanese calculations, was expected to become an organ subservient to Japanese influence—while the two adjoining provinces of Shansi and Shantung remained under the more or less

personal control of two of the old northern commanders, whose loyalty to the Central Government, which in the past had been spasmodic, now showed signs of becoming more constant.

These various regional authorities—some of them men who held high positions under the old régime, others, like the Kwangsi leaders, men who rose in the ranks of the Nationalist movement but came into conflict with General Chiang when he acquired his predominant position in the Government—constitute, with their civil and military “backers” (for the individual leaders are in many cases the mouth-pieces of influential sections of public opinion), the first of the political elements in China whose existence has in the past retarded the process of national consolidation.

Regionalism

Since the outbreak of the present hostilities with Japan the various provincial leaders are represented as having rallied strongly to the side of the Central Government and to have sunk their differences in the common national cause. The Kwangsi leaders were reported to have given to the Central Government the disposition over their troops, some of which were said to have been fighting on the Shanghai front, while one of the two principal generals, Pai Chung-hsi, joined the General Staff at Nanking.

A further consideration in estimating the extent to which regional rivalries may weaken the unity of China is that in the ranks of the provincial armies themselves there has been an undoubted growth of a spirit of nationalism. Among the younger officers, in particular, a sense of patriotism has spread which makes them less ready to give blind obedience to any military chief who may wish to use them in his personal interests and in such a way as may conflict with the cause of the nation as a whole.

Another political element in China, the existence of which involved, up to the time of the present crisis, a serious national cleavage, consists of the Communist groups and of the “Red Army.” Out of the Communist “cells” established in southern and central China during the “Borodin” period (1923-7), of which mention has already been made, there developed a number of agrarian Communist centres in which Soviet rule was established in defiance of the Central Government’s authority. For several years the Government forces were engaged in fruitless attempts to break up the chief of these centres which had established themselves in the provinces of Kiangsi and Fukien. In 1934 General Chiang Kai-shek finally succeeded in dislodging this large revolutionary bloc. The Red Army, however, after an epic march of more than 6,000 miles which carried it through half the provinces of China, joined itself up with other blocs already existing in the west and north-west with the result that a “Soviet Republic” established itself in the province of Shensi with headquarters at Yananfu.

Communist Armies

While General Chiang continued to press the campaign against the

** The historic trek to the northwest began on 19 October 1934. The Red Army marched through the mountains of Kweichow and Yunnan and the borders of Szechwan and Tibet, covering 6000 miles in 368 days, starting in Shensi on Oct. 20, 1935. This is the Long March.*

Communist forces, this persistence of civil war and diversion of national energies from the task of resisting Japan aroused grave dissatisfaction, which was further increased by the repressive measures taken against the so-called "patriotic" associations. The discontent was especially strong among the troops in the north-west which were called upon to engage the Red Army. In December, 1936, the commanders of the forces in Shensi took the opportunity afforded by a visit by the Generalissimo to Sianfu to seize him and hold him hostage, while making demands for a reversal of policy towards the Chinese Communists and the "patriotic" societies. As the result of the circumstances attending this *coup* and the release of the Generalissimo after a fortnight's detention, there appears to be good reason to believe that the foundations were laid of a reconciliation between General Chiang and the Reds, tending towards the formation of the "united front" which the Communist leaders had long been advocating. After February, 1937, operations by Government troops against the Red Army were discontinued and it became possible for Communist leaders to visit Nanking, where they were reported to have had secret negotiations with the Generalissimo. It is true that in February the Central Executive Committee of the Kuomintang passed a resolution requiring the unconditional surrender of the Communist organizations to the Central Government's authority, but the resolution had to be read in the light of the fact that any open condonation by the Government of the Communist movement in China was liable to precipitate an open breach with Japan, a contingency which the Nanking authorities were then not yet ready to face.

Nationalism
of the
Intelligentsia

The attitude of the Chinese intelligentsia towards the Central Government has in the last two or three years been yet another obstacle to national political solidarity. Enthusiastic supporters of the Kuomintang Government in its earlier days, the students and university professors had become severely disillusioned in their hopes of a speedy reform of the Chinese political and social systems and, in consequence, a despairing drift towards Communism had set in among the "intellectual" classes. They became active critics of the foreign policy of Nanking and of the handling of the agrarian problem at home. This situation was exacerbated by the repressive measures applied by the authorities to students who demonstrated in the "national" cause. By the beginning of 1937 there were signs, however, that General Chiang Kai-shek had decided to admit the "intellectuals" more closely into the counsels of the Central Government, and in June of the present year a gathering "of all the talents" had been arranged at Kuling (the modern Chinese Simla) at which the political, educational, and technical leaders of the country were to have met in joint conference to discuss national policy.

Divisions
within the
Kuomintang

Finally, within the Party itself a division along "leftist" and "rightist" lines had, at the end of 1936, developed to a point which

18
Snow, Red Star over China "makes Hannibal's
march over the Alps look like a holiday excursion
beside it." *China's New Year - My Country and My
People*, p. 370.

gave rise to fears of an open conflict. The issue lay between the orthodox Kuomintang followers and a clique in the Government who were credited with the desire to depart from the scheme for the progressive introduction of democratic rule laid down by Sun Yat-sen, and to set up a "military-fascist" régime in China. These two sections were divided also over the question of the policy to be pursued towards the Communist element in China and towards Japan. Tension became acute during the Sianfu affair, when the "fascist" element pressed for immediate military action against the "rebel" military commanders who were holding the Generalissimo hostage. The weight which should be attached to these inter-party schisms is, however, extremely difficult for foreign observers to determine, and in estimating the effect upon the prospects of national unity it is always well to remember that in Chinese politics divisions generally depend upon personal feuds and jealousies to a considerably greater extent than upon political creeds and principles.

The evidence of the months following the outbreak of the hostilities in China may, in any case, be said to support the general conclusion that these hostilities brought the discordant elements in China to a state of greater cohesion and strengthened greatly the nascent spirit of nationalism. It is obvious that the course which the war with Japan has taken imposes serious strains upon the loyalty of particular sections of the nation. In the case of those provinces—Shantung and Shansi—which lie, as it were, between the hammer and the anvil, there is a strong personal inducement to the governing authorities to break the bonds with Nanking and to throw in their lot with the Japanese plans for North China autonomy. Moreover the business community and, in addition, many individuals in political life possess large vested interests concentrated in the areas which are chiefly exposed to the brunt of war with Japan, namely the city of Shanghai and other "treaty" ports on the coast; the progressive destruction of these interests and its effect on the parties concerned is a factor which requires to be taken into account in considering the prospects of sustained military resistance.

*National
Unity*

2. POLITICAL FACTORS IN JAPAN

To review the whole field of Japan's unique political and social structure would be impossible in the limited space available. Attention will, therefore, be confined, in this section, in the first place to a brief survey of the more important of those elements in the national life which actually control policy, and in the second place to a consideration of the tendencies which they have shown, during the last few years, either towards domestic conflict or towards national unity.

(i) THE FORCES CONTROLLING POLICY

At first sight the machinery of government in Japan appears striking-

The
Democratic
"Façade"

ly similar to that of Great Britain, with its House of hereditary and life Peers, its House of Representatives elected on a basis of universal manhood suffrage, its Cabinet, party system and Privy Council, and its Emperor who reigns but does not actually govern.

In reality, however, the differences between the British and the Japanese Constitution and political practice are fundamental. For example, members of the Cabinet are responsible individually to the Emperor, not to the majority in the House of Representatives, and are nominated by him on the advice of the Genro, or Elder Statesmen, of whom the aged Prince Saionji is the sole survivor. Also—and perhaps this is the greatest single cause of Japan's difficulties during the past six years—the Ministers of War and the Navy must be serving officers of high rank on the active list, and possess the right of direct access to the Emperor, to whom they are immediately responsible. All sovereignty rests in the Emperor, who has the prerogative of sanctioning laws and of issuing Imperial Ordinances, not only between sessions of the Diet, but also in all emergencies. He has the right to prorogue or dissolve the Diet, which has no sovereign power. Owing to the numerous abuses to which the elections have been subject, politicians have only technically been representatives of the electors, and the political parties in the Diet have no clearly distinguishable or very consistent programmes. The House of Representatives has been little more than an instrument of criticism without the power of effective obstruction, and, above all, has not final control of the Budget. If we turn to extra-parliamentary life, we find a censorship of the press, and a police which exercises very autocratic powers.

Where does
real power
reside?

If neither the Government, nor the majority in the House of Representatives, actually exercises control over policy, it will be asked, where does the real source of administrative power reside? It is difficult for the Western observer to answer this question without risk of over-simplification. The Emperor is regarded as a divine descendant of the Japanese Sun-goddess, and has been primarily the Arch-Priest of the Shinto cult rather than an active political administrator. Although he is in supreme command of the Army and Navy, he acts on the advice of others, and if that advice proves mistaken, then the fault lies with his advisers. If we turn to the latter, we have to take into consideration the functions assigned to Prince Saionji, who advises the Emperor on the appointment of the Prime Minister; to the Privy Council, which advises him on the interpretation of the Constitution and laws and on the issue of Imperial Ordinances; to the Cabinet Ministers, each of whom is *ex officio* an adviser to the Emperor; and to the Keeper of the Privy Seal or the Minister of the Imperial Household, who do not resign with the Government. The influence of all these advisers naturally changes with the times, and it would be hard to assess their power, particularly that of the Genro, who—remaining aloof from the political arena—enjoys great prestige and moral author-

ity. It would appear, however, that they must be guided in great measure, in their decisions, by the balance existing at any given time between certain extra-parliamentary forces which operate to a large extent "behind the curtain."

To understand what these forces are it is necessary to recall certain salient features of Japan's history. As late as the middle of the nineteenth century the country was divided into some 200-250 huge fiefs. About a quarter of the productive area of these, as well as the great cities and ports and numerous strategic points, were administered by the Tokugawa family, the head of which had held the title of Shogun, or Military Dictator, since 1603. The Shogun's own provinces were administered by intendants, and the others by the Daimyo (territorial lords) and their retainers, the Samurai, who together formed a semi-feudal military caste, and whose authority over their own domains tended to vary in proportion with their distance from the capital.

*Historical
Background*

In the years 1865-8 the Daimyo and Samurai of the south-west provinces of Satsuma, Choshu, Hizen, and Tosa, reinforced by bands of Ronin (lordless soldiers) and by discontented younger Imperial Court nobles, and supported by the financial resources of some of the wealthy Chonin or merchant-bankers (to whom the Shogunate and the whole military class were heavily in debt), secured the fall of the Shogunate, which had been weakened by acute economic, administrative, religious, and international complications, and brought about a "restoration" of the Emperor, who had for centuries been relegated to virtual confinement in Kyoto. Edo (now Tokyo) then became the Imperial capital.

Three major developments which took place during the period following the Restoration may be noted as helping to determine the foundations of modern Japanese society. In the first place, retainers of the Satsuma and Choshu fiefs secured a monopoly of the administrative posts, and filled the higher ranks of the Imperial Services. In the second place, a number of the upper members of the old military caste, which had been persuaded to relinquish its feudal rights, rice incomes, and properties in return for generous monetary compensation, invested their newly acquired capital in trade, industry, and banking. Reinforced by the Chonin, some of whom were already members of noble families, while many more had been ennobled after the Restoration, they formed a number of huge family businesses, or Zaibatsu, which were responsible for the greater part of the modern economic development of Japan. The chief of these were Mitsui, Mitsubishi, Sumitomo, and Yasuda.

In the third place, the monopoly of office by the Satsuma and Choshu Samurai resulted in discontent on the part of the rest of the dispossessed military—particularly those of the other two victorious fiefs of Hizen and Tosa—and in the consequent development of a democratic movement. The Constitution granted by the Emperor in

1889 was intended to satisfy the demands of the "have-nots," while preserving the real power in the hands of the militarist-financial oligarchy. From the brief summary of its main features given above it will be obvious, however, that it could not do so. Roughly speaking, what actually happened was that for the first few years of parliamentary life the political parties put up a strong fight for power, with the result that the financial wing of the oligarchy, which had hitherto endeavoured to exercise some check on the militarist wing, finally encouraged the latter to embark on the Sino-Japanese War of 1894, partly, perhaps, with the object of distracting public attention from domestic affairs. The militarist faction, thus given its head, remained more or less in the ascendancy until 1921, while the political parties, too poor and too powerless to be effective, succumbing to a system of large-scale bribery and corruption, declined into the position of pawns moved by the great business and financial houses, and ceased to represent party principles or interests.

Thus, speaking very generally, the answer to the question "who is the power behind the scenes" is two-fold. The old semi-feudal military hierarchy has given place to an oligarchy with two wings; one militarist, the other industrial and financial. That is not to say that either of the two groups acts consistently as a whole, nor yet that their interests are invariably mutually incompatible; indeed the contrary is often the case, as will be shown later. Here it must suffice to point out that they differ radically in their respective modes of political expression.

Some indication of the latter has already been given. The method employed by the great family businesses has usually been their financial control of the members of the House of Representatives, and—partly at any rate—of the Government also. It should be explained that it costs a single candidate a considerable sum, said at one time to have been something in the neighbourhood of £5,000, to secure election, and he has customarily recouped himself for the necessary bribes to voters by himself in turn receiving the financial support of the wealth-clique which happened to be backing his party at the time. It goes without saying, therefore, that he was anxious to avoid a dissolution. The two major parties in the House of Representatives are the Minseito and the Seiyukai. It is said that Mitsubishi, whose interests are mainly industrial, and whose normal policy has laid stress on peaceful commercial expansion, the limitation of armaments expenditure, and budgetary retrenchment generally, has tended to back the Minseito, which has acquired the reputation of being relatively liberal at home and conciliatory abroad; Mitsui, on the other hand, which to a great extent represents banking, speculative, and landowning interests, and which favours Imperialist and militarist expansion, has tended to support the Seiyukai.

The method by which the Services exerted pressure, on the other

*The
Zaibatsu*

*The
Services*

hand, was at once more constitutional and more certain in effect. The Constitution provided, as has been stated, that the Ministers of War and Marine, as well as the Prime Minister, should have direct access, and be directly responsible, to the Emperor; while by an order of the Privy Council, issued soon after the Russo-Japanese War of 1904-5, the principle had been established that they must be appointed from the generals and admirals on the active list. This meant that the Services, by refusing to allow any of their members to serve under a Prime Minister who was unacceptable to them, could veto the appointment of the Prime Minister himself; while, by instructing the War or Navy Ministers in an existing Cabinet to resign, they could bring about the resignation of the whole Government. A second method, that of political assassination, which was employed frequently after 1930 by the younger officers belonging to certain Army factions, will be mentioned again below.

Having regard to the political activities thus conducted by extra-parliamentary forces, it may be suggested that the political system referred to above as a "democratic façade" is perhaps—though certainly not democratic—yet not after all a façade, a meaningless excrescence on the national life, so much as a meeting ground or channel of compromise between the two wings of the oligarchy (each divided into numerous factions, with loyalties sometimes dating back to Shogunate times), while the Emperor's personal advisers, including the Genro, attempt to hold the balance.

(ii) CONFLICT OR COLLABORATION?

The fundamental problem of all modern Japanese Governments has been to provide additional means of livelihood for a rising population—which, with the exception of the tenant-farmers and certain other classes, has succeeded, until the last few years, in achieving a rising standard of living—without being forced to alter substantially the social *status quo*. Three ways of solving this problem have been: war with China and Imperial Russia, colonial development in Korea and Formosa, and a policy of commercial expansion in world markets. On the whole, conquest and colonial development have been favoured by the Army and some groups of industrialists, while the remainder of the business world has been mainly anxious for peaceful commercial expansion and "good-neighbourliness." It would be rash, however, to lay too much stress on the division between these various interests on this issue; the business world was by no means always averse to imperialist expansion provided that it was not prosecuted at too great a risk or cost—provided, too, that it brought quick returns, or gave opportunity of large profits in the manufacture of munitions, naval construction, and the like.

A review of the history of Japan shows that the advocates of the "forward policy" were in the ascendancy from 1914 to 1921. The

failure of the Siberian expedition, however, discredited both the Army and its policy of militarist expansion, and led to a new phase lasting from 1922 to 1931, in which moderate elements came to the fore, the business interests controlled policy, and party politics were given an opportunity of development. In 1931 the tide turned once more; this time it was the great family businesses and the party politicians who were discredited, and this for a variety of reasons, which cannot be described in any detail here, but which were largely connected with the repercussions of the world economic crisis, the deflationary policy of the Government, the failure of Baron Shidehara's conciliatory policy towards China,¹ and the unpopularity of the London Naval Treaty of 1930.

The Right-Wing Movement in the Army

The spearhead of the widespread reaction against the party corruption at home and the "liberal" policy abroad was a new Right-Wing movement which had arisen among certain groups of junior Army officers, and which was countenanced by some of the higher military authorities as a means, first of forcing the Manchurian campaign on the Government, and later of depriving the political parties of all influence. In explanation of this movement, which was violently anti-party, anti-capitalist—almost to the point of being Marxian—and at the same time passionately nationalist, it must be pointed out that the composition of the Army had altered to a great extent in the twentieth century. Up to 1904 the corps of officers had been recruited mainly from the ex-Samurai class; with the introduction of compulsory education and open competition, however, it had become more mixed in its social origins, and the majority of the junior officers were now drawn from the farming class; while, since the introduction of universal conscription, some 80 per cent of the rank and file were peasants. The close contact of this new officer class with the agrarian section of the community, and with its growing distress in the face of depression, accounted to a considerable extent for its hostility towards the financial and business oligarchy, though not entirely; an additional motive was the desire to free the Services from all extraneous financial control, and to bring about that nationalization of industry and finance which appeared an indispensable condition of the ideally efficient conduct of modern warfare. Also there was a desire for promotion, which was impossible in an Army that was not expanding. What would otherwise have seemed to be a thoroughly subversive movement was redeemed, however, by its fanatical patriotism and its loyalty to the Emperor.

Patriotic Societies

The young officers' groups found their civilian counterparts in the numerous Patriotic Societies, of which there were said to be over a hundred, and which ranged from "respectable" societies like the Kokuhonsha—whose membership included landowners, capitalists, and officials—the Roninkai, the Black Dragon, and various ex-

(1) See Part II, Chapter I, section 4.

Servicemen's Societies, to bands of ruffians who justified a multitude of sins by their so-called patriotism.

These associations provided a useful outlet for the discontent of the civil population, all other expressions of which were liable to be suppressed by the authorities. Trade Unionism had to all intents and purposes been driven underground, while in 1928 a Public Preservation Law had been passed, making the expression or holding of "dangerous thoughts" (i.e. of radical and Communist ideas) a criminal offence. This law was severely enforced, and some tens of thousands of arrests were made, chiefly among the intelligentsia and unemployed students. Since the suppression of the Rodo Minto in 1928 there has been no party in Japan openly avowing Communism; while in 1932 the so-called Labour parties lost so many members to the new National-Socialist political parties founded in that year that the remnants amalgamated to form a single "Social Mass" Party. Even this would hardly be described as a Labour party in England; consisting mainly of intelligentsia and middle-class radicals, it has provoked comparison with the Fabian Society of the late nineteenth century in England. In November, 1937, it changed its platform and, under the stress of the nationalist emotion roused by the war with China, gave its support to the Government.

The method of attack employed by some of the Right-Wing groups was that of terrorism and political assassination, its result the eclipse even of what small degree of party government existed, and the prosecution of a "positive" and frequently aggressive policy in China. The Minseito Premier, Mr Hamaguchi, was attacked in November, 1930, and eventually died of his injuries in August, 1931; in 1932 there followed the murders of Mr Inouye (the ex-Finance Minister) in February, of Baron Dan (the General Director of Mitsui) in March, and of the Seiyukai Premier, Mr Inukai, in May, when the seizure of various important buildings in Tokyo was also attempted. The Seiyukai Cabinet immediately resigned *en bloc* and, since the Army vetoed the return to power of the politicians of either party, a supra-party "National Government" was formed under Admiral Saito, an officer of moderate opinions, who remained in office until July, 1934, when he was replaced by Admiral Okada. By this means political revolution was narrowly averted, the outward form of parliamentary government was preserved, and the tension between the military and civilian factions was resolved through the compromise of a bureaucratic Administration.

Towards the end of 1934, however, a new factor was introduced into the situation; the extremist groups within the Army began to appear in a fresh light. For whereas formerly they had confined themselves to attacking the political parties and their connections with the industrial and financial world, they now began to direct their criticisms against the more moderate elements in the Army itself. In December, 1934,

The Split within the Army

for instance, they published a propaganda pamphlet demanding a more drastic policy of "renovation" at home and imperialism abroad, and attacking the Minister of War. Moreover, some groups were said to be supported by a number of senior officers of high rank, including Generals Araki and Mazaki, ex-Minister of War and Inspector-General of Military Education respectively. The moderate Army faction appears now to have thought it time to call a halt to these movements; and in the summer of 1935 General Hayashi, the Minister of War, decided to remove those senior officers who were in sympathy with them and to make large-scale changes and transferences of personnel. The dismissal of General Mazaki, who opposed this action, was followed by the assassination of the Director of the Military Affairs Bureau of the War Office by one of General Mazaki's adherents. Accordingly, General Hayashi summoned a conference of the senior commanding officers and warned them against irresponsible speech or action; while the Supreme Military Council adopted a resolution, with the Emperor's approval, that officers should henceforth be required to hold aloof from politics. Matters reached a crisis with the military rising in Tokyo in February, 1936, in which Admiral Saito (ex-Premier), Mr Takahashi (Finance Minister) and General Watanabe (General Mazaki's successor) were murdered by young Army and Navy officers, while the Prime Minister, Admiral Okada, owed his escape solely to the fact that the rebels had mistaken his brother-in-law, Colonel Matsuo, for himself.

*The Revival
of Public
Criticism*

Even before the February outbreak there had been signs of a mild reaction against the Army extremists, and a revival of liberal opinion, which is fairly widespread in Japan, was beginning to find expression. Alarm and discontent were increasingly felt at the enormous budget deficits and the rise of the National Debt during the previous five years, and at the prospect of heavier taxation; misgivings were beginning to be entertained as to the wisdom of the Army's China policy, while the Anti-Comintern Pact with Germany seemed to find favour with few. Moreover, the Navy, which was increasingly opposed to the Army's continental policy, and which required the co-operation of the capitalist houses for its own plans for expansion, did not wish to see business interests sacrificed to the State-Socialist ideals of the young officers.

In May, 1935, the Government had attempted to conciliate the parties, and to attract their support, by creating a National Policy Council composed of senior members of both Chambers of the Diet and of a few independent men of affairs; owing to the intransigence of the parties, however, and in particular of the Seiyukai, the scheme failed and the Council was dissolved in April, 1936. The Diet had also been dissolved just before the Tokyo outbreak in February: but the latter, which was at once an attempt at political revolution and a mutiny, contributed to the reaction against the Army as a whole, especially as

the mutineers had for the first time even gone so far as to disregard orders to disperse and had required a direct order from the Emperor before they finally consented to surrender; its immediate results were the appointment of a civilian Prime Minister, a drastic purge of the Officers' Corps, and a number of suicides and executions.

By the beginning of 1937, with signs of inflation appearing at home and a gloomy outlook for Japan's export trade, open criticism and obstruction of the Government in the House of Representatives had reached such a point that the Diet was again dissolved owing to the pressure of the more extreme elements among the senior officers. In the ensuing elections, however, as the Government neglected to put into the field any party which could attract the support of the electorate, the Minseitō and Seiyūkai—which had agreed not to compete with one another—gained a huge majority, while the Social Mass Party increased its representation from eighteen to thirty-seven. The partial victory of the liberal elements was expressed in the subsequent appointment of Prince Konoe—a disciple of Prince Saionji, and a man of moderate and modern opinions—as Prime Minister, and the inclusion of representatives of the Services, of the bureaucracy, and of the parties, in his Cabinet.

At a time when the forces of Chinese resistance against any Japanese plans for developing North China were becoming stronger day by day, the Japanese Army was growing more and more impatient with the position at home and in China. Once fighting had started, a backward step by Japan became impossible, and all classes of the people, faced with the dire results of defeat upon their social structure, and stimulated by criticisms from abroad, put aside their domestic differences and solidly supported the Army, which a few months previously had been subject to such strong criticism. Numerous national councils have been set up, containing leaders of all groups of society, to deal with economic planning, capital investment, agriculture, "spiritual mobilization," and so on. The main difficulty, however, is to co-ordinate their functions, and it seems that, while the advice of these leaders is still being sought, the Government itself is gradually becoming centralized in the hands of a smaller number of persons, while there is a movement to diminish the size of the Cabinet to make it more effective in action. Moreover, on November 20, the establishment of a new Imperial General Headquarters was announced in an Imperial Rescript. This body was stated to be a purely military organ "based on the Imperial prerogative of supreme command in order to unify the operations of the Army and the Navy"; it is perhaps significant, however, that its first action should have been the issue of a statement contradicting rumours that the Imperial Headquarters "would combine the Supreme Command and the Government."

Just as it was in the days of the Shogunate, it is still impossible to-day to say which groups in the country are exerting most control over the

*The Effect of
the War
Atmosphere*

Government, though all would appear to be co-operating to the utmost in their efforts to overthrow the Chiang Kai-shek Government and to start the development of North China under Japanese supervision. This apparent unanimity should, however, be considered in the light of the fact that open opposition would be interpreted as lack of patriotism—a charge which few Japanese would dare to face.

PART II

I. PRINCIPAL EVENTS IN THE HISTORY OF THE FAR EAST, 1860—1931

In any summary of Far Eastern history and of Sino-Japanese relations in particular, two facts emerge clearly.

In the first place, as a result of the differences in their social structure, national temperament, and cultural background, Japan and China followed quite different courses in dealing with the Western "invaders." For while the former, besides developing a strong Army and Navy, also undertook so rapid and so radical a reorganization of her own economic and political systems that the commercial facilities desired by the Western Powers could be assured without excuse or reason for the infringement of Japan's sovereignty, China, on the contrary, relied on the weapon of passive obstruction and the opportunist diplomacy of playing one Power off against another, and Russia and the Western Powers against Japan.

In the second place, developments in European diplomacy have directly helped to advance Japanese expansion. The history of Japan's advance on the mainland may be divided into three phases. During the first, which ended with the Russo-Japanese War of 1904-5, Japan profited from Great Britain's fear of Russia; during the second, which culminated in the World War, she extracted even greater advantage from the common front against Imperialist Germany; during the third, which is still in process, she seems likely to benefit once more, this time from the preoccupation of the Western democracies with present-day European problems.

1. RUSSO-JAPANESE CONFLICT

By the Treaty of Peking (1860) China assigned to Russia the territory between the Ussuri River and the sea—now the Primorsk Province—and in 1861 the Russians established Vladivostok as their first base on the Pacific.

*Early
Russian
Expansion*

So far the Russian drive had been overland from west to east; there now began that southward thrust down the seaboard which ended by bringing Russia into direct conflict with Japan. The danger did not at first seem acute. Japan and Russia had already, in 1814 and 1855, negotiated amicable partitions of the Kurile Islands in the north, and in 1875 concluded a treaty recognizing Japan's claim over the whole of these, and settling the disputed question of sovereignty over Sakhalin in Russia's favour. But the decision taken in 1885 to construct a trans-Siberian railway from St Petersburg to Vladivostok marked a turning point in Far Eastern history and the beginning of a period in which Russian diplomacy was diverted from Europe and concentrated on expansion in the East.

(MacNair pp. 514-515)

The Sino-Japanese War, 1894-5

In the meantime Japan was consolidating her position in the East China Sea. In 1871 she assumed suzerainty over the Liuchiu Islands, formally annexing them in 1879, although China—who, like the Japanese lords of Satsuma, had received tribute from them for some centuries—did not definitely recognize the annexation until 1894. The major concern of Japanese foreign policy, however, was the creation of the Korean Peninsula—which, since its unification and liberation from Japanese rule in the eighth century A.D., had been in the relation of a vassal State to China—into a buffer State completely independent of Chinese control. For Korea stood in the same kind of relation to Japan as Belgium does to Great Britain; alone it was too weak to threaten her security, but under the domination of a strong third Power—say Russia, or a united and powerful China—it might become the spearhead of an attack at dangerously close quarters. In 1876 Japan, therefore, concluded the Treaty of Kianghwa, by which she recognized Korea as a sovereign State, at the same time obtaining the opening of certain ports and the concession of extraterritorial rights. In 1882 a palace revolution in Korea brought both Chinese and Japanese troops into the country to restore order, and when, in 1894, a similar situation arose as the result of an internal revolt, the tension between the rival interveners culminated in the Sino-Japanese War.

Unlike Japan, China had done little towards modernizing her Army or Navy, and both her civil and defence services were rotten with corruption and inefficiency. The Japanese victory was startlingly swift, and by the Treaty of Shimonoseki, concluded on April 17, 1895, China was forced to recognize Korea's independence, to concede most-favoured-nation status to Japan in China proper, to pay an indemnity of 200 million taels within seven years, and to cede to Japan in full sovereignty not only Formosa and the Pescadore Islands in the south, but also the Liaotung Peninsula in Southern Manchuria.

Throughout the war Russia and the Western Powers had remained neutral, in spite of China's appeals for intervention. But the sudden alteration of the *status quo* which resulted from it did not leave them altogether unconcerned, and on the initiative of Russia, six days after the signature of the Treaty, the German, French, and Russian representatives in Tokyo presented memoranda 'advising' the restoration of the Liaotung Peninsula to China, on the ground that Japanese possession of that territory would menace Peking, render Korean independence an illusory phrase, and 'constitute a permanent obstacle in the way of peace in the Far East.' Great Britain had declined to join in this *démarche* but, not yet realizing the extent of Russia's ambitions, she advised Japan to comply with the request of the three Powers. Indeed, Japan had no choice, for behind the request lay the combined naval strength of the *Dreibund*, and she was too exhausted to contemplate a fresh war. Accordingly, on May 10, an Imperial Rescript

Refer to the respective above Treaty of Shimonoseki

Diplomacy of the Dreibund
The Triple Intervention

+ The publication of Correspondence, after the last year war, in the German archives, intimated, however, that the plan to force Japan out of Manchuria was suggested to Russia by Germany. F. T. Williams

was published retroceding Liaotung to China. It was almost exactly ten years before Japan was in a position to take her revenge for this national humiliation.

2/
Sino-
Russian
Collaboration

Russia's forward policy, which now proceeded apace, was favoured by two new factors in the situation. In the first place, it had the acquiescence both of France, who was anxious to keep Russia as an ally in Europe, and of Germany, who was only too pleased that her attention should be diverted from that continent. In the second place, China herself now turned towards Russia, relying on the policy of playing off one neighbour against another instead of on that of internal reform and military reorganization. In order to enable China to pay her indemnity to Japan, a Franco-Russian loan, guaranteed by the Russian Government, was floated in July, 1895; and in December the Russo-Chinese Bank was chartered, with a capital of six million roubles, subscribed partly by the Chinese and Russian Governments and partly by French private holders, to develop commercial relations and acquire concessions for railway and telegraph construction in China. In the following year, 1896, a secret treaty of alliance, known as the Li-Lobanov Agreement¹ was concluded, by which China and Russia bound themselves to support each other against Japanese aggression in Russian territory in Eastern Asia, in China, or in Korea. Moreover, "in order to facilitate the access of Russian land troops" in the event of war, China consented to the construction and operation by the Russo-Chinese Bank of a railway line across Manchuria towards Vladivostok. Since the Trans-Siberian railway had to follow the wide curve of the Amur river this new line involved a saving of some 570 miles for Russia. By the contract signed in the same year between China and the Russo-Chinese Bank the latter was to establish a "Chinese Eastern Railway Company," the shares of which could be acquired only by Chinese and Russian subjects, and which was to have absolute right of administration and policing in its own lands. Thirty-six years after its completion (in 1903) China might buy back the line, which was to revert to her in any case after eighty years.

35b
36b

So far the Dreibund had operated, ostensibly at least, in China's favour; it was now to do so at her expense. After seizing the Shantung port of Kiaochow in November, 1897, as a reprisal for the murder of two German missionaries, Germany extorted from China a ninety-nine year lease of the bay, including Tsingtao and the adjacent islands, as well as railway and mining concessions in Shantung Province, having purchased Russia's acquiescence by encouraging her in the naval occupation of Port Arthur. By the Treaty of St Petersburg in March, 1898, Russia obtained from China a twenty-five year lease, to be prolonged subsequently by mutual consent, of the southern tip of the Liaotung Peninsula, including Port Arthur and Dalny (Dairen);

3/
Sovietable for
concessions

Russia by
not to be out

(1) This Agreement was negotiated during Li Hung-chang's presence in Moscow as the representative of the Emperor of China at the Tsar's coronation.

- (3) Ronaldshay - Lord 31 Carveron, vol. I, pp. 275 - 290. Chapter 10, "Clouds on the Far East."
- (3) See Spender - Fifty years of Europe for London. Chap. XVIII to XXI, pp. 168 - 211.

the establishment of a neutral zone on its northern boundary, which was to be closed to Chinese troops and in which Russia was to have a monopoly of mining and other concessions; and permission to connect the two ports with Harbin by a railway. Thus she took to herself the very fruits of victory of which she had three years earlier deprived Japan. France, for her part, secured a ninety-nine year lease of the bay of Kwangchow in Kwangtung Province, and Great Britain a similar lease of the Kowloon Peninsula.

Two years later, taking advantage of the joint action of the Powers against the Boxer Rebellion in 1900, Russia pushed her advance yet further, occupying the whole of South Manchuria. After the suppression of the Rebellion the other Powers withdrew their forces from China, but as late as 1903, despite reiterated promises to do so, Russia had not only failed to evacuate Manchuria but was even reinforcing her troops there, and was also putting forward a series of demands for China's recognition of Manchuria as a specifically Russian sphere of interest. It was this policy, coupled with her increasing ascendancy in Korea, which brought about the Russo-Japanese War of 1904-5.

Japan had made repeated efforts, notably in 1896, 1898, and 1901, to come to an understanding with Russia on the basis of recognition of Manchuria and Korea as Russian and Japanese zones of interest respectively. Had these been successful the whole history of the Far East might have followed a completely different course. But the policy of reconciliation failed, and Japan fell back on the alternative of alliance with Great Britain. The latter, who stood to gain more than any other country by the maintenance of the Open Door for trade and investment in China, was already seriously alarmed by Russia's encroachments, and, to restore the balance of influence over Peking, had with Japan's consent persuaded China in 1898 to lease to her the port of Wei-hai-wei for as long as Russia occupied Port Arthur. In 1902 the first Anglo-Japanese Alliance was concluded, by which if either party, acting in defence of its interests in China or Korea, were involved in war with a third Power, the other pledged itself to remain neutral; or, if any further Power joined in the attack, to come to its ally's assistance. When, therefore, Japan declared war on Russia in February, 1904, as a direct result of Russian encroachment in Korea, culminating in the military occupation of the Korean port of Yungampo and the construction of a fort there, Great Britain remained neutral, and neither France nor Germany dared risk the consequences of open intervention on Russia's behalf.

By Articles 7 and 9 of the Boxer Protocol, which was signed by China and the Powers on September 7, 1901, the latter reserved the right, however, to maintain Legation guards in Peking, and to occupy certain points between Tientsin and the capital in order to ensure the maintenance of communications with the latter and the sea.

The Anglo-Japanese Alliance remained a focal point in the diplomacy of the Japanese until the Washington Conference of 1921.
Hisida - Japan Among the Great Powers

Russo-Japanese War, 1904-5
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203-208
Lord Naughton
Biography
of Lord
Handwritten
chapters in
the Anglo-
Japanese
Alliance
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and Documents
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OPEN DOOR
Boxer Rebellion
pp. 113-122

See page 233-58

Russia and Japan... 1905-1922

2. RUSSO-JAPANESE CO-OPERATION

Russia's defeat opened a new chapter in world history. By removing the fear of her ultimate domination over eastern Asia, and by causing her to concentrate on an active diplomacy in Europe, it led to the termination of Russia's understanding with Germany, and to that improvement in her relations with Great Britain and Japan which later enabled the latter to benefit from the situation arising out of the World War. Finally, it gave Japan her first foothold in Southern Manchuria. For, although by the Treaty of Portsmouth (September, 1905) both parties bound themselves to withdraw their troops from Manchuria, Japan obtained from Russia not only that recognition of her paramount political, military, and economic interests in Korea for which she had gone to war, but also the transference of the lease of the Liaotung Peninsula, containing Port Arthur and Dalny (Dairen), as well as the southern section (about 514 miles) of the Chinese Eastern Railway from Port Arthur to Changchun, with all its branches, properties, and rights of administration. In addition to all this Russia ceded to her the southern half of Sakhalin.

Effects of Russian Defeat

Profiting by the new trend of diplomacy involved in the substitution of the "German menace" in the west for the "Russian danger" in the east, Japan consolidated her international position, during the nine years preceding the World War, not only by periodic renewals of the Anglo-Japanese Alliance (in 1905, 1910, and 1911) and by a treaty with France in 1907 providing for mutual support in assuring peace and security in Chinese territories adjacent to their respective possessions, but also by a series of open and secret agreements with Russia. By the first of these, in 1907, Japan and Russia bound themselves publicly to respect China's territorial integrity, and all the rights accruing to one another from the treaties and contracts in force between them and China; on the other hand, secret clauses recognized their respective spheres of interest in Manchuria, Korea, and Outer Mongolia.¹ As the result of an unwelcome proposal put forward by the American Secretary, Mr Knox, in 1909, for the neutralization of the Manchurian railways and their operation by an international syndicate, a second convention was signed in 1910 providing that in the event of the *status quo* in Manchuria being endangered by a third party, Russia and Japan would agree upon measures necessary for its maintenance. Moreover, secret conventions concluded in 1907 and 1912 elaborated the original partition of the outlying parts of China into spheres of interest, adding the western half of Inner Mongolia to the Russian sphere, and the eastern half to the Japanese,² while a mutual pledge

The Delimitation of Spheres of Interest

(1) In 1881 Russia had secured the right to establish Consulates in certain towns and the creation of a free trade zone on either side of the frontier of Mongolia, which was nominally under Chinese control.

(2) The above statements regarding the secret conventions are based on English translations of the French texts, printed in *The Russo-Japanese Treaties of 1907-16 concerning Manchuria and Mongolia*, by E. Batson Price (1933).

Japan's expansion... 1903-1919

was given "to place no obstacle of any kind in the way of the confirmation and future development" of the special interests within these spheres.

↖
Annexation
of Korea

1910

Fortified by this *rapprochement* with her old rival and by the anxiety of Great Britain and France to avoid any *contretemps* which might impair the four-Power front against Germany, Japan was able eventually to annex Korea altogether. The first stage of the process was the Protocol which the Emperor of Korea was persuaded to sign in 1905, transferring the control of Korea's foreign relations to Japan, and establishing a Japanese Resident-General at Seoul; the second was the Agreement of 1907, concluded after the Emperor's abdication, by which the Japanese Resident-General became virtually Regent of the country. Finally, the murder in 1909 of Prince Ito, who had been Resident-General since 1906, was the signal for the last step; and by the Treaty of Annexation of August 29, 1910, Korea became a part of the Japanese Empire. *China finally left Korea.*

Meanwhile Japan was consolidating her position in South Manchuria. In the Komura Treaty of 1905, by which China agreed to the transfers stipulated in the Treaty of Portsmouth, Japan's undertaking to abide by the agreements respecting the Kwangtung lease and the matter of railway construction and operation in Manchuria was expressly qualified by the phrase "so far as circumstances permit." Moreover, she later announced the existence of a secret protocol binding China not to construct any line "in the neighbourhood of, or parallel to" the Japanese line, or "any branch line which would be prejudicial to its interest." In 1906 the South Manchuria Railway Company was constituted by Imperial Ordinance to operate the main line to Changchun, as well as the Antung-Mukden military railway, for the improvement and operation of which Japan had, by an additional agreement with China, obtained a fifteen-year concession. The new company, whose president and directors were to be appointed by the Japanese Government, started with a capital of £20,000,000, half of which was provided by the latter, one-tenth by the Japanese public,² and the remainder by debentures issued in London. It took over all the political, administrative, and police rights formerly exercised by the Sino-Russian Company, thus acquiring complete control over a zone of some seventeen miles on either side of the line.

The "Open Door" in Manchuria closed

Although both Russia and Japan had pledged themselves, by the Treaty of Portsmouth, to respect China's sovereignty and the principle of the "Open Door" in Manchuria, in actual fact they did their utmost to ensure that that door should be kept closed. In 1907 Japan concluded with China an agreement for the construction and operation by the

(1) Russia and Great Britain had settled their outstanding differences by an agreement of 1907.

(2) The loan was open to subscription by the Chinese public, but they refused to take up any shares.

The Twenty-One Demands

Rogers Note, March - May 1915
Dulles, pp: 141-143

Shih-kai her famous "Twenty-One Demands,"¹ relating not only to the position in Shantung, but also to the enlargement of Japanese interests in South Manchuria, Eastern Inner Mongolia, and China proper. It is particularly interesting to note the "wishes" which were put forward in Group V. The most striking of these was the demand that the Chinese Central Government should "employ influential Japanese as advisers in political, financial, and military affairs." Had this and other similar "wishes" been fulfilled Japan would have achieved by negotiation the predominant position for which she is now fighting. Disregarding the Japanese request that the demands should be kept secret, the Chinese Government communicated their contents to the American Ambassador, and it was due as much to the representations made by the United States Government concerning the principle of the Open Door as to the recalcitrance of the Chinese Government itself that certain modifications appeared in the list which Japan finally presented, with a two-day ultimatum, on May 7, 1915.

The net result was the signature of two treaties and the exchange of a series of Notes on May 25. By the first treaty China accepted in advance whatever arrangement Japan might make with Germany concerning the latter's rights, interests, and privileges in Shantung, agreed to open certain commercial ports in that province, and guaranteed not to lease or cede any part of it to any foreign Powers; Japan, for her part, promised to restore Kiaochow to China, on certain conditions, after the War. The second treaty extended, by ninety-nine years each, the leases of the Liaotung Peninsula, the South Manchurian Railway, and the Antung-Mukden line; secured for Japanese subjects the right to reside, travel, trade, and lease land in South Manchuria; and pledged China not to employ foreign advisers, grant railway concessions to foreign firms, or raise foreign loans for development in these territories. Notes were also exchanged in which China stated that she had no intention of alienating any part of the coast of Fukien Province (opposite Formosa) to any foreign Power, or of borrowing foreign capital for the purpose of setting up military or naval bases there herself. (See Dulles, pp. 141-143)

Meanwhile, the Japanese military administration continued in Kiaochow and the Shantung railway zone; and by secret agreements of February-March, 1917, Japan received from the Allies, in return for naval assistance in the Mediterranean, promises of support at the Peace Conference for her claims to Shantung and the German islands north of the Equator, which she had occupied since October, 1914.² Armed by these assurances, Japan was willing to permit China's entry into the War in August, 1917, although that country's domestic

(1) For a summary of these see Appendix I.
(2) This understanding is said to have been kept secret from the United States, which entered the War in the following April; but by the Lansing-Ishii Agreement in November, 1917, the American Government recognized "that Japan has special interests in China, particularly in that part to which her possessions are contiguous."

2015/143-145

affairs made it impossible for her to play any effective part in it. President Yuan Shih-kai's attempt to engineer a monarchical restoration, with himself as Emperor, had brought his own downfall and the culmination of the existing dissensions in civil war; and Japan contrived to exploit and increase the ensuing chaos by financing the Anfu clique of militarists at Peking in return for the sale of various concessions. In the year 1917-18, for instance, the famous series of "Nishihara Loans," totalling 145,000,000 yen, was negotiated by a group of Japanese bankers with the approval of the Government.

In the meantime a new factor had been introduced into the situation by the outbreak of the Bolshevik Revolution in March, 1917. By a new treaty concluded in 1916 the Russo-Japanese Convention of 1910, providing for joint agreement upon any measures necessary for the preservation of the *status quo* in Manchuria, had been confirmed and extended to cover all "the special interests" of the two Powers in the Far East¹; at the same time the two Powers had pledged themselves by a secret agreement to come to each other's assistance in the event of a war arising out of any measures which they might jointly take "to safeguard China from the political domination of any third Power whatsoever, having hostile designs against Japan or Russia." This treaty now became valueless, and Japan was deprived of her natural ally in the contest over the principle of the "Open Door," and left to face Great Britain, France, and the United States alone.

*Intervention
in Siberia*

It seemed at first, however, as though she might be able to extract considerable advantage from the confusion prevailing in Siberia. In August, 1918, a Japanese contingent participated in the joint Allied intervention in that region, the aims and fortunes of which it would be out of place to describe here, and, although the other Powers withdrew their forces in the spring of 1920, Japan refused to evacuate her own until late in 1922. Her attempts to secure sole control of the Chinese Eastern Railway were frustrated by the establishment of an Inter-Allied Railway Commission in 1919; but the Maritime Province came temporarily under Japanese control in April, 1920, and the northern half of Sakhalin in the following July. In the long run, however, the defeat of Japan's Cossack *protégés*, Semenov and Kalmikov, the establishment of the Far Eastern Republic, the hostility of the United States Government towards Japan's policy in Siberia, and the growing war-weariness and the rising tide of liberalism in Japan itself, combined to bring about the liquidation of the Siberian adventure; and the only return for an expenditure of some 1,500 lives and 700,000,000 yen was the grant of certain coal and oil concessions in Northern Sakhalin when the latter was restored to Soviet Russia in 1925.

The Treaty of Versailles (Articles 156-8) confirmed Japan's title

(1) Russia's "special interests," incidentally, had already been substantially enlarged by the establishment, between 1911 and 1915, of a virtual protectorate over Outer Mongolia (see below, Part II, Chapter IV, section 2).

The Washington Conference of 1921-22
an outstanding milestone in American
Foreign Relations. Bulletin 150

The Wash-
ington
Treaties

(1921-22)
Dulles
p. 150-152

Washington
China at
Conference
337-348
Portents
to back
1921
1923

to the possession of Kiaochow, and China could do nothing beyond refusing to sign it. By continued agitation at home and abroad, however, and particularly in the United States, she prepared the ground for the changed attitude taken up towards this question at the Washington Conference two years later, when, as a result of separate negotiations under the auspices of Lord Balfour and Mr Hughes, a treaty was signed on February 4, 1922, by which Japan restored the territory and railway to China and renounced her preferential rights there, in return for the opening of the area to foreign trade and for an undertaking by China to reimburse to her the actual value of the railway—fixed at 40,000,000 yen—within fifteen years.

Thus, Japan's tangible gains from the War and from the Washington Conference were limited to the acquisition of a mandate over the former German islands in the North Pacific, to the concessions already mentioned in Northern Sakhalin, and to the rights and privileges in Manchuria which she had extorted from China in 1915; even here she renounced certain preferential rights respecting the appointment of foreign advisers.

On the other hand her position was in many ways considerably strengthened. On the profit side of the account must be reckoned her admission to a permanent seat on the Council of the League of Nations—a definite acknowledgement of her emergence as a first-class Power; the conclusion of the Five-Power Naval Treaty (February 6, 1922), whereby, in return for her acceptance of the 5:5:3 ratio for naval tonnage as between Great Britain, the U.S.A., and herself, Japan was guaranteed against the construction of first-class naval bases at Hong Kong or in the Philippines; the marked *détente* in Japanese-American relations resulting from the signature of this agreement and of the Nine-Power Treaty; and—in the long run—the serious set-back to Russian ambitions in the Far East.

Against these considerations must be set the termination of the Anglo-Japanese Alliance,¹ which had now become a source of embarrassment to Great Britain in her relations with the U.S.A., as well as of dissatisfaction among the Dominions; and the fact that in signing the Nine-Power Treaty² of February 6, 1922, Japan yielded, at any rate for the time being, to America's determination to establish the principle of the Open Door in China.³ For, by this agreement the signa-

(1) Largely in order to avoid creating any impression of unfriendliness, the treaty was replaced by a Four-Power Treaty signed on December 13, 1921, in which the British Empire, the U.S.A., Japan, and France agreed to respect the *status quo* with regard to the islands in the Pacific (excluding Japan proper) and to confer together on any dispute arising between them or in the event of a threat from any outside Power.

(2) The signatories were: the British Empire, the U.S.A., Japan, France, Italy, Holland, Belgium, Portugal, and China. Later adherents to the Treaty were Norway, Sweden, Denmark, Mexico, and Bolivia.

(3) Japan had already consented, in 1920, to participate in a new Four-Power Banking Consortium formed, on American initiative, to advance loans for ad-

*) Nine Power Treaty, Feb. 6, 1922

*)
Powers pledged themselves to respect China's sovereignty, independence, and territorial and administrative integrity; to provide "the fullest and most unembarrassed opportunity" to China to develop an effective and stable government; to use their influence for the establishment and maintenance of the principle of equal opportunity for the commerce and industry of all nations throughout the territory of China, and to refrain from taking advantage of conditions in China in order to seek special rights or privileges which would abridge those of subjects or citizens of friendly States, and from countenancing action inimical to the security of such States.

The Decade after the War

4. CHINESE NATIONALISM AND MANCHURIA

In the years following the Washington Conference the stage was set for a new act in the Far East. The Nine-Power Treaty had secured for China a breathing space in which it was hoped that she might establish a strong Central Government and carry out much-needed administrative reforms. Moreover, within Japan herself, economic considerations, as well as the growth of liberal opinion, combined to create a more conciliatory policy towards China during the decade 1921-31. The Army and its forward policy had been discredited by the failure of the Siberian adventure; business interests, which desired an increased export trade, were alarmed at the anti-Japanese boycotts with which China had fought for the restoration of Shantung, and were disposed to support the initiation of more friendly relations; while the work of reconstruction necessitated by the earthquake of 1923 diverted for some years such funds as might have been available for further military expeditions. From 1924-7, and again from 1929-31, the Minseito Party, which comprised a large part of the more progressive elements in the Japanese Diet, was in the ascendant; and the Foreign Minister, Baron Shidehara, consistently pursued—except on two isolated occasions—a policy of non-intervention in Chinese affairs.

While Japan's policy was thus one of considered restraint, Russia's position *vis-a-vis* China was one of unprecedented weakness. In 1919 the Soviet Government had renounced all the acquisitions, privileges, and concessions obtained in China under the Tsarist régime; and, after the withdrawal of the Allied Powers (with the exception of Japan) from Siberia in 1920, China had nominally assumed supreme political control of the Chinese Eastern Railway; the "White Russian" diplomatic and consular representatives had been compelled to withdraw from China, and Russian subjects had lost their extraterritorial rights.

administrative and industrial purposes to China, waiving her original demand for the exclusion of South Manchuria and eastern Inner Mongolia from the Consortium's activities on the understanding that the S.M.R. and certain other railways should not come within its scope.

*Japan's
Conciliatory
Policy*

*Weakness of
the U.S.S.R.*

Eventually, by agreements concluded with the Peking Government in May, 1924, normal diplomatic relations between the two countries were renewed, and a large measure of control of the Chinese Eastern Railway, which had lapsed with the removal of the former "White-Russian" staff, was restored to Russia. For although the railway was now stated to be a purely commercial enterprise, and all matters affecting jurisdiction, civil administration, and police were to be regulated by the Chinese authorities, it was agreed that the manager and one of the two assistant managers were to be Russians.

The third new factor in the situation was the growth of nationalism in China herself. Viewed from this angle the period between the Washington Conference and the Manchurian conflict of 1931 falls into two distinct phases, the point of division being the establishment of the Nationalist Government at Nanking, *ca* 1928.

From 1911 until 1928 the Peking Government was dominated in turn by one or other of the three great militarist cliques in North China, while in the south the Kuomintang had established its own Government at Canton. Out of the constant struggles in the north Marshal Chang Tso-lin gradually emerged triumphant, first establishing an independent Government of the three Manchurian provinces at Mukden in 1922, and later overthrowing the Peking Government (then dominated by the Chihli war-lords) in 1924, and replacing it by his ally, General Feng Yu-hsiang, who had deserted the Chihli cause at the critical moment. Up till 1928, therefore, it was almost exclusively with Chang Tso-lin that Japan and the U.S.S.R. had to deal. Chang's relations with Japan were on the whole friendly—probably from motives of expediency—although he was responsible for the initiation of a policy of railway construction designed to compete with the South Manchurian Railway. Towards Soviet railway interests, on the other hand, he was definitely hostile. Shortly after the signature of the Sino-Russian Treaty in May, 1924, the Soviet Government was obliged to conclude a separate, though almost identical, agreement with Chang, who, denying allegiance to the Peking Government, refused to recognize the validity of the agreement with them. Thereafter the administration of the Chinese Eastern Railway was a source of constant friction, particularly after the civil war of 1925, when General Feng Yu-hsiang and one of his own subordinates, General Kuo Sung-lin, turned against Chang. On this occasion the consequences of foreign railway control in Manchuria were brought home, on the one hand, by Russia's refusal to allow Chang's troops to travel on the Chinese Eastern Railway except on cash terms, and, on the other, by Japan's delimitation of a neutral zone along the South Manchurian Railway, across which she would permit no troops to pass. While Russia's action operated in favour of Kuo Sung-lin, that of Japan turned the tide in Chang's favour, and he was able to regain control of Peking.

Marshal
Chang Tso-
lin

In May, 1921, Dr. Sun Yat-sen was elected President of the Central Govt. Manifesto to the Foreign Powers (at Shanghai) 19-21

The Rise to Power of the Kuomintang

In the spring of 1926 the Kuomintang launched its "Northern Expedition" for the conquest of the northern war-lords and the unification of China; by April, 1927, a Nationalist Government had been established at Nanking.¹ The prospect of the extension of its influence to Manchuria was regarded with alarm in Tokyo, partly because of the Kuomintang's anti-foreign activities—which had hitherto been directed chiefly against Great Britain and the treaty rights of foreign Powers generally—and partly because of its unofficial connection with Russian Communism.

When the Nationalist General, Chiang Kai-shek, entered Shantung in May, 1927, the Seiyukai Cabinet of Baron Tanaka sent troops to protect Japanese residents and property in that province, and clashes with the Nationalist forces occurred both then and in the spring of 1928, when the Japanese occupied Tsinan and blocked the way to Peking. On May 28, 1928, Baron Tanaka announced that, if disturbances developed further in the direction of Peking and Tientsin, Japan "may possibly be constrained to take appropriate effective steps for the maintenance of peace and order in Manchuria." At the same time he stated that the Japanese Government would prevent "defeated troops or those in pursuit of them" from entering Manchuria, and urged General Chang Tso-lin, who was now hard pressed by those war-lords who had joined forces with the Kuomintang, to withdraw to Manchuria before it was too late. Reluctantly Chang followed this advice, leaving Peking on June 3; the next day he was killed by an explosion which wrecked his train at the place where the Peking-Mukden railway crosses the South Manchurian Railway. His murder was widely attributed to Japanese machinations aimed at the prevention of an understanding between himself and the Nationalists and at the establishment of an independent State of Manchuria under a successor more amenable to Japanese influence. If this was indeed the case Japan proved, in the event, to have over-reached herself. For Peking was captured by the Nationalists in June, and in December, 1928, in the face of strong Japanese disapproval, Chang's son and heir, Marshal Chang Hsueh-liang, came to terms with the Nanking Government, and, in return for hoisting the Kuomintang flag throughout Manchuria, was appointed Councillor of State at Nanking, and confirmed in the administration not only of the Manchurian provinces but of Jehol as well.

for the part played by Khoros in the strategy, the Chinese Japanese treaty... No. 116 dated July 26, 1946

Japan's attitude during the struggles of 1928 brought out the fact that at that time she still made a clear distinction between her interests in Manchuria, on the one hand, and in the rest of China, on the other. From the Japanese point of view the desirability of establishing control, whether direct or indirect, over the Manchurian provinces was

Japanese interests and grievances in Manchuria

(1) For the history of the rise of the Nationalist movement, of its association with the Russian Communists, and the effect of that association on the Kuomintang's relations with the Treaty Powers, see above, Part I, Chapter II, section 1.

Death of Sun Yat-sen at Peking
12 March, 1925. The Great Northern Expedition, 1926

three-fold. In the first place, on general economic considerations, they were valuable as a potential source of raw materials and food supplies, as a market for Japanese exports, and as a field for Japanese and Korean immigration.¹ In the second place, from the strategic point of view, control of Manchuria, which adjoined the Japanese territory of Korea and formed a buffer against a possible Russian attack, had become more than ever desirable now that the Communists were in the saddle; while, to quote the Lytton Report, "The likelihood of the alliance between the Communist doctrines in the North and the anti-Japanese propaganda of the Kuomintang in the South made the desire to impose control over the two a Manchuria which should be free from both increasingly felt in Japan."

Finally, there was Japan's claim to a "special position" in Manchuria—a claim based on sentimental, as well as on economic and strategic considerations. The Manchurian plains had been the theatre of two wars, the first with China, the second with Russia, and in the latter alone Japan had lost some 100,000 lives, and spent some two billion of gold yen. Since then she had poured money into the country, particularly between the years 1909 and 1928. The South Manchurian Railway Company, which was controlled by the Japanese Government, had opened up the territory to economic development and had financed the construction of numerous Chinese branch lines by a series of loan agreements; the Company exercised, in practice, complete administrative and fiscal autonomy in the railway zone, which was policed by Japanese soldiers; while Japanese subjects throughout Manchuria were protected by Japanese Consular Police.

This special position was now becoming increasingly endangered. Even during the lifetime of Chang Tso-lin the difficulty of reconciling Chinese and Japanese interests in Manchuria had been obvious. Now, Chang Hsueh-liang's alliance with the Kuomintang Government, and the resulting intensification of anti-Japanese activities, brought matters to a head and, as it proved, sealed the fate of the three provinces.

The principal source of Japanese dissatisfaction with the Manchurian authorities was China's attempt to break down the monopoly of the South Manchurian Railway system. The lesson of Japanese and Russian interference in the civil war of 1925 had been taken to heart, and between 1926 and 1931 some 790 miles of Chinese-financed railways had been constructed, in complete disregard of the principle that China should refrain from constructing parallel lines of her own which might prejudice the interests of the S.M.R.² Further, by a policy of rate-cutting and discrimination, and by making through traffic arrangements for all ports of their own system, while refusing to make similar arrangements between the latter and the S.M.R. system,

- (1) These aspects are treated in detail in Part III.
- (2) See above, p. 34.

the Chinese authorities succeeded in diverting a considerable amount of traffic which would normally have found an outlet at the Japanese port of Dairen. Moreover, in 1930, work was begun on the construction of a first-class Chinese port at Hulutao, which would eventually compete with Dairen and Vladivostok. Had this policy been allowed to continue there is little doubt that the S.M.R. Company would eventually have been ruined.

Another Japanese complaint concerned the non-payment of the capital and interest of the various loans advanced for the construction of Chinese "feeder" lines to the S.M.R. In the case of the Ssuningkai-Chengchiatun-Taonan extension to Angangchi, for instance, arrears were estimated to have reached nearly 25 million yen by 1931. A more serious grievance was the persistent refusal of the Chinese to negotiate a contract for the extension of the Changchun-Kirin-Tunhua railway to Kwainai, on the Korean border. So great was the strategic value attached to this project by the Japanese, that its execution was one of the first tasks undertaken after the occupation of Manchuria in 1931-2.

The rights and privileges of the S.M.R. Company formed the subject of yet another group of grievances. Disputes were constantly arising over alleged abuses of the Company's right to acquire property and levy taxes in the railway zone, and over the maintenance of railway guards.¹ Nor did the Chinese authorities limit their anti-Japanese activities to railway politics. In contravention of the treaties of 1915, the validity of which they declined to recognize, they put every possible obstacle in the way of Japanese leasing land, and placed restrictions on the residence, travel, and business activities of Japanese subjects in the interior of South Manchuria. They also protested against the stationing of Japanese Consular Police outside the railway zone, which was justified by Japan as a corollary of her extraterritorial rights.

If the position of the subjects of Japan proper was made difficult, that of the Koreans in Manchuria (numbering some 800,000), who possessed Japanese nationality under the Japanese law, was far worse. The Chinese authorities, who viewed Korean immigration as the vanguard of Japanese penetration, denied that they were entitled to enjoy the privileges secured by the 1915 treaties for Japanese subjects, while the Japanese refused to recognize the naturalization of Koreans as Chinese subjects and persisted in the exercise of Consular jurisdiction and police protection where they were concerned.

Unfortunately, the intensification of Chinese nationalism in Man-

(1) When Russia transferred the railway to Japan in 1905 the two Powers agreed to maintain a maximum of fifteen guards per kilometre in their respective railway zones. An annex to the Sino-Japanese Treaty of Peking (1905) provided, however, that when tranquillity should have been restored in Manchuria, Japan would withdraw her railway guards provided that Russia did likewise. This promise was never fulfilled by Japan, in spite of Russia's abandonment of her right in 1924, on the ground that conditions in Manchuria did not permit the withdrawal of the guards.

churia coincided with, and contributed to, the wane of liberalism in Japan. Popular support of the Minseito had been shaken by the decline of the silk trade during the world slump. The Navy had been alienated by the conclusion of the London Naval Treaty in 1930; financial and industrial interests had suffered from Japan's return to the gold standard in 1929, and were disillusioned by the failure of Baron Shidehara's conciliatory diplomacy in Manchuria, and by the growth of the anti-Japanese boycott movement throughout China. With so many fundamental issues at stake, it could only be a matter of time before the uneasy association of the two Powers provided an occasion for open conflict.

See on this question, Toyabe - Survey of International Affairs, 1932, pp. 432-586. *and Summary of*

II. THE MANCHURIAN CONFLICT, 1931-3

Immediate Causes

The state of tension described at the end of the preceding chapter was increased during the summer of 1931 by two incidents. The first of these was the Wanpaoshan affair of July 1, when a riot arose out of a dispute between Chinese and Korean farmers in Manchuria. The affair would have been insignificant had it not led to violent anti-Chinese riots in several Korean towns, and these, in their turn, to a revival of the anti-Japanese boycott in China. To the Chinese Government's Note charging the Japanese authorities with responsibility for the failure to prevent or suppress the Korean riots, the Japanese Government replied expressing regret and offering compensation; but the issues involved in the Wanpaoshan affair were still unsettled in September.

The second incident, which took place at the end of June although it was not generally known until August 17, was the arrest and murder by Chinese soldiery of a Japanese officer, Captain Nakamura, and his three assistants, who were travelling on a mission in the interior of Manchuria under the orders of the Japanese Army. Although the Chinese authorities showed every sign of anxiety to settle the matter amicably, sending two commissions to the scene of the crime and placing under arrest the Commander of the troops responsible for the murder, the Nakamura case—to quote the Lytton Report—"more than any other single incident, greatly aggravated the resentment of the Japanese and their agitation in favour of forcible means to effect a solution of outstanding Sino-Japanese difficulties in regard to Manchuria." On September 6, Marshal Chang Hsueh-liang telegraphed secret orders to the Mukden garrison to refrain from resorting to force, no matter how the Japanese might challenge them, "so as to avoid any conflict whatever."

Such exhortations to patience were of no avail. On September 18 a fresh "incident" occurred near Mukden, the precise origin of which has never been determined, but which served as the signal for the Japanese military action which ended in the detachment of Manchuria from China. An explosion on the South Manchurian Railway was made the pretext for the Japanese capture of the Chinese barracks at Peitaying and of the walled city of Mukden, with its arsenal and aerodrome. It is significant, as the Lytton Report points out, that all the Japanese forces in Manchuria, and some of those in Korea, were brought into action almost simultaneously, in the course of the night, over the whole area of the S.M.R. zone from Changchun to Port Arthur. The Report comments on the discrepancies between the Chinese and Japanese descriptions of the incident in the following terms:

"The Japanese... had a carefully prepared plan to meet the case of possible hostilities between themselves and the Chinese. On the night of September 18-19 this plan was put into operation with swiftness and precision. The Chinese

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... had no plan of attacking the Japanese troops, or of endangering the lives or property of Japanese nationals at this particular time or place. They made no concerted or authorized attack on the Japanese forces, and were surprised by the Japanese attack and subsequent operations. An explosion undoubtedly occurred on or near the railroad between 10 and 10.30 p.m. on September 18, but the damage, if any, to the railroad did not in fact prevent the punctual arrival of the south-bound train from Changchun, and was not in itself sufficient to justify military action. The military operations of the Japanese troops during this night . . . cannot be regarded as measures of legitimate self-defence. In saying this, the Commission does not exclude the hypothesis that the officers on the spot may have thought they were acting in self-defence."

The first stage of the Japanese operations was completed within the next four days with the occupation of Antung, Newchwang, Changchun (the northern terminus of the S.M.R.), Kirin (which was sixty-five miles outside the railway zone), Hsinmin, and Liaoyuan, and the removal of the headquarters of the Kwantung Army from Dairen to Mukden.

13
Of the subsequent stages of the conquest of Manchuria¹ it must suffice here to say that by the beginning of 1932 Japan had completed her occupation of the principal cities and lines of communication, and had established virtual control of the whole of South Manchuria—Marshal Chang Hsueh-liang's troops having retreated south of the Great Wall practically without striking a blow; while by the end of 1932 the resistance of the Chinese regular forces in the north and north-west had been effectively quashed, although guerilla warfare continued to be waged by bandits and irregular bands of ex-soldiers throughout the country.

16
Minor engagements had occurred on the border of Jehol Province in the summer of 1932, but the military operations which ended in the annexation of the whole province did not begin until February, 1933, following an "incident" at the frontier station of Shanhaikwan.² No serious opposition was offered to the Japanese advance, and, on General Chiang Kai-shek issuing orders to Marshal Chang Hsueh-liang to continue resistance at all costs, the latter resigned his post of Commander-in-Chief of the North Eastern Defence Army and left the country. Having occupied the key points in Jehol in March, 1933, the Japanese next seized the principal passes and gateways on the Great Wall, on the pretext that large Chinese forces were still menacing Jehol; and before the end of May fighting was taking place within fourteen miles of Peking.

17
Hostilities ceased with the signing of the Tangku Truce on May 31, 1933, whereby an area of some 5,000 square miles between the Great Wall and a line running from the coast through Lutai, Ning-ho, Paoti, Tungchow, Sunyi, and Changping, to Yenching was declared

(1) For a detailed account of this the reader is referred to the *Survey of International Affairs, 1931 and 1932*.

(2) The Japanese claimed the right to secure their position there under the Boxer Protocol, which, by Article 9, authorized the Powers to station garrisons in the area of the Tientsin command to assure communication between Peking and the sea.

a demilitarized zone.¹ This arrangement was, however, in the nature of an armistice only, and the major question of a settlement of the future of Jehol and Chahar,² together with minor problems such as the re-establishment of through railway communication with Mukden, were still to be dealt with. Negotiations were carried on in Peking from time to time, but the Nanking Government was unwilling to leave the local authorities a free hand in dealing with the Japanese authorities, and no progress was made.

The history of the way in which the League of Nations handled the Sino-Japanese dispute may be divided into five fairly distinct phases.

*International
Reactions*

In the first, from September 21, 1931, when China appealed to the League of Nations under Article 11 of the Covenant,³ until September 30, the Council concentrated its efforts towards securing the cessation of hostilities and the withdrawal of the Japanese troops within the railway zone. In reply to its appeal to both Governments, on September 22, to refrain from any act which might aggravate the situation, China expressed readiness to assume full responsibility for the protection of Japanese lives and property as soon as she should regain control of the areas occupied by the Japanese troops, while Japan stated that she had no territorial designs in Manchuria, that her military operations had been conducted solely for the protection of the railway and of her nationals, and that the withdrawal of her troops within the railway zone had already begun, and would continue as the situation improved. In the conversations which ensued, however, the Japanese delegate pressed for direct negotiations between China and Japan, and rejected a Chinese proposal for a neutral League Commission to settle the dispute. After adopting a resolution in September, noting the replies of the two Powers, the Council adjourned until October 14, in the hope that the evacuation would be complete by then.

The extension, rather than reduction, of the Japanese military operations in early October, and the emergence of a new Japanese thesis that a general settlement of the fundamental questions which divided the two countries must precede negotiations for the withdrawal of troops, now led to a new phase in the proceedings. On October 9 Japan communicated to China five "basic principles" for the conduct of negotiations, as follows: mutual repudiation of aggressive policy and conduct; respect for China's territorial integrity; suppression of all anti-Japanese movements; protection of Japanese subjects throughout Manchuria; and respect for the treaty rights of

(1) For the published text and details of the Agreement, see Appendix III.

(2) Dolonor, in East Chahar, near the Jehol border, was during the year occupied successively by Japanese and by Chinese forces, from whom it was again captured, together with Kuyuan, at the end of 1933.

(3) The provisions of this Article are purely conciliatory, and no action could be taken under it without Japan's consent.

Japan in Manchuria.¹ On the 12th the Council was reconvened at China's request, and on the 22nd it proposed a resolution calling on Japan to complete her evacuation by November 16, and recommending that as soon as evacuation was completed the two Powers should begin direct negotiations on outstanding questions. Japan, who persisted in demanding the reversal of this order, voted against the resolution, which was therefore lost, on October 24. The Council adjourned, however, until November 16. This session was notable for the cooperation established between the Council and the U.S. Government, which, in spite of Japanese opposition, accepted an invitation to send a representative to the Council table,² and which, on October 20, addressed notes to China and Japan calling their attention to the provisions of the Pact of Paris of 1928.³

In the interval before the next session Japan rejected a Chinese offer to settle all disputes by arbitration or judicial settlement and to conclude an arbitration treaty with her; at the same time she informed the Council that the presence of her troops outside the railway zone was still indispensable for the protection of Japanese residents against banditry, and that the Council's resolution of October 24 was not binding. After failing to secure Japan's consent for the establishment of a neutral zone in Manchuria, the Council, which had assembled again on November 16, this time in Paris, now so far abandoned its policy of insistence that the cessation of hostilities should precede negotiations for a general settlement as to appoint a Commission of Five on December 10, for the purpose of inquiring, on the spot, into the whole question of Sino-Japanese relations. This action was suggested by Japan herself, although she maintained that the Commission should have no right to comment on troop movements or on negotiations for a settlement. The Commission, of which Lord Lytton was appointed Chairman, was approved on January 14, 1932, and sailed for the Far East early in February.

In the meantime, however, a third and more serious phase of the developments had begun. By the beginning of January, 1932, the Japanese had established control over the whole of South Manchuria, and an Independence Movement had been set on foot for the establishment of an autonomous "Manchukuo"; on January 28-9, hostilities had broken out in Shanghai. When the Council met on January 25, the Chinese Government issued a fresh appeal to the League on the

(1) These conditions were also communicated to the Council at the time and formed the substance of a statement by the Japanese delegate on October 26.

(2) The U.S. representative was authorized by his Government "to consider with the Council the relationship between the provisions of the Pact of Paris and the present unfortunate situation in Manchuria and, at the same time, to follow the deliberations of the Council with regard to other aspects of the problem with which it is now confronted."

(3) The Governments of the United Kingdom, France, Germany, the Irish Free State, Italy, Norway, and Spain had already communicated a similar identic note on October 17.

By the Great Council of the League
#623
1940

29th, this time under Articles 10 and 15,¹ while on February 12 it requested the Council to refer the dispute to the Assembly. On the 16th the Council addressed an urgent appeal to Japan, calling attention to Article 10 of the Covenant, from which it appeared to them "to follow that no infringement of the territorial integrity and no change in the political independence of any Member of the League brought about in disregard to that Article ought to be recognized as valid and effectual by Members of the League." Two days later the new State of Manchukuo declared its independence of China.

The Special Assembly, convened on March 3 at China's request, was concerned to a large extent with the Shanghai affair, and its activities in this connection are dealt with in a later chapter. It may be observed in passing; however, that there was a marked tendency to shift the responsibility for mediation from the League itself to the Great Powers most interested in the Far East.

A second problem confronting the Assembly was that of the attitude to be adopted towards the State of Manchukuo. On January 7 the U.S. Secretary of State, Mr Stimson, had presented to China and Japan a Note to the effect that the U.S.A. would not admit the legality of any situation *de facto*, nor recognize any treaty or agreement between the two Powers which might impair the treaty rights of the U.S.A. in China (including those which related to the sovereignty, independence, or territorial and administrative integrity of China, or to the Open Door policy), or which might be brought about by means contrary to the obligations of the Pact of Paris.² In line with this declaration and with the Council's resolution of February 16, noted above, was the resolution adopted by the Assembly on March 11, declaring that it was incumbent upon Members of the League not to recognize any situation, treaty, or agreement which might be brought about by means contrary to the Covenant or to the Pact of Paris. At the same time Part III of the resolution provided for the establishment of a Committee of Nineteen to follow the situation in Shanghai and Manchuria for the purpose of presenting recommendations to the Assembly. Hostilities in Shanghai were eventually terminated by a truce agreement on May 5. The initiation of action in Manchuria was delayed, however, until the Lytton Report should have been received; and since it was clear the latter would not be ready by August 19—the date of expiry of the time-limit laid down in the Covenant for the report of the Assembly under Article 15—the Assembly decided, on July 1, to extend the time-limit for as long as might be strictly necessary.

- (1) Article 10: preservation of territorial integrity of member-States.
- Article 15: submission of dispute to Council or Assembly for report. Article 12 is also involved: no resort to war till three months after such report, and breach of Articles 12 or 15 brings Article 16 (involving sanctions) into operation.

(2) In a *communiqué* of January 9, the British Government stated that, in view of Japanese assurances of adherence to the Open Door principle in Manchuria, they had not considered it necessary to address any formal Note to Japan on the lines of the American Note.

(Stimson - fav Eastern crisis, pp. 100-101)
* See on the Stimson 49 Note, *Yearb. 1932*, Stimson's *Fav Eastern crisis, pp. 95-101-104-105, 224.*
Royal Institute of Int. Affairs, 1932, by Toribara, pp. 523 and following and pages 340 and following
525. Hishida - Japan among the Great Powers, pp. 301-302

Feb 18
1132
For the Note
of Jan 7, 1932
See Stimson
Fav Eastern
Crisis, pp.
96-97
Lytton Report
F 3/31

1932
A fourth phase in the dispute opened ominously with the Japanese Government's recognition of Manchukuo in September, shortly after the signature of the Lytton Report at Peking on September 4. The Report was published on October 1 and, after a delay of six weeks granted to the Japanese Government for its consideration, it was discussed by the Council from November 21—8, and transmitted by them to the Assembly, which passed a resolution on December 9 requesting the Committee of Nineteen to consider the Report and to draw up proposals for a settlement.

While deprecating any attempt to find a solution of the dispute through a restoration of the *status quo*, the Lytton Report was on the whole condemnatory of Japan. Its recommendations included a large measure of autonomy for Manchuria under Chinese sovereignty on the one hand, and full recognition of Japanese rights and interests in the country on the other, as well as the conclusion of a series of general, commercial, and arbitration treaties between the two Powers, demilitarization of the whole area, organization of a new gendarmerie, and the appointment of foreign advisers from panels submitted by the League and by the Bank of International Settlements.

1932
omit
On December 15 the Committee of Nineteen submitted draft resolutions to China and Japan, suggesting that, with a view to emphasizing the fact that the method of conciliation, and not of condemnation, was still being applied, it should constitute itself as a new committee, which would conduct negotiations with the two parties to the dispute for a settlement on the basis of the Lytton Report; it was proposed also to invite the U.S.S.R. and the U.S.A., as non-member States vitally interested in China, to participate in the negotiations. Both the Chinese and the Japanese delegates proposed amendments to these resolutions, whereupon the President of the Committee and the Secretary-General were authorized to enter into conversations with them, pending the conclusion of which the Committee adjourned until January 16, 1933.

1933
In the meantime fresh Japanese military operations had been begun at the turn of the year, this time actually within the Great Wall. Moreover, when the Committee reassembled, Japan not only expressed strong objection to the participation of non-member States in the negotiations, but also made it clear that she was not prepared to accept the other proposals of the Committee. Finally, on February 14, 1933, after receiving a communication from the Japanese Government insisting, in effect, on the maintenance and recognition of the new régime in Manchukuo and the settlement of outstanding problems by direct Sino-Japanese negotiation, the Committee reluctantly came to the conclusion that the Japanese counter-proposals "did not afford an acceptable basis for conciliation." It therefore drafted its report and recommendations, which were adopted unanimously (except for the Japanese vote) by the Special Assembly on February

For the findings and recommendations of the
League Assembly in the Lytton Report. 2/24/19
See p. 51 in the Far Eastern Embargo 1935
pp. 223-24

24. and which followed the lines of the Lytton Report. The Report included a declaration that the Independence Movement in Manchuria could not be regarded as spontaneous, nor Japan's military measures as justified; it also stated that the Members of the League would continue not to recognize the existing régime in Manchuria *de jure* or *de facto*, that they intended to abstain from taking any isolated action with regard to the situation there, and would continue to concert their action among themselves as well as with the interested States not Members of the League; by a separate resolution an Advisory Committee was set up for this purpose, in which the U.S.A. and the U.S.S.R. were invited to participate.

273 28

Thus, with the possibilities of conciliation exhausted, the dispute entered on its fifth, and final, phase. After the vote on the report the Japanese delegate, Mr. Matsuoka, stated that his Government were obliged to feel that they had now reached the limit of their endeavours to co-operate with the League in regard to the Sino-Japanese difference. The Japanese delegation then withdrew from the Assembly. In a statement issued on February 27, Japan vindicated her attitude on the grounds that the Japanese forces in Manchuria had never exceeded the limits appropriate to measures of self-defence; that Manchukuo had been founded by the spontaneous will of the people; that China was not a sovereign State, and that her anti-foreign policy made the general formulae of international intercourse inapplicable to the present dispute; and that "a Manchuria free from all Chinese connection constitutes a barrier to Communistic danger in the Far East." On March 27 Japan submitted her formal resignation from the League.

See original
Exec. Agmt
Experiment
Liber 1941
Reviewed by
Lambert
in Belgium
March 1941
Univ. Lib.

The adoption of the Assembly's report led to no very startling developments, apart from that of Japan's resignation. Since Article 16 of the Covenant had not been invoked by China there was no question of the application of sanctions, although between February 28 and March 13 a short-lived embargo was laid by Great Britain on certain shipments of arms to China, as well as to Japan. In a Note of February 24, Mr Stimson endorsed the principles recommended by the Assembly, and on the 25th agreed to allow a U.S. representative to participate in the proceedings of the Advisory Committee, but without right to vote. The U.S.S.R., on the other hand, declined the invitation. The Committee set up two sub-committees, one to deal with the export of arms to the Far East, the other to work out the implications of concerted action and non-recognition of Manchukuo. The former, which met in secret, and which produced no report, failed to arrive at any concrete results. The latter published its findings on June 14 in a letter circulated to all the Powers, advising them on various points of procedure in their future dealings with Manchukuo.

925.2
C324
pp. 230-236
Stimson -
Far Eastern
Council (1935)
pp. 223-24

An analysis of the reasons for the failure on the part either of the League as a whole, or of the Great Powers acting independently, to

(1) This took effect in March, 1935.

prevent Japan's conquest and separation of the Manchurian provinces would be out of place here. It must suffice to recall that the dispute broke out at a time when Europe and the U.S.A. were in the throes of the world economic crisis of 1931, and that it reached its final stage at a time when National-Socialism was rising to power in Germany; that two of the Powers most vitally interested in the Far East, namely the U.S.A. and Soviet Russia, were not Members of the League; and that since public opinion in the former was unprepared for direct action, and the latter incapable at that time—in a military sense—of embarking on drastic measures, the responsibility for any military or naval operations that might have been undertaken would have fallen almost entirely on Great Britain, who was herself ill-prepared to assume it.

*The
Formation
of Manchi-
kuo*

The process by which the Manchurian provinces were detached from the rest of China and created into the new State of Manchukuo was accomplished roughly in two stages; the first being the reorganization of the Provincial Governments under such Chinese officials as proved amenable to Japanese influence; and the second the development of a popular movement for autonomy, to achieve which—in the words of the Lytton Report—the Japanese “made use of the names and actions of certain Chinese individuals, and took advantage of certain minorities among the inhabitants, who had grievances against the former Administration.”

The Japanese military operations of September 18, 1931, had resulted in the complete breakdown of civil administration in Liaoning, and in considerable disorganization in the other two provinces. The first task of the Japanese military authorities was to restore civic order in Mukden (the capital of Liaoning Province), which had been evacuated in panic by some 100,000 Chinese, including most of the leading officials, while the public utility companies, banks, and shops had closed down, and the police had disappeared; after a month's government by an Emergency Committee under the Japanese Colonel Doihara, the municipal administration was handed over to a qualified Chinese body.

The process of persuading a sufficient number of Chinese notables to take over the provincial administrations with a view to their detachment from the Chinese Government was rather more gradual; but by January, 1932, independent Provincial Governments had been established in each of the three provinces (i.e. Liaoning, now rechristened Fengtien, Kirin, and Heilungkiang), while a pro-Japanese Emergency Committee had been set up in the Special District of the Chinese Eastern Railway. Although the new Provincial Governments were composed largely, or entirely, of Chinese officials, Japanese advisers were appointed to assist them in every important function; anti-Japanese local officials were dismissed; while, to quote the Lytton Report, “no mining, agricultural, or industrial enterprise, no railway

offices, no public utility—in fact, no single source of revenue in which (the former Government) had been interested . . . was left without supervision.” Moreover the Japanese authorities assumed entire responsibility for the administration of all the Chinese-owned railways north of the Great Wall, seized the monies standing to their credit in the banks of Manchuria, took steps to co-ordinate their tracks with the S.M.R. system, installed a staff of technical advisers in various departments, and abolished their discriminatory freight rates.

Now that local self-governing administrations had been established in each of the three provinces, it remained to combine the latter in an independent State. It was clearly desirable, from the Japanese point of view, that any such combination should, at least in appearance, be effected by a “genuine and spontaneous independence movement.” In the judgment of the Lytton Commission, however, the Independence Movement, “which had never been heard of in Manchuria before September, 1931,” was only made possible “by the presence of the Japanese troops and the activities of Japanese officials, both civil and military.” Further, the Report points out that “the community obligations recognized by the Chinese are rather to the family, to a locality, or to persons, than to the State”; shows “how successfully this Chinese characteristic was utilized in the organization of the Provincial Governments, and the agency of the same few individuals was used to complete the final stage”; and estimates that the vast majority of the Chinese inhabitants of Manchuria, numbering some 28 millions out of a total of 30 millions, were definitely antagonistic to the new Government.

The chief agency in bringing about independence was the Self-Government Guiding Board, which was stated by the Report to have been organized, and in large part officered, by Japanese (although its chief was a Chinese) as an organ of the Fourth Department of the Kwantung Army Headquarters. On February 14, 1932, a meeting was held at Mukden, at which the Governors of the three provinces and of the Special District, and the Chinese Mayor of Mukden, Dr Chao Hsin-po, agreed to set up a North-Eastern Administrative Council exercising supreme authority over the provinces. This Council, which was constituted on February 17, issued a Declaration of Independence on the 18th, and decided to establish a Republic with its capital at Changchun (Hsinking), and to invite the ex-Emperor of China, Mr Pu-yi, to become the “Regent” or Chief Executive.

The Self-Government Guiding Board now proceeded to organize mass meetings, “Acceleration Societies,” and demonstrations throughout the country. Formal declarations supporting the plan for the new State were made by the districts and provinces, by the Mongol Banners—who had been promised the creation of special autonomous Mongol districts—and by the Mohammedan minority; while the unassimilated Manchus welcomed the prospect of their former Emperor’s appointment as Regent. An All-Manchurian Convention,

organized by the Self-Government Guiding Board, met at Mukden on February 29, and deputed a committee to invite Mr. Pu-yi (who was then residing at Port Arthur) to become provisional President. The invitation was accepted and the inauguration ceremony took place at Changchun on March 9; on the 10th the principal members of the Government were appointed; and on the 12th telegrams were despatched to the foreign Powers explaining the object of the formation of Manchukuo, and the principles of its foreign policy, and requesting recognition of the new State. On August 8 the Japanese Government appointed General Muto as Commander-in-Chief of the Kwantung Army, Ambassador Extraordinary and Governor-General of Kwantung, and special envoy to Manchukuo. On September 15 Japan recognized Manchukuo by concluding with her a protocol of alliance and a secret military agreement; in Article 1 of the former, Manchukuo undertook to confirm and respect all rights and interests possessed by Japan or Japanese subjects within her territory by virtue of Sino-Japanese treaties, agreements, or other arrangements or contracts, whether public or private; in Article 2 both parties, "recognizing that any threat to the peace and order of either . . . constitutes at the same time a threat to the safety and existence of the other," agreed "to cooperate in the maintenance of this national security." "It will be understood," it was added, "that such Japanese forces as may be necessary for this purpose will be stationed in Manchukuo."

The Administration of Manchukuo

Under the Organic Law promulgated on March 9, 1932, all executive power was vested in the Regent,² who had also the authority to over-rule the Legislative Council. There was also a Privy Council, with the function of advising the Regent, and a State Council or Cabinet.³ Subordinate to the latter were the Board of General Affairs, the Legislative Bureau, and the Advisory Bureau (which superseded the Self-Government Guiding Board); these three bodies, as well as the General Affairs Departments in the Ministries and Provincial Governments, the District Self-Government Directing Committees, and the three provincial police departments, were all controlled by Japanese. Japanese officials were also numerous in every branch of the Administration, in banks and railway offices, and on such bodies as the Supervisory Council, which superintended the conduct and audited the accounts of officials. Civil Governors were retained at the head of the

(1) At the time of writing the only foreign Powers, other than Japan, which have accorded diplomatic recognition of Manchukuo are: Salvador on May 21, 1934, and Italy on November 29, 1937.

(2) Eventually, on March 1, 1934, Mr. Pu-yi was proclaimed Emperor of Manchukuo; this step was probably intended to attract the support of the Inner Mongolian Princes, and partly to convince the Powers that Japan did not contemplate the formal annexation of Manchukuo.

(3) By a decree of May 8, 1937, however, the six Ministries were replaced by six bureaux and placed under the direct supervision of a single Minister of State, the Prime Minister. The Legislative and Supervisory Councils were also abolished. The decree became operative on July 1.

provinces, but were deprived of all authority in military or financial affairs; on the other hand, military officers were not to be permitted to interfere in matters of administration.

In its declaration of policy the Manchukuoan Government stated that it would welcome foreign financial assistance in the development of the country, and would adhere to the principles of equal opportunity and of the Open Door.¹ In June, 1932, the Government forcibly took over the Customs Administration (with which the Japanese military authorities had not attempted to interfere); it stated, however, that, in view of the fact that various foreign loans and indemnities were based on the Customs revenues, it was prepared to pay an equitable proportion of the annual sums necessary to meet these obligations.² In the same way it continued, for a time, to remit to the Nanking Government the customary monthly quotas of the Salt revenue, although the surplus funds of the latter were henceforth regarded as Manchukuoan, and not Chinese national, income.

For the first four years of the new régime the privileges formerly enjoyed by foreigners in Manchuria remained unimpaired. In February, 1935, however, official committees were set up in Japan and Manchukuo to study the problem of extraterritorial rights possessed by foreigners in virtue of treaties with China. On June 10, 1936, a treaty was signed between Japan and Manchukuo, in which the former announced her decision to renounce extraterritoriality in Manchukuo by progressive stages, and agreed to the application of the Manchukuoan laws concerning taxation of industries to Japanese nationals not only in Manchukuo territory but also in the S.M.R. zone: a supplementary agreement provided for the conversion of Japanese rights of "lease by negotiation" into "land-ownership or other rights relating to land"; for the reduction of taxes levied on Japanese nationals in Manchukuo; and for the transfer of the administrative police to the control of the Manchukuo Government by December 31, 1937. This was followed, on July 1, 1936, by a statement that the Manchukuo Government had decided on the gradual abolition of the extraterritorial rights enjoyed by the subjects of other foreign Powers. Finally, by a treaty of November 5, 1937, Japanese extraterritorial privileges were altogether extinguished, and Japan handed over her administrative authority over the South Manchuria Railway zone to the Manchukuo Government.³ In announcing this Agreement, the Japanese Foreign Office spokesman stated that since July, 1936, non-Japanese foreigners had been treated on an equal footing with Japanese residents, and that this arrangement, which had proved satisfactory, would be continued.

(1) How far these principles have actually been applied is shown below, Part III.

(2) See, however, below, Part III, section 3.

(3) In April, 1934, the administration of the zone had been transferred from the S.M.R. Company to the Japanese Government, and made responsible for economic development throughout Manchukuo.

III. SINO-JAPANESE RELATIONS, 1933-7

1. ENUNCIATION OF AN "ASIATIC MONROE DOCTRINE," 1933-4

On March 27, 1933, one month after the adverse vote of the League Assembly on February 24, 1933,¹ an Imperial Rescript proclaimed the withdrawal of Japan from the League of Nations, after the necessary two years' notice had expired. This document was mainly concerned with the circumstances in which this withdrawal had been decided upon and, beyond stating that the Empire, by embarking on a course of its own, did not mean that it would stand aloof in the extreme Orient and isolate itself,² did not give any indication of the Government's intentions regarding North China. In September, however, Mr Hirota, at that time Foreign Minister, cited the Rescript as the basis of Japanese foreign policy, and on January 23, 1934, emphasized in the Diet the significant fact that "Japan, serving as the only cornerstone for the edifice of the peace of East Asia, bears the entire burden of responsibility."

The first direct evidence of the new line of policy, which virtually amounted to the enunciation of an Asiatic Monroe Doctrine, was the statement made by the Foreign Office spokesman in Tokyo on April 18, 1934. This was concerned chiefly with the question of foreign loans to China, and pointed out that, as the restoration of order in China depended on China herself, Japan would oppose any action by the Chinese Government which was "contrary to the peace of the Orient." Similarly, Japan would object to any measures by other Powers likely to lead to disturbance of the peace, such as providing China with war material or instructors, or political loans. The statement also emphasized Japan's "special responsibilities in East Asia" and declared that, while Japan desired friendly relations with foreign nations, "at the same time we consider it only natural that to keep peace and order in East Asia we must even act alone on our own responsibility, and it is our duty to perform it."

In spite of efforts to explain away the statement, it was clear that the spokesman had correctly interpreted the Japanese Government's policy, and the Japanese delegate in Geneva went so far as to say that what his Government had particularly in mind was the proposed

(1) In its detailed statement of February 27 the Japanese Government stated: "It appears impossible to look for any improvement in the Chinese situation in the near future, and China is likely to remain a chronic anxiety to the rest of the world. Communism has already invaded China, and the alarming extent and success of the invasion is far too seldom realized. A Communized China would constitute a problem for Europe and America, beside which other questions would pale into insignificance. But a Manchuria free from all Chinese connection constitutes a barrier to Communistic danger in the Far East."

(2) It stated, however, that the Empire deemed it essential to respect the independence of Manchukuo and encourage its healthy development, an indication that readiness "to co-operate with the family of nations" did not apply to Manchukuo.

Japan's
Withdrawal
from the
League

- Keith
agreement to
the League
271.

Amu
Statement,
April, 1934

1934

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193

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technical collaboration with China contemplated by the League. In July, 1933, the League Council had appointed a special Committee, and Dr Rajchmann was sent out to China as the League's Technical Agent to report on the possibilities of future collaboration. As a result of his recommendations a major part of the experts' work was devoted to the development of communications in China. Owing to the possible military significance of this development the Japanese Government seem to have regarded this assistance with suspicion,¹ and their annoyance was further increased by the proposals for loans to China, the sale of aeroplanes and equipment, and the engagement by China of foreign military experts and advisers which took place during 1933 and the early months of 1934.

In March, 1934, it was reported in Tokyo that negotiations were to be opened in Shanghai for the adjustment of the Nishihara loans of 1917²; it was also learnt at the end of the month that an international consortium was contemplating a large loan to the Chinese Government. The Japanese then pointed out that Japan would expect to be a party to any foreign plan to finance China.

This claim was put forward on the ground not of Japan's participation in the Consortium of 1920,³ but of her special position as the Power principally interested in the Far East. A few days later, on April 10, rumours of fresh foreign assistance caused some discussion in Tokyo, and the Foreign Office spokesman intimated that the Government would oppose any new schemes for international co-operation in China. He went on to say that foreigners ought to know Japan's attitude, which was absolutely opposed to foreign intervention in China in any form.

It is true that at that time reports were in circulation of the forthcoming establishment of a new banking and discount firm in Shanghai, to be formed avowedly with the object of circumventing the Consortium agreement which gave Japan the right to participate; also, that a British banking group was arranging a loan of £1½ million to the Chinese Government, to be secured on the British portion of the Boxer Indemnity. That these various Western activities in China were the reason for the statement of April 18 was virtually admitted by Mr Hirota on April 25, when he used them to justify it. But he also gave the British Ambassador an assurance that Japan upheld the Nine-Power Treaty and intended to fulfil all her obligations under that instrument. He argued that it was not Japan but China which had

(1) In July, 1933, Japan had requested and obtained from the League assurances that the proposed technical assistance would be non-political.

(2) These were advanced to the Anfu Clique in Peking and the proceeds squandered on military adventures.

(3) The Agreement was signed on October 15, 1920. By it Japan would have the right to participate if a loan were issued under the auspices of the Government-supported groups formed in Great Britain, France, Japan, and the U.S.A. Nothing, however, precluded other banks from issuing loans, but they would, of course, enjoy no support from the Governments.

Factors
influencing
Japanese
policy

violated the principle of equal opportunity in that country, by organizing trade boycotts for political ends.

This question of loans, however, did not represent the most important aspect of Sino-Japanese relations at this period, and there were a number of other considerations, part fact and part idea only, which were important elements in the "make-up" of the Japanese official mind at this time.

In the first place, ever since September, 1931, the Government had been more or less under the spell of two slogans: "period of emergency," and "national crisis," and this "crisis mentality" played a large part in all formulations of policy. The Ministers of the Army and Navy, in order to prevent any weakening of support for their claims on the Budget, evolved the theory that the period of emergency would continue until 1935. That was the year in which the withdrawal from the League became definitive,¹ while there was also to be a Naval Conference in which Japan's demand for parity was bound not to be acceptable to the Western Powers. Finally, the Soviet second Five-Year Plan was to be completed in 1935, a fact closely connected with the next "idea," under the influence of which Japanese policy was framed.

This was the belief, widely held in Japan, that war with the U.S.S.R. is inevitable. The more necessary, then, to settle up all outstanding points with China before Japan's hands were full with the defence of Manchukuo and Inner Mongolia against Russia.

The paramount importance of this defence is part of the even greater question of Japan's strategic position in the Pacific, and no understanding of her policy towards China is possible unless it is borne in mind that the maintenance of uninterrupted trade relations with the mainland of Asia, *in all circumstances*,² is regarded by Japan's naval and military leaders as a matter of life and death. What the maintenance of these relations might involve it is not difficult to imagine—the view of the Services, at any rate, is that nothing short of the complete control of Manchuria, Mongolia, and North China is essential if all possibility of any interruption of them is to be removed.

2. JAPANESE ACTIVITIES IN NORTH CHINA, 1935

During the last few months of 1934 the Japanese Government were preoccupied with the forthcoming Naval Conference³ and with the question of the oil monopoly in Manchukuo, and it was not until the beginning of the following year that the question of relations with

(1) This might, it was thought, involve consideration of the position of the Islands held under League Mandate, which Japan was determined not to give up.

(2) That is, in the event of a war in which, for instance, she had both Great Britain and the U.S.A. against her.

(3) On December 29 the Government notified the U.S. Government of their intention to terminate the Washington Naval Treaty.

China again came to the fore. It was now the failure of the Nanking Government to deal effectively with the Communist armies in China and the reported sovietization of Sinkiang which caused concern in Tokyo. This was the avowed reason for a re-opening of Japanese military operations in East Chahar and at points on the Great Wall.¹

1935

Attempts were made in Peking, with some success, to settle the dispute as a local affair, the Japanese Ambassador giving an assurance that Japan had no aggressive intentions. Eventually, at the end of January, 1935, an agreement was reached by which both sides undertook not to station troops at certain points beyond the Great Wall, and the Chinese promised to return arms taken from the Jehol militia.

There seemed now a prospect of some improvement in the relations between the two countries, but in spite of visits by General Doihara to Canton and Hong Kong, and of Wang Chung-hui to Tokyo, any hopes of a settlement soon disappeared. During the spring Japan's resignation from the League became effective—on March 27, 1935—and the consolidation of the independence of Manchukuo was carried a step further by the purchase from Russia of the Chinese Eastern Railway and the putting into operation of the oil monopoly in that country.² Very soon afterwards trouble began again in North China.

In May two Chinese employees of the Japanese Army who were editing a paper in the Japanese Concession at Tientsin were murdered, and a number of new demands were at once presented to the Chinese authorities in Peking, accompanied, it was reported, by a threat that, if they were not complied with, the demilitarized zone would be extended to include Peking and Tientsin.

Tientsin incident,
May, 1935

Though never officially published, the initial group of demands presented by the Chief of Staff of the Japanese forces to General Ho Ying-chin, the Minister of War and Chiang Kai-shek's principal agent in North China, was stated to include the abolition of the Kuomintang headquarters in North China and the winding-up of the Military Council, the dismissal of the Governor of Hopei Province (General Yu Hsueh-chung) and the withdrawal of his troops from Tientsin, and the cessation of all anti-Japanese and anti-Manchukuo activities. The Japanese Chief-of-Staff denied, as a matter of fact, that he had presented any "demands," and said he had merely issued a warning with a view to preventing incidents unpleasant to both sides, but it was significant that within a few days the Mayor of Tientsin had resigned, together with the Director of Military Training in Peking and the magistrate of Tsunhwa (in the demilitarized zone), and the Governor of Hopei had been ordered to transfer to Shensi with his troops, while the Hopei branch of the Kuomintang at Tientsin had been closed.

"Ho-Umetsu Agreement"

1935

June 10
1935
Ref. 70.

(1) The immediate cause of the fighting was the Japanese accusation that the Governor of Chahar was on Manchukuo territory (Jehol) in violation of the Tangu Truce. The frontier line of Jehol and Chahar had not been definitely delimited.

(2) See below, Part II, Chapter IV, section 1, & Part III, section 3 (ii), respectively.

Despite this, the Japanese Army authorities, both in Tokyo and in Tientsin, expressed complete dissatisfaction with the Chinese reply. They complained of evasion of responsibility for the murder of the two editors and of refusal to suppress the "Blue Shirts," and did not consider the changes made among the officials in Hopei Province to be sufficiently drastic.

1935

Accordingly, on June 9, six further demands were presented, including the abolition of the Peking Political Council and of the Peking branch of the National Military Council, the removal elsewhere of the 2nd and 25th Divisions of the National Army and of the 57th Division under General Yu, and the suppression of all Kuomintang branches and of the Blue Shirts.

It should be explained here that the Japanese were much concerned over developments other than those directly connected with the presence of certain Chinese troops in the demilitarized zone. They complained, for instance, that encouragement was being given to a malcontent Korean group and to various "irregular" troops, and secret assistance afforded to Manchukuo bandits; also that nothing was done to control the press, which refused Japanese advertisements, or to reply to Japanese proposals to establish joint telephone and air services to Japan and Manchukuo.

Chahar
incident,
July, 1935

In any case, these new demands were all accepted at once in their entirety, but when the Japanese military authorities demanded written guarantees of compliance the Political Council refused to go any further without express instructions from Chiang Kai-shek, who was absent on the anti-Communist front in Szechuan; General Ho, to avoid further pressure, withdrew to Nanking. At this juncture fresh difficulties arose owing to the reported occurrence of an "incident" in Chahar. Though unimportant in itself¹ this was used as the ground for demanding the withdrawal from the province of General Sung Cheh-yuan and his troops, and this was at once acceded to. The Chinese agreed to withdraw beyond a line from Yenching to Chiangpei, Tushikou, and Kuyuan, and to the extension of the southern boundary of the demilitarized zone to Kalgan, representing an increase of its length westward by seventy miles.

Sung Cheh-yuan withdrew, but the Japanese continued to make fresh demands on the Nanking Government, more particularly in connection with the Kuomintang, and several steps were in fact taken to remove the causes of complaint, including a decree against the continuation of the boycott, the removal of the ban on Japanese advertisements in the press, and the elimination of some of the more violently anti-Japanese text-books used in the schools.

(1) According to the published report a party of Japanese officers had been stopped and questioned on June 6 near Kalgan. Subsequently, on June 11 and 12, Manchukuo officials complained of being fired on near Tungchatze, which the Japanese-Manchukuo forces had just occupied.

R These measures, it is interesting to note, were explained by the Japanese as due entirely to the 'positive' policy adopted by them since the autumn of 1931. The seizure of Jehol in 1933, followed by the threat to Peking itself, had caused, they declared, an immediate improvement in the relations between the two countries, thus proving that the Chinese understand nothing but force. The further improvement evident in July, 1935, they attributed to the firm attitude taken up at the end of May and to the new "demands."

In reviewing these developments of the summer of 1935 there are certain points which are of much more than temporary significance. Thus, during the disputes between the Chinese authorities and the Japanese, who were throughout represented by the Army commanders, the latter consistently maintained that the question at issue was solely that of carrying out effectively the provisions of a local military agreement (the Tangku Truce), and this enabled the Army commanders, on the one side, to arrogate to themselves full powers to deal with it, and the Government in Tokyo, on the other, to disclaim all responsibility for what the Army were doing, and even to express inability to intervene.¹

*Significance
of Tangku
Truce of
1933*

As to whether the Truce really provided for arrangements which left most of Hopei Province under Japanese control, no certain information was available, but the inference was that secret terms were appended to it.

If this is so it would go far to explain the extraordinary importance attached to it by the Japanese, while it would also furnish the key to the numerous concessions made by China during 1934 and 1935, such as the reduction of tariffs on Japanese goods, the establishment of Customs posts along the Great Wall, and other measures which were not published at the time of the announcement of the settlement of disputes regarding military movements, withdrawal of troops, and the removal of their leaders.

It was significant, too, that during the period May-July, 1935, special precautions were taken in Peking and Shanghai to prevent the populace being aware of the steps taken at the orders of Japan; newspapers in North China were forbidden to publish news regarding the crisis, and many of them were suspended or suppressed for their anti-Japanese attitude. Further confirmation may perhaps be found in the remark made by the spokesman of the Japanese War Office in the middle of June when he said: "We did not publish our full demands. We wished to save China's face and make compliance easy."

If the professed readiness of the Chinese to accept the Japanese demands was not always followed by effective measures to that end—

(1) The Japanese Chief-of-Staff said to the press towards the end of May: "We aim to deliver the suffering Chinese masses from Generalissimo Chiang Kai-shek's maladministration, and fundamentally to reconstruct Sino-Japanese relations." The Foreign Office spokesman subsequently professed complete ignorance of any such statement when it was mentioned to him.

for an announcement of the suppression of secret anti-Japanese organizations was by no means the same thing as their actual disappearance—the reason may well have been that by the summer it was fully realized that the Japanese were aiming at securing the success of a movement by which all the five provinces of Hopei, Chahar, Suiyuan, Shansi, and Shantung should declare their virtual independence of Nanking.¹

Abortive
Independence
Movement in
North China,
November,
1935

At the end of September, 1935, General Tada, the commander at Tientsin, informed the press that "a new political set-up, politically as well as economically independent of Nanking, is necessary in China," and the *Asahi* on September 27 reported that the Cabinet had "confirmed the new lines of policy set forth by General Tada."²

These "lines of policy" were understood to include: (1) the banishment of elements hostile to Japan and Manchukuo; (2) the economic and financial liberation of North China from the control of Nanking; (3) the prevention of the penetration of Communist influence, through military co-operation of the five provinces with Japan.

On October 13 a Japanese mission representing the Foreign Office arrived in Shanghai to secure co-ordination of policies between the political and military authorities and, after a military conference at Dairen, an announcement was made that, unless the Nanking Government abandoned its "double-faced policy," the Army would take steps forthwith to expel Chinese troops from all the northern provinces, and to sever these from the national Chinese federation. Whether this announcement was made by the military conference in agreement with the Foreign Office mission was not made clear.

During November, 1935, the Japanese made fresh demands which served as cover for a definite attempt to detach the five northern provinces from all connection with Nanking. General Doihara appeared in Peking, with a view, presumably, to concluding arrangements with Sung Cheh-yuan and the Governors of the other provinces, but Chiang Kai-shek, after obtaining a mandate from the Kuomintang Congress to deal with Japan, ordered Sung Cheh-yuan to break off negotiations. The Governors of Hopei, Shansi, and Shantung remained in their respective capitals, and General Doihara found there was no one with whom he could negotiate. The Chinese press believed that General Doihara had exceeded his instructions, and pointed out that Chiang Kai-shek preferred to discuss matters with Mr Ariyoshi, the Japanese Ambassador, before making a final decision.

The *coup* thus misfired, but this only led to a temporary modification of the plans of the Japanese Army. On November 14 Yin Ju-ken proclaimed the independence of a zone of some 10,000 square miles

(1) These five provinces cover an area of 470,000 square miles, i.e. nearly all the country north of the Lunghai Railway.

(2) These were laid down in a memorandum which had been prepared by the General, and gave his views regarding the main stages by which the domination of East Asia might be effected.

East Hopei
Autonomous
Council

centred on Tungchow and extending over twenty-five prefectures, of which eighteen were in the demilitarized zone. He intimated that the only revenues remitted to Nanking would be the proportions of the Salt Gabelle and of the Customs needed for the service of foreign loans. His administration gave itself the name of the East Hopei Autonomous Council.

The Japanese took simultaneous action to prevent interference with this development. The Embassy Guard in Peking was strengthened, the railway junctions connecting the city with the south and with Tientsin were occupied by troops, and rolling stock commandeered.

By the end of the month Sung Cheh-yuan realized that he could hold out no longer, and he reported to Chiang Kai-shek that, as far as Hopei and Chahar were concerned, the autonomist movement had got beyond control, and, handing over the solution of the problem to Ho Ying-chin, he left Peking for Tientsin. The Mayors of Peking and Tientsin telegraphed in the same sense, and Chiang accordingly arranged for a mission consisting of Ho Ying-chin, Sung Cheh-yuan, and the Governors of Shansi, Fukien, and Kiangsi to meet the Japanese military authorities in Peking and make the best arrangement possible.

By December 8 an agreement was understood to have been reached. Ho Ying-chin, as the representative of the National Government, had to bear the main responsibility for its terms, and his position was not an enviable one. The discussions were carried on to the accompaniment of student demonstrations, both in Peking and Tientsin, in protest against any concessions to Japanese pressure, on the one side, and on the other, of the regular visits of Japanese aeroplanes which flew over his residence, and also dropped leaflets advocating autonomy over Peking, Tientsin, Paoting, and other towns.

When the agreement was published it was seen to provide for the establishment of a political régime for Hopei² and Chahar similar, as to the extent of its independence of Nanking, to that of the South-west Political Council in Canton. The composition of the Council was announced by the National Government on December 12, 1935. The Chairman was Sung Cheh-yuan, and among the members were the Mayors of Peking and Tientsin and the Governor of Chahar, while Sung was also appointed Governor of Hopei. On December 18 the new Council was formally inaugurated.

Speaking at the inauguration Sung Cheh-yuan referred to the need of co-operation with Japan, and later sent a letter to the students of Peking and Tientsin Universities assuring them that there was no difference between the status of the new Council and that of the Council in Canton. This did not prevent them staging further demonstrations in which they were joined by students at Shanghai and Hankow, and on December 26 martial law was declared in both those cities and in Nanking.

- (1) The East Hopei Autonomous Council remained independent.

1935
Hopei-Chahar
Political
Council

1935

Attempts to
form economic
bloc

If the Japanese found it advisable to rest content with a compromise arrangement in Hopei and to abandon, at any rate temporarily, their plans for the five provinces, this did not mean that there was to be any relaxation in their activities along the frontiers of Manchukuo. During December no less than six so-called border districts in East Chahar were occupied by Japanese-Manchukuo forces.¹

During the summer of 1935 Japan had begun to press for the establishment of a Manchukuo-North China economic bloc. At the end of June Mr Ariyoshi presented to the Nanking Government a memorandum on Sino-Japanese co-operation in the cotton industry, while early in July General Doihara invited the South Manchurian Railway, on behalf of the Kwantung Army, to collaborate in the establishment of a Sino-Manchukuo trade and industrial bloc in North China, and a commission of experts was sent down to Tientsin to study the industry, agriculture, communications, etc., of the northern provinces with a view to submitting plans.

A number of economic associations was formed about this time to encourage Sino-Japanese co-operation. One, the Far Eastern Economic Association, consisted mainly of North China financial magnates and business men, but was promoted by the Japanese. Another, the Hopei Economic Association, established by Chinese bankers and industrialists in August, 1935, was suspect to Japan at first, but two of its founders led the Chinese Economic Mission to Japan in October, and from their visit emerged the "Japan-China Trade Association."

At the end of the year the Japanese began a survey of the coal areas of Shansi and Hopei with a view to combining in a single pool the whole of the Manchukuo and North China resources, and to developing the conversion of coal into oil.

3. FAILURE OF SINO-JAPANESE NEGOTIATIONS, 1936

To return to political developments, Mr Hirota, the Foreign Minister, in his annual statement on foreign policy at the opening of the Imperial Diet on January 21, 1936, formulated the Government's programme under three heads, which from that time onwards have always been cited as the guiding principles of Japan's policy in regard to China: first, the cessation in China of all unfriendly acts and measures, and active collaboration with Japan; second, the recognition of Manchukuo; and third, the suppression of all Communist activities "in our part of the globe," by which Mr Hirota presumably meant in Mongolia as well as in China itself.

The reply of the Chinese Government was to publish a statement pointing out that in the previous autumn they had had occasion to propose to the Japanese Government certain fundamental principles for the improvement of relations between them. Mr Hirota had con-

(1) For operations in Chahar and Suiyuan see below, Part II, Chapter IV, section 2.

"The Three
Points,"
January,
1936

See
129-36

1936

sidered that these proposals were not impracticable in principle, but had stated that as a condition precedent China must concur in three points: (1) abandon her policy of playing off one foreign nation against another; (2) respect the *de facto* existence of Manchukuo; and (3) act in concert with Japan in taking measures to check the sovietization of China's northern frontier regions. X

The Chinese Government had considered these points to be too vague and had asked Tokyo to substantiate them by concrete proposals. 1936

In February Mr Arita, the Japanese Ambassador, stated that he had come to China to effect "a fundamental solution of outstanding issues," and it was, perhaps, the attitude this statement revealed which soon brought about a deadlock in his conversations with the Chinese Foreign Minister. The latter's conception of the character of the task before them differed materially from that of the Ambassador, and he insisted that China must have restored to her the rights of which she had been deprived in North China, i.e. in Hopei and Chahar, before he could discuss the many points raised by Japan. Mr Arita, too, aimed at a "comprehensive" settlement, but interpreted this to mean that China should fall in with Japan's plans for dealing with the Communists, as well as putting an end to all anti-Japanese manifestations throughout the country.

As for his detailed points, these included the financial arrangements of the Hopei-Chahar Administration—the Japanese wishing to prevent the remittance of revenues to Nanking¹—and the establishment of a separate currency and banking system, the development of railway and air communications, the construction of a harbour at the mouth of the Haiho River, and the exploitation of the iron-ore deposits of Chahar. The communications envisaged all aimed at strengthening the economic influence of Japan,² but though in November agreement was reported to have been reached on several of these schemes, it was only the air service to Manchukuo which was actually started.³

In April, 1936, Mr Arita was transferred to Tokyo, where he became Foreign Minister in the Government formed by Mr Hirota in March, following the February revolt. The new Foreign Minister informed the foreign press in May that the adjustment of relations between China and Japan was "a matter of imperious necessity," as it was possible that the Red Armies might march north and threaten Peking. Before the end of the month the Japanese garrisons in Peking and Tientsin had been reinforced, and Fengtai station, an important junction for the Tientsin line just south of Peking, had been occupied by Japanese troops. X 1936

(1) The Tientsin Salt Gabelle revenue was actually appropriated by the local government, but attempts to retain the Customs revenues were not successful.

(2) For instance, the proposed railway from Shihchiachwang to Tsangchow was to provide a short cut connecting the coal mines of Shansi with the sea.

(3) The rising in Inner Mongolia in November caused the Chinese to refuse to proceed until the Japanese had replied to the charge of complicity in this.

When Mr Kawagoe succeeded Mr Arita as Ambassador to China in July the situation had changed in more than one respect. The Nanking Government were fully occupied in dealing with the crisis in Canton, and there began a series of anti-Japanese incidents, involving loss of life and damage to property, which led to the presentation of fresh demands by the Japanese.

The most serious of these outrages was that which occurred in the Hongkew district of Shanghai in September, 1936, and it was after this that Mr Kawagoe was reported to have demanded that steps be taken to suppress all agitation against Japan, and that the Chinese should guard against the recurrence of incidents by controlling the press, revising school text-books, and allowing Japanese inspection of the schools. Further, China was to take steps to control the activities of Korean revolutionaries, was to revise the Customs tariff,¹ and to authorize the establishment of an air line between Shanghai and Japan. Even these demands did not cover all the aims of the Japanese. It was generally believed, though the details were not officially published, that Japan also repeated the demand for a "joint defence" against Communism, and for the creation of the five-province autonomous area which had failed of realization towards the end of 1935.

At the end of September, 1936, Chiang Kai-shek returned from Canton with his position much strengthened, and the Chinese Government, in their turn, put forward demands on the Japanese, particularly in connection with the smuggling which was going on in Hopei, and the independent position of Mr Yin's East Hopei régime. The Generalissimo discussed matters with Mr Kawagoe on October 9, 1936, but soon after this an attack on Suiyuan by a new Mongol-Manchukuo force, supported by Japanese tanks and aircraft, occurred, and the Chinese broke off discussions. They declared that they would not resume them until a satisfactory explanation had been obtained of the Japanese assistance to the Mongol-Manchukuo forces guilty of the aggression.

The Japanese version of the breakdown² was that the Chinese had "taken advantage of the Suiyuan affair" to repudiate concessions already made in response to the Japanese demands. These, they said, included: agreement on the suppression of anti-Japanese agitation, the employment of Japanese advisers, the control of exiles from Korea, and the reduction of tariffs, while economic co-operation in North China had also, they maintained, been accepted "in principle."

The Chinese Government also published their own account of the discussions, but this did not admit that agreement had actually been reached on any of the outstanding issues; nor, however, did it state that the Japanese requests had been refused, and the impression given

(1) The Japanese maintained that excessively high tariff duties were responsible for the extensive smuggling which was going on in North China.

(2) This was given by the Foreign Office in Tokyo in a statement issued on December 10, 1936.

by the statements of both parties was that the gulf between them had materially narrowed. The eventual wrecking of the efforts for a settlement made through diplomatic channels was, in fact, largely due to the "dual policy" of Japan in permitting her military authorities in the North to nullify the work of the Embassy by stimulating revolt in Inner Mongolia.¹

Here it should be mentioned that the firmer attitude adopted by the Nanking Government towards Japan in the autumn of 1936 was due, not only to the successful resistance of General Fu Tso-yi, the Chinese Governor, to the attempted invasion of Suiyuan, but also to the remarkable progress towards national unification which had been made during the year, for which not only the efforts of Chiang Kai-shek but also the Japanese activities in North China were responsible. As a result a degree of administrative and political unity was achieved which would not have been thought possible two or three years earlier; in the south the quarrel with Kwangtung and Kwangsi was settled, and in June the Kuomintang South-Western Committee and the South-West Political Council ordered troops to march north against the Japanese under the flag of the "People's anti-Japanese Salvation Army." Finally, in Central China the Communists, so long a thorn in the side of Nanking and against whom Chiang had for years been waging relentless war, offered to supply forces to take part in armed resistance to the Japanese.

This tendency for the various elements in the country to draw together was further exemplified on the occasion of the "kidnapping" of Chiang Kai-shek by the forces of Chang Hsueh-liang in December, 1936, when the Generalissimo went to Sianfu (the capital of Shensi) to deal with an outbreak of disaffection among the "Young Marshal's" troops. The chief result of this incident was to reveal the strength of Chiang's position. The Nanking Government at once received assurances of allegiance and solidarity from the Governors of Shansi, Shantung, Hopei, and other provinces, including Kwangtung in the south, and even the leaders of the Hopei-Chahar Political Council promised their support.

In the event, the Generalissimo returned to Nanking with the knowledge that he had the greater part of the country behind him, while the country itself had a greater consciousness of its ability to adopt what may be described as a self-respecting attitude towards Japan.

Before any further steps could be taken to resume negotiations, political developments supervened in Japan which occupied all the attention of the Government. The resignation of the Cabinet on Janu-

Growing
national
unity in
China

1936

Sianfu
Incident

Dec. 1936

(1) Anti-Japanese feeling was also increased at this time by the Kwangtung Army deciding to hold its manœuvres in North China, and by the landing of Japanese marines at Tsingtao to suppress a riot which followed a lock-out in a Japanese mill.

1937
ary 23, 1937, was followed by a period of crisis, owing to the demands of the Army in connection with the disposal of portfolios. A new Government, however, was formed by General Hayashi on February 2, and the former Ambassador in Paris, Mr Sato, was appointed Foreign Minister.

He at once gave indications of a desire to adopt a less rigid attitude towards the problem of Japan's position in China, and said that a new starting point would have to be found for their relations. He realized the unwisdom of causing other foreign nations with interests in China to entertain uneasiness about Japan's policy, and, speaking in the House of Peers on March 8, said: "Our interests there will be promoted if we respect those of others and seek the peaceful development of our own." He intended, therefore, to re-examine the China question with a view to a compromise, and his method of procedure aimed at disposing of the minor points first before attempting to solve the major political problems, as they were called.¹

The hopes that any real improvement in relations would result were very short-lived. Mr Sato was Foreign Minister for scarcely three months, and the Ministerial upheaval which followed the General Election at the end of April, 1937, ended with the resignation of General Hayashi on May 31, the assumption of the Premiership by Prince Konoye, and the reappointment of Mr Hirota as Foreign Minister.

The new Government immediately turned its attention to the question of putting into operation a so-called Five-Year Plan—prepared, it was believed, by the Army—for increasing the country's productive power and for regulating imports. These objects entailed the institution of a control of labour by the Government and other measures characteristic of a totalitarian, militarized State, the cost of which would obviously be very large.² This was in the middle of June, and on July 7-8 occurred the incident outside Peking with which the present conflict began.

4. THE LUKOUCHIAO INCIDENT AND THE OUTBREAK OF HOSTILITIES, 1937

The scene of that incident was Lukouchiao, near a railway junction the importance of which must be explained. For some years the Japanese have been trying to induce the Chinese authorities in North China to co-operate in building a railway to join the two main lines, Peking-Hankow and Tientsin-Pukow, at the point on the former whence a

(1) By these were meant questions such as the status of Manchukuo and the relation of the Hopei-Chahar Administration to Nanking.

(2) The Domei Agency, reporting particulars of the Plan on June 16, estimated the cost at 6,000 million yen for Japan and 2,300 million yen for Manchukuo (say £485 million in all).

V / Marco Polo Bridge Incident July 7, 1937
(2) Pearl Harbor - Dec. 7, 1941.

branch line runs west to Taiyuanfu (i.e. at Shihchiachwang) to a point on the latter which is comparatively near the coast opposite Dairen (i.e. at Tsangchow). Such a new line east and west would give Japan direct access to the heart of Shansi Province, with its great resources of coal, the control of which is generally considered by Japanese strategists to be an essential preliminary to the trial of strength with Russia which is so widely believed to be inevitable. Further, Japan already controlled the line from Peking to Tientsin and, consequently, the rail communications with Tsinan and Nanking, by her occupation of the railway junction for that line at Fengtai,¹ but she was not in control of the other line running south via Paoting and Shihchiachwang to Hankow. The junction for this is at Lukouchiao, and if she occupied that place she would be in a position to dominate the approach to Peking from the cities of Hopei, Shansi, Honan, and Hupeh.

It was at Lukouchiao that the incident occurred on July 7-8 which led to the fighting from which the present warfare developed, and critics of Japan's policy have suggested that it was deliberately provoked to give Japan a pretext for gaining possession of the railway junction. In support of this view they point out that the situation in Europe made it unlikely that anything more than verbal protests would follow "positive" action taken by Japan, and that there were many reasons for believing that Russia would not come to China's aid. On the other hand, increasing concern had been felt in Japan at China's progress in rearmament and military training—for which she was indebted principally to German and Italian assistance—and at the prospect that the Nanking Government was likely to obtain large loans from Great Britain and the U.S.A.,² much of which would be used for the development of aviation and for the opening up of communications to facilitate the Nanking Government's extension of its control over outlying provinces.

It is at present impossible to produce conclusive evidence to prove that either China or Japan was solely responsible for the clash, and it is perhaps sufficient now to place on record the two versions of its origin, as reported by the Sub-Committee of the League's Far-Eastern Advisory Committee on October 5, 1937³:

"According to the Japanese version, it was the Chinese soldiers of the 29th Army who opened fire; a temporary cessation of hostilities was arranged on the morning of July 8 by the Chinese and Japanese military authorities—this was to permit of the immediate opening of negotiations between these same authorities, with a view to the settlement of the incident; the Chinese soldiers did not abide by this agreement, nor by the agreement concluded next day for the mutual withdrawal of the Chinese and Japanese troops; this aggressive attitude on the

(1) Fengtai is south-west of Peking, and Lukouchiao is about three miles further west, on the line to Paoting. There has been a Japanese garrison at Fengtai since May, 1936.

(2) The Export-Import Bank of Washington arranged an industrial credit for China in June.

(3) See League Document, A.78, 1937, vii.

Lukouchiao Incident July, 1937

(A) Treaty of Non-Aggression between the Soviet Union and China August 21, 1937

Moore: Far Foreign Policy p. 1876 Japanese Version

(B) Treaty of Commerce and Consular Rights between the Soviet Union and China June 19, 1941

Moore: p. 1 1943

(3) Neutrality Act 69 between the Soviet and the United States Dec. 1941

part of the Chinese troops rendered vain the agreement¹ concluded on July 11 for the settlement of the incident by the Japanese military authorities, on the one hand, and the Mayor of Tientsin and the Chief of the Public Safety Bureau of Hopei on the other.

*Chinese
Version*

"According to the Chinese version, on the pretext that one of their men was missing, the Japanese troops which were carrying out manoeuvres on the night of July 7 asked permission to enter Wanning (Lukouchiao) in order to make investigations; this having been refused, Wanning was attacked by the Japanese infantry and artillery; the Chinese garrison resisted; the situation was aggravated, not by the action of the Chinese troops, which, even before the Japanese troops had begun their withdrawal, complied with the agreement for the withdrawal of troops, but by the action of the Japanese troops, which, having received large reinforcements, resumed the offensive in the Wanning zone, extending their operations to the immediate vicinity of Peiping; the Chinese Government made no objection to the terms of the agreement concluded on July 11 between the Chinese local authorities and the Japanese army, but the Japanese attempted to impose measures supplementary to this agreement; moreover, disregarding the agreements concluded for the mutual withdrawal of troops, the Japanese army extended its operations in Northern China."

*Attempts at
local settle-
ment*

While these discussions for a local settlement were going on between the local authorities, and, side by side with them, communications between the Chinese and Japanese Governments—the latter insisting that a local solution should be found without the intervention of Nanking—extensive movements of troops were daily making a settlement more difficult. Japanese troops reached Tientsin and Peking from Manchuria in large numbers, and reports were current that Chinese Central Government troops were moving north up the Peking-Hankow railway. The Japanese complained that the presence of these forces as far north as Paoting² constituted an interference with the local settlement of the dispute, and announced that their entry into Hopei constituted a violation of the Tangku Truce. They also invoked the Ho-Umetsu Agreement³ of June 10, 1935, by which the Chinese undertook, they said, to withdraw from the province all troops of the Nanking Government and of the Army of Yu Hsueh-chung, then Governor of Hopei, who was to be dismissed from his post. The Chinese did not accept this version.

On July 19 a settlement was reported to have been reached locally, but its terms were not published, for fear, it was stated, of exciting public opinion. Meanwhile, a number of clashes occurred between the forces of the two sides. On July 27 the Chinese garrison at Tungchow (capital of the East Hopei Autonomous régime) of 400-500 men was

(1) This agreement as published by the Domei News Agency consisted of three points:

(a) Apology by the representatives of the 29th Army and punishment of those directly responsible.

(b) Chinese troops to evacuate Lukouchiao and to be replaced by the Peace Preservation Corps for the purpose of keeping the Chinese troops sufficiently separated from the Japanese.

(c) Adequate measures to be taken for curbing the activities of the Blue Shirts and Communists.

(2) Japanese reports estimated the strength of these forces as 120,000 men.

(3) See above, p. 59.

annihilated by an air bombardment,¹ and fighting at Langfang (on the railway to Tientsin), Fengtai, Shako, and Chingho railway stations (all in the area just round Peking), and at the Nanyuan Cantonments resulted in all these places being occupied by the Japanese.

- In short, by the end of July, Peking and its surrounding railway stations and military establishments, barracks, etc., were all in the hands of the Japanese.

(1) A few days later some of Yin Ju-ken's troops at Tungchow mutinied and killed about 200 Japanese before they were rounded up.

IV. JAPAN FACES THE U.S.S.R. ALONG THE LAND FRONTIERS OF CHINA AND MANCHUKUO

Japan's conquest of Manchuria and Jehol in 1931-3 marked a turning point, not only in the history of China, but also in Russo-Japanese relations. The vast salient formed by these provinces, now constituted as the State of Manchukuo under Japanese control, threatened to become something more than a mere buffer, protecting Korea and Japanese interests in South Manchuria from Soviet aggression and the infiltration of Communism. It was itself a potential base for further Japanese expansion, whether directed eastward into the Maritime Province, northward across the Amur River, or westward into Mongolia.

I. MANCHUKUO

The implications of the new situation were naturally most apparent, and the consequences most immediate, where the security of the Maritime Province and the U.S.S.R.'s relations with and interests in Manchukuo itself were concerned. Two novel elements require consideration in this context. In the first place Japanese control of Manchukuo constituted a menace to Soviet communications with Vladivostok, since, while the Trans-Siberian railway—skirting the frontier, as it does, for a considerable distance—now became extremely vulnerable, the Chinese Eastern Railway, cutting across Manchukuo itself, ceased to have any strategic value whatever. In the second place the substitution of what was virtually a new Russo-Japanese frontier of some 2,000 miles for the old boundary between Siberia and China's eastern provinces gave promise of an endless succession of frontier incidents and an increasing concentration of troops on either side, with the concomitant danger that chronic tension might some time culminate in war.

The Soviet Union's reaction to this situation was two-fold. On the one hand, she immediately strengthened the garrison of the Maritime Province, and embarked on an extensive programme of military, naval, and economic development in Eastern Siberia, of which more will be said later. On the other hand, in the field of diplomacy, she pursued for the time being a policy of "peace at any price," largely on account of her military and naval inferiority to Japan, but possibly, too, with the idea of waiting to see which way Japan would turn next, and how much effective resistance might still be hoped for from China.

Since, therefore, a war with Japan was not to be contemplated, the Soviet Government early decided to cut its losses so far as the Chinese Eastern Railway was concerned. Under the régime of Chang Tso-lin

*Sale of the
Chinese
Eastern
Railway*

and Chang Hsueh-liang the Company had suffered not only from the economic competition of an increasing number of Chinese- and Japanese-financed lines, but also from persistent attempts on the part of the Chinese authorities to undermine Soviet Russia's position in North Manchuria and to strengthen their hold on the railway administration.¹ Later, during the Japanese campaign of 1931-3, there was a certain amount of friction over the use of the railway by Japanese troops, while after 1931 the eastern section (from Harbin to Pogradchnaya) was practically paralysed by the activities of bandits. The Soviet Government alleged that the latter were encouraged by the Japanese, in anticipation of negotiations for the purchase of the railway from Russia, as a means of depreciating its market value. Effective co-operation between the Soviet railway officials and the Manchukuo authorities, who had assumed China's rights in the railway, was obviously impossible; the strategic value of the line had already been destroyed, and its commercial value was steadily declining. Matters were precipitated by a dispute in April, 1933, over the Soviet retention of certain rolling stock which the Manchukuo authorities claimed as the property of the Chinese Eastern Railway, and against which they retaliated by stopping all goods through-traffic at the frontier station of Manchuli. In the following May, M. Litvinov made an offer for the sale of the Soviet interest in the railway, and, after prolonged and frequently interrupted negotiations, an agreement was finally signed—in the face of repeated protests from China—on March 23, 1935, transferring the railway to Manchukuo in return for certain payments in money and in kind, the former being guaranteed by Japan.

By liquidating their interests in Manchukuo itself, the Soviet Government were thus able to eliminate one potential source of friction with Japan. It is unfortunately not so easy, however, to liquidate a frontier. According to a statement of the Manchukuo Government in February, 1936, there had occurred in the course of the five years following the conquest of Manchuria no less than ninety-one frontier incidents, of which four only had been settled amicably. Soviet estimates were even higher. Typical examples of such incidents were the alleged pursuit of bandits across the frontier by Japanese troops in February, 1933, and in January, 1936, and the dispute which arose in June, 1937, when Soviet troops, supported by gunboats, occupied the islands of Bolishoi and Senufu, in the Amur River, which Manchukuo claimed were on her side of the frontier.

(1) Indeed, since 1927, when the Soviet Legation at Peking was raided by the police for evidence of subversive propaganda, diplomatic relations between China and the U.S.S.R. had been practically severed; while in 1929 similar raids on Soviet Consulates and railway offices at Harbin and elsewhere, followed by the arrest of numerous Soviet officials, led to a Soviet military invasion across the frontier. On this occasion, in which Japan maintained a strict neutrality, Chang Hsueh-liang was obliged to comply with a Soviet ultimatum, and to sign a protocol restoring the *status quo ante* on the railway. Diplomatic relations were not renewed, however, until 1932.

Even more alarming were the large-scale military preparations in train on both sides of the frontier, which by 1934 had reached such a pitch that the Amur River was then described by one writer as "a thread separating two highly-equipped forces." It was estimated in that year that Japan had already built 1,000 kilometres of railways, and 2,200 kilometres of roads leading up to the frontier, while in January, 1934, General Blücher informed the Communist Party Congress that there were 130,000 Japanese and from 110,000 to 115,000 Manchukuoan troops on the Japanese side.¹

The U.S.S.R., for her part, was engaged in a colossal effort to make her Far Eastern territories self-sufficient, both in the economic and military sense, while at the same time strengthening air and railway communications by every possible means. This policy involved the industrialization, colonization, and agricultural development of the area; the double-tracking of the Trans-Siberian railway and the construction of a network of other lines, of which the chief was the new Baikal-Amur Railway (planned to run from Lake Baikal to the new town of Komsomolsk, on the lower Amur River); and the organization of three independent army groups—one (about 70,000 strong) stationed near Outer Mongolia, another (about 150,000 strong) along the Amur River between Blagoveshchensk and Habarovsk, and a third (about 60,000 strong) in the Maritime Province. According to a pamphlet published by the Japanese War Office in March, 1936, the U.S.S.R. had spent about £93,000,000 since 1932 on the construction of some 5,000 forts along the Manchukuoan frontier, while there were about 100 super-heavy air bombers and between fifty and sixty submarines stationed at Vladivostok, able to attack Japan at her most vital points and to return to their base within a few hours.

Each Power justified its own measures for reinforcement by proclaiming the aggressive intentions of the other. On the other hand, both parties from time to time made efforts to bring about a *détente*. At first it was the U.S.S.R. that proposed, and Japan that refused; Soviet proposals for the conclusion of a pact of non-aggression, put forward in December, 1931, and November, 1932, met with no response. By the end of 1933 Soviet Russia's hand was strengthened by her own rising military strength and by the official recognition at last accorded to her by the U.S.A., and it was Japan's turn to suggest the creation of a demilitarized zone, while the U.S.S.R. turned a deaf ear. In a note *verbale* of December, 1934, Mr Hirota further defined Japan's views, maintaining that a non-aggression pact must be preceded by the settlement of outstanding differences and the appointment of a frontier commission. Discussions, held in the latter half of 1935, of a Soviet project for the establishment of such a commission revealed a difference of opinion as to its function and composition; for, while Japan objected

(1) The contemporary Japanese estimates were 65,000 Japanese and 100,000 Manchukuoan troops.

to the Soviet demand for neutral representation, the U.S.S.R. repudiated the Japanese contention that a new demarcation of boundaries was necessary. By April, 1936, agreement in principle had been reached for the establishment of two commissions for the eastern section of the frontier (from Lake Khanka to the Korean border), one for the adjudication of disputes, and the other for re-demarcating the frontier by the replacement of old signs. The Soviet Government waived its demand for neutral representation; and the Japanese Government agreed in principle to the Soviet thesis that similar commissions should be established for the whole frontier, while insisting that the responsibility for the Mongolian-Manchukuoan section should be assumed by the two States concerned.

Since then, however, the process of establishing the commissions has not advanced beyond the stage of negotiation over their composition. In the meantime friction between the two Powers has increased rather than decreased, particularly since the conclusion of the German-Japanese Anti-Comintern Pact on November 25, 1936.¹ During 1937 hardly a month went by without some incident arising out of one or other of the points of contact between the two Powers. In January the Soviet Government decided to close railway traffic through Pogranichnaya (the junction linking up Manchukuo with Vladivostok) on the ground that Japanese officials and soldiers behaved in such a way as to make it inoperable; in February certain privileges granted to Japanese traders in Vladivostok were withdrawn, and the right was asserted to search Japanese ships visiting that port. In May the Government of Manchukuo was notified of the U.S.S.R.'s intention to abrogate a Waterways Agreement negotiated in 1934, in consequence of Manchukuo's refusal to appoint representatives to a joint dredging committee; in July it seemed as though the incident of the Amur River islands might flare up into war. Disputes occurred in Sakhalin in August and September, first over the dismissal of Russian workers by a Japanese concessionary firm, and later over the arrest of Japanese workmen by the Soviet authorities; about the same time there was a recrudescence of the perennial conflict over Japanese fishing rights in Kamchatka. Finally, in August, 1937, the forcible closing of the Japanese Consulates at Odessa and Novo Sibirsk was reported, on the ground that Japanese interests in these towns were not sufficient to justify their continuance; while in September the Soviet Government was stated to have closed all its own Consulates in Manchukuo, with the exception of those at Harbin, Manchuli, and Taiho.

↑
*Increased
Tension
in 1937*

(1) A protocol between Germany, Italy, and Japan, was signed in Rome on November 6, 1937, whereby Italy adhered to, and was accepted as an original signatory of, the Anti-Comintern Pact of 1936. The latter provided for consultation and collaboration, and the taking of severe measures against those who, at home or abroad, were engaged directly or indirectly in the service of the Comintern, or promoted its subversive activities.

2. MONGOLIA

Of the problems arising out of Japan's ascendancy in Manchuria, those which have just been described certainly called for the most urgent attention. The implications of her expansion westward into Jehol were possibly more far-reaching, and certainly—in 1931—less easy to discern. In order to examine them, it will be necessary to recapitulate certain facts in the history of Mongolia.

*The Cleavage
between Inner
and Outer
Mongolia*

The Manchu conquest of China in the seventeenth century was effected with the assistance of the Mongols in Manchuria; once established, the dynasty gradually extended its authority not only over its former allies, but also over the whole of Mongolia, although the Mongols always enjoyed the status of a privileged people, and control over the remoter tribes was probably seldom much more than nominal.

The Chinese revolution at the end of 1911 gave the Outer Mongolian princes the opportunity to realize their ambition to free themselves from China's increasing hold on their territory; and, in fact, even before the abdication of the Manchu Emperor in 1912, they had already declared their "independence." Russia then obtained the recognition by the new Chinese Republic of the autonomy of Outer Mongolia, Chinese suzerainty over which she herself recognized, while in actual fact increasing her own domination there. Of the complicated history of Outer Mongolia during the Bolshevik Revolution it is only necessary to say here that its final outcome was the establishment of an independent revolutionary Republic, based—at any rate in the initial stage—on the support of the Soviet Army. Although the U.S.S.R. professes to recognize China's sovereignty over Outer Mongolia, the latter is to all intents and purposes a Soviet protectorate.

The Inner Mongolian princes, on the other hand, failed to achieve autonomy, partly because inter-tribal jealousies prevented them from forming a solid bloc, either with the Outer Mongolian tribes or among themselves; partly because they were economically more dependent on China; and partly because many of their leaders saw more profit in independent negotiations with a weak and divided China than in fusion with an Outer Mongolia dominated by the U.S.S.R. Events proved them to be mistaken; defeat by Chinese troops was followed by a policy of railway construction and intensive colonization,¹ and finally, in 1928, by an administrative reorganization of the entire area into four provinces—Jehol, Chahar, Suiyuan, and Ningshia—each of which consisted of a Chinese base, or southern half, and a Mongol fringe in the north. By this policy of *divide et impera* it was hoped to obstruct the growth of Mongol nationalism.

This, roughly, was the situation in 1933, when Jehol was annexed

(1) It has been estimated that by 1931 about two-thirds of former Mongol territory had been colonized by Chinese in Jehol, and about one-third in Manchuria, as well as the greater part of Suiyuan. The Silingol territory, in Northern Chahar, was the only entirely uncolonized district.

to Manchukuo. From the point of view of further Japanese westward expansion it held obvious possibilities. Together with Manchukuo, Inner and Outer Mongolia formed a huge corridor between China proper and the Far Eastern territory of the Soviet Union; and while Japan's ultimate objectives in this area have never been explicitly stated, its strategic importance to her is clear, whether it be considered as a base for an attack on the U.S.S.R. or as a barrier cutting off China from Soviet influence and assistance against Japan. Although, after the conquest of Jehol—which was the threshold of this corridor—Japanese statesmen frequently disclaimed any further territorial designs, the events of the last four years have proved that they did in fact entertain them. The stages of Japanese penetration, first from Jehol into Chahar, and later into Suiyuan, have been described in another chapter,¹ and need not be recapitulated here.

A few words may be said, however, on the methods employed. These consisted in the encouragement of autonomist movements in those parts of Inner Mongolia which were still held by China, and in advertising the attractions of Mongol autonomy under the ostensibly nominal suzerainty of Manchukuo, by the establishment of a separate Mongolian province (Hsingan) in Manchukuo, with a Mongolian Governor and a preponderance of Mongol local officials. Thus the Mongol princes had now to decide whether they would be likely to obtain better terms from China or Japan. The matter was finally settled for them by the shortsighted and self-interested policy of the local Chinese provincial governors. The chief leader of the autonomist movement, the Silingol prince Teh Wang, appears at first to have been loyally disposed towards China; when, however, the Nanking Government agreed (in March, 1934) to the establishment of a Mongol Autonomous Political Council at Pailingmiao, with competence over the Mongol territories of Chahar and Suiyuan, the local officials did their best to prevent its effective operation, and attempted to enforce an alternative system of separate autonomous Mongol units within the existing provinces.

By the action of the Chinese provincial authorities the Mongol princes were thus virtually forced into the arms of the Japanese. In June, 1935, Prince Teh was induced to transfer the seat of the Political Council to the Japanese zone of influence, while early in 1936 another Mongol leader, General Li Shou-hsin, set up a new Autonomous Mongol State under the aegis of Japan, with headquarters at Changpei, on the Chahar-Suiyuan border, from whence he proceeded in November, 1936, to invade Suiyuan, assisted by Japanese officers, tanks, and aeroplanes. The Chinese Governor of Suiyuan countered by organizing a rival Mongol Autonomous Council for his province, energetically repelled the invasion, and gained several months' respite from further attack. In October, 1937, however, Japanese and Manchukuoan

(1) See above, Part II, Chapter III.

troops, assisted by Prince Teh's levies, overran Northern Chahar and Suiyuan, and on October 23 the inhabitants of the latter issued a manifesto declaring their independence. Reports reached Peking on October 28 that an "autonomous Government of Inner Mongolia" had been established at Kweihwa, the capital of Suiyuan. The new State, which apparently included Northern Chahar and most of Suiyuan, was reported to have been voted into being by a national assembly of 500 delegates claiming to represent three million Mongols and 500,000 Chinese. Prince Teh, the deputy Chief Executive of the new State,¹ was reported to have declared that the Mongol people were under the leadership of Japan, and that they must build up a new nation to help Asia to cast off the white man's yoke and resist Communism. Thus Japan has already succeeded in outflanking considerably more than half of the Outer Mongolian frontier; it remains to be seen whether she will finally establish a foothold in Ningshia, which is the westernmost province of Inner Mongolia.

*Outer
Mongolia*

Under the Chinese régime the Outer Mongolian frontier had never been very clearly defined, and it appears that by a secret Sino-Russian exchange of Notes in 1915 a nomad zone had been created, with a view to the avoidance of incidents and the prevention of Chinese agricultural colonists from passing over into Outer Mongolian territory.² With the establishment of the State of Manchukuo, Outer Mongolia was confronted by a new neighbour; and the outbreak of frontier disputes in the region of Lake Buir Nor in 1935 was made the occasion for Japanese demands that the Outer Mongolian policy of isolation should be abandoned. To quote a statement made by the Japanese Foreign Office spokesman on July 24, "Manchukuo is knocking at the door as Commander Perry eighty years ago knocked at the doors of Japan." At a tripartite conference for the settlement of border disputes, begun at Manchuli on June 3, the Japanese delegation was reported to have put forward a series of proposals for the establishment of a Manchukuoan military mission in Outer Mongolia, the opening of diplomatic relations, and the establishment of a telegraph line between the two countries. Since the Mongolian concessions were limited to the setting up of a joint frontier commission, and permission for resident Manchukuoan agents to reside near the frontier for the sole purpose of settling frontier disputes, the conference broke up in November without achieving any result. Its dissolution was followed in December, on the one hand, by a series of serious clashes on the frontier, and the exchange of notes of protest and accusation between the Mongol and Manchukuoan Governments; and, on the other, by a visit of the Mongol Prime Minister and Foreign Minister to Moscow.

(1) A pro-Japanese Mongol, Prince Yun, an old man of 71, was chosen as the head of the State.

(2) See G. M. Friters: "The Development of Outer Mongolian Independence," *Pacific Affairs*, September, 1937.

Throughout the spring of 1936 there was continuous border fighting in which both Japanese and Soviet forces took part; negotiations between the Soviet Consul-General in Harbin and the Deputy Foreign Minister of Manchukuo broke down in February; and in an interview with an American newspaper proprietor, on March 1, M. Stalin made an important statement to the effect that, if Japan attempted to destroy Outer Mongolia's independence, the U.S.S.R. would come to the latter's assistance "in the same way as we helped it in 1921." At the end of March the Japanese Foreign Office requested information on the exact relationship between the U.S.S.R. and Outer Mongolia, inquiring whether the latter was to be considered as a part of Russia, or as a protectorate, or whether there was a military alliance obliging the Soviet Union to come automatically to her assistance. They were then informed that on March 12 the U.S.S.R. and Outer Mongolia had signed a protocol by which the former undertook to assist Outer Mongolia. The text of this protocol, which was published on April 8, revealed the existence since November, 1934, of a Gentleman's Agreement between the two Powers, which was now put into writing; it was to have effect for ten years, and provided that, in the event of a menace of attack upon the territory of either party by a third State, the two Governments would immediately consult together and take "all measures necessary for the protection and security of their territories," and, in the event of military attack, would render each other every assistance, including military assistance; it was stipulated, however, that troops of either Power in the other's territory should withdraw as soon as the emergency had ceased. The announcement of the Agreement aroused the resentment not only of Japan, but also of China, who, in a Note of April 7, protested that it was a violation of the Sino-Soviet Treaty of May, 1924, in which the U.S.S.R. had recognized Chinese suzerainty over Outer Mongolia. M. Litvinov, however, denied that it implied any infringement of Chinese sovereignty or any territorial claim, and reaffirmed the validity of the Treaty of 1924.

Since the publication of the Protocol there have been fewer border incidents, although in January, 1937, the Tass Agency reported the invasion of territory in the region of Buir Nor to a depth of twenty-five miles by Manchukuoan forces supported by Japanese aeroplanes. Since the Manchuli conference the question has from time to time been revived of forming joint commissions for the demarcation of the frontier and the adjudication of disputes, but the Soviet Government takes the view that the frontier is already sufficiently well-defined, while the Japanese maintain that responsibility for the settlement of frontier disputes is the concern solely of the Mongolian and Manchukuoan Governments.

Handwritten notes and dates at the bottom of the page:

- 1924
- 1945
- 1930
- Handwritten text: "Sino-Soviet Treaty"
- Handwritten numbers: "12", "13", "11", "11", "11"

V. DEVELOPMENTS SINCE THE OUTBREAK OF HOSTILITIES

1. THE COURSE OF THE WAR

After the outbreak of hostilities at the end of July Japanese troops rapidly occupied Peking and Tientsin, gaining control of the surrounding railway lines and the important junctions of Lukouchiao and Fengtai—(where the main lines to Hankow and to Tientsin and Pukow [Nanking] join the Peking system)—thus commanding all the approaches by railway from the south. The consolidation of the position at Peking and the defence of the western flank required, however, complete control of the area to the north and west, including the important Nankou pass on the railway to Kalgan, generally described as the gateway to the Mongolian plateau. The pass was taken on August 24, and Kalgan itself occupied two days later.

With control of the north secured, the main advance began. This took the form of a parallel southward drive by two forces down the two railway lines leading from Peking (via Paoting, Chengting, Chengchow) to Hankow, and from Tientsin (via Tsangchow, Tsinan, and Suchow) to Pukow. Simultaneously operations were pushed on in the north-west by forces advancing along the railway from Kalgan to Tatung, Suiyuan, and Paotow in Inner Mongolia.

The southward drive resulted in the taking on September 24 of Paoting on the Peking-Hankow line and of Tsangchow on the Tientsin-Pukow railway. On October 3 Tehchow, situated on the latter line and on the border of Shantung, and on October 6 Pingyuan, only fifty miles north of Tsinan, the capital of the province, were occupied. By the middle of November the Japanese forces had reached the Yellow River.

The advance along the Peking-Hankow line was slower, but the important strategic and railway centres, Chengting and Shihchiachwang (the junction for the line running west to Taiyuan), were occupied after very little opposition on October 8 and 10, while Shunteh and Changteh were entered on October 16 and November 4.

Meanwhile, in the north-west one force consisting chiefly of Mongolian troops under Prince Teh Wang, having taken Pingtichuan on September 24, was advancing on Suiyuan City, which was occupied on October 14, Paotow falling two days later. Another force consisting of Japanese troops occupied Tatung on September 13 and, after a detour north-west of the Inner Great Wall, drove the Chinese back from the Yenmen pass and developed a third line of southward advance into the plains of North Shansi. Yuanping was entered on October 7 and Taiyuan on November 8.

During those months operations had been proceeding at Shanghai,

where fighting began on August 13. It was not until September 11 that the Japanese made a serious breach in the Chinese line, forcing a withdrawal to new positions. The new Chinese positions running from Chapei north-west through Tazang, south of Lotien to Liuho, were consolidated by September 14. The main significance of this re-alignment was the withdrawal of the Chinese from the sector east of the Shanghai-Woosung railway; this enabled the Japanese to establish a continuous line between Woosung and Yangtzepoo, making possible the launching of a general Japanese offensive. A further advance was held up for some days by heavy rain, but on October 2 the Chinese were forced to evacuate Liuho and the Japanese began their drive westwards to Kating, the key position of the Chinese second line of defence, and south-westwards to Tazang. The latter was eventually captured on October 26, forcing the Chinese to withdraw from the Kiangwan race-course salient and from Chapei. Although the Chinese held Soochow Creek for some days their position was rapidly becoming untenable. The Japanese were landing in force to the south in Hangchow Bay, and in order to avoid being surrounded the main Chinese forces retreated from the Soochow Creek and Pootung areas on November 9.

The military situation at the end of 1937 may be summed up as follows: *In the north-west* the Japanese were in control of the eastern part of Inner Mongolia, i.e. the northern part of Chahar and most of Suiyuan. On November 22 an organization was set up at Kalgan to form the nucleus of a government for Inner Mongolia, to cover Chahar, Suiyuan, and the so-called "Federated Banners in Inner Mongolia." *In the north* the Japanese had occupied Hopei, northern Shansi, and those parts of Shantung and Honan which lie to the north of the Yellow River. At Changteh an autonomous government for Honan was inaugurated on November 27, while a similar government for Shansi was established on December 11 at Taiyuan. A Peace Maintenance Commission was set up in South Hopei and North Shantung on December 11, and on December 14 a "Provisional Government of the Chinese Republics" was proclaimed in Peking, incorporating the East Hopei Autonomous Government and the Peking-Tientsin Joint Peace Maintenance Commission. *In the Yangtze region* the forces operating at Shanghai had driven the Chinese back into the interior, occupying Nanking on December 15 and controlling the Yangtze River from Wuhu to the sea. *In the south* movements of Japanese warships and troopships were reported.

Throughout this period, and especially in September, aerial raids on strategic centres and railway junctions were frequent, and in November and December cities as far inland as Sianfu and Changsha were bombed. In particular the Japanese appear to have aimed at interrupting railway communication between Kowloon and the main line north from Canton to Hankow and the Yangtze.

On the sea a blockade of the Chinese coast was declared, and certain important islands, e.g. Pratas shoals and Chikkai islands, were occupied.

2. INTERNATIONAL REACTIONS

*Action taken
by the League*

On September 12, 1937, the Chinese Government appealed to the League of Nations, invoking Articles 10, 11, and 17 of the Covenant. This appeal was referred by the Council to the Far-Eastern Advisory Committee (set up in February, 1933, to follow developments in the situation), which decided on September 21 to invite Australia, China, Germany, and Japan to be represented; the two latter, however, declined this invitation. When the Committee met again on September 27 it adopted a resolution solemnly condemning "the aerial bombardment by Japanese aircraft of open towns in China" and declaring that "no excuse can be made for such acts, which have aroused horror and indignation throughout the world." The Assembly adopted the resolution as its own on the following day.

The Committee adopted two reports on October 5. The first reached the following conclusion:

"After examination of the facts laid before it, the Committee is bound to take the view that the military operations carried on by Japan against China by land, sea, and air are out of all proportion to the incident that occasioned the conflict; that such action cannot possibly facilitate or promote the friendly co-operation between the two nations that Japanese statesmen have affirmed to be the aim of their policy; that it can be justified neither on the basis of existing legal instruments nor on that of the right of self-defence, and that it is in contravention of Japan's obligations under the Nine-Power Treaty of February 6, 1922, and under the Pact of Paris of August 27, 1928."

The second contained recommendations. "It cannot be admitted," the report stated, "that the present conflict . . . is one which can as of right only be settled by direct methods between the Chinese and Japanese Governments." Nevertheless, "before examining other possibilities efforts must be made to secure the restoration of peace by agreement." It was, therefore, recommended that the Assembly should invite those Members of the League who were signatories of the Nine-Power Treaty to initiate "the full and frank communication" for which it provided.

*Assembly
Resolution*

The Assembly on October 6 adopted these reports, and also a draft resolution recommending that "Members of the League should refrain from taking any action which might have the effect of weakening China's powers of resistance, and should also consider how far they can individually extend aid to China." The President was authorized to issue the necessary invitation to League States for a conference of signatories of the Nine-Power Treaty; Japan in consequence was not invited at this stage.

Following conversations between London and Washington, the Belgian Government, at the suggestion of the latter, was approached with a view to the possibility of holding the conference at Brussels.

The suggestion was accepted on October 15 and invitations were issued from Brussels, at the request of the United Kingdom Government and with the approval of the United States Government, to all the signatories, including Japan and subsequent adherents to the Nine-Power Treaty.

The Japanese Government declined the invitation in a Note dated October 27 and issued an explanatory statement. The Note referred to the League Resolution, which had failed to take into account "the just intention of the Imperial Government" and had cast reflections upon the honour of Japan. In such circumstances, and with so many Powers with varying interests participating, the full and frank communication provided for by the Treaty could not be expected. Moreover, the suggestion of a conference had emanated from the League, of which Japan was no longer a Member. The accompanying statement reviewed the history of Sino-Japanese relations since 1912 and denounced the anti-foreign and pro-Russian policy of the Kuomintang since 1924, and the "anti-Japanese" feeling of the Nanking Government, which the intervention of the League and other Powers only seemed to encourage. The infiltration of Communist influence, and changes in the internal conditions in China, had radically altered the situation since the Nine-Power Treaty was signed. Japan did not look upon the Chinese people as an enemy, nor did she harbour any territorial designs upon China. It was Japan's desire to promote co-operation with foreign Powers, fully respecting their rights and interests in China. On the following day Germany and the U.S.S.R., neither a signatory of the Pact, were invited to participate, the latter alone accepting.

At the opening session of the Conference on November 3 the Chairman and subsequent speakers stressed their desire for the collaboration of Japan in their search for a settlement of the conflict by "peaceful processes," and emphasized their direct interest in the restoration of stable conditions in the Far East. The Soviet and Italian delegates were sceptical, for different reasons, as to the usefulness of the conference.

*The Brussels
Conference*

After the suggestion of a small mediation committee had failed to secure acceptance, the Conference decided to address a final appeal to Japan for her participation, which was despatched on November 6. This answered the various objections put forward in the Japanese Note and Statement of October 27 and reasserted the right of the other signatories of the Nine-Power Treaty to exercise their right to consult together. To this appeal the Japanese Government replied on November 12, regretting that nothing had been said to enable them to modify the views previously communicated. Action taken in self-defence did not, they maintained, come within the scope of the Nine-Power Treaty. They could not take part in a meeting based on the provisions of the Treaty so long as they were accused of violating its terms. The origin of the conflict was to be found in conditions peculiar

to the Far East, and intervention by third parties would merely excite public opinion and make a solution more difficult. The Powers were asked to make their contribution to stability in East Asia in conformity with the real situation. They were assured that their rights and interests would be respected.

The conciliatory efforts of the Conference having thus been re-buffed, it turned to the drafting of a long declaration which was adopted on November 15 by fifteen votes to one (Italy), with Denmark, Norway, and Sweden abstaining. The declaration reasserted the existing obligations of Japan and declared that there was no warrant in law for the Japanese aim to change by armed force the policy of China. There was little hope of a just and reasonable settlement from direct negotiation between the parties. In the circumstances the Powers must consider their common attitude "in a situation where one party to an international treaty maintains, against the views of all the other parties, that the action it has taken does not come within the scope of that treaty, and sets aside provisions of that treaty which the other parties hold to be operative in the circumstances."

The Conference was adjourned on November 24 *sine die*, after the adoption of a report containing an outline of its work and a further declaration. The latter reiterated the general principles enunciated in previous declarations, regretting that the strenuous efforts to promote conciliation and Japanese co-operation had failed, reaffirming the Nine-Power Treaty, stating that force could provide no lasting solution and calling for a suspension of hostilities. Finally, provision was made for recalling the Conference should the Chairman or members so recommend.

3. THE FUTURE LINES OF JAPANESE POLICY

At the end of the year there were few clear indications of the immediate aims of Japanese policy. The authoritative statement, therefore, made by Prince Konoe, the Prime Minister, to the press on November 28 assumes some importance. The principal points of his long statement have been summarized¹ as follows:

(1) Japan did not object to neutral Powers offering their good offices to bring about direct negotiations with China, but could not accept third-party participation in negotiations.

(2) Japan's terms of peace had not yet been formulated; her aim was a fundamental re-adjustment of Sino-Japanese relations; if Nanking reorientated its policy on the basis of co-operating with Japan, Japan was ready to negotiate with General Chiang Kai-shek or the Kuomintang, but if the Chinese continued their resistance the war would go on until they had been crushed.

(3) Prolongation of the war might lead to the appearance of local régimes with which Japan could co-operate²; if one of these régimes should control half

(1) *The Times*, November 29, 1937.

(2) For details of various local and autonomous governments set up in November and December, 1937, see above, p. 81.

of China as Franco controlled half of Spain, Japan might recognize it as the national Government.

(4) Japan at present did not intend to declare war; if military supplies continued to reach China that decision might be altered.

(5) The initial stage of the war was over; the next question was whether Japan would advance to Nanking¹; some circles favoured an advance to Hankow to cut off military supplies sent inland from Hong Kong.

(6) Japan had at present no concrete plan for settling the Shanghai situation; it might become necessary to take military control, but everything depended on the other side.²

(7) Japan might at a suitable time propose either the revision or abrogation of the Nine-Power Treaty. This should have been done some years ago when Japan announced that Far Eastern Affairs should be settled without Western intervention, but it was not a matter of immediate concern.

(8) Members of the Cabinet Advisory Council favoured the creation of an independent régime in North China, and it might appear about January. The Cabinet had been asked to send political and economic advisers.

(9) In Shantung they were waiting until things fell into their hands. Tsingtao, the port, would in future be very important in connection with Sino-Japanese co-operation in North China.

(10) Soviet Russia was not at present acting against Japan. If the elections consolidated Stalin's power, they would have to wait and see whether the Soviets would provoke Japan or turn their attention elsewhere.

for Japanese advance in China during the
years 1938, 1939 and 1940, see Hishida-
Japan Army of the Great Power (1940)
Univ. Library 327.52 pp. 363-388.
#623

Prince Kono's statements about New order
in East Asia or Japan's responsibility in
East Asia, November 3, 1938 (Hishida, p. 363)
and December 22, 1938 (Hishida, pp. 366-367)

The earlier statement of Japanese policy
- "immutable policy toward China" January
15, 1938, (Hishida, pp. 364-365)

(1) Nanking was occupied on December 15.

(2) For statements by the Japanese Commander-in-Chief at Shanghai, see below, Part IV.

PART III

ECONOMIC FACTORS IN CHINA, JAPAN, AND MANCHUKUO

ECONOMIC CONFLICT

This Paper is not directly concerned with the economic conditions of China or Japan. There are, however, certain economic questions which are very relevant to the present war, and demand brief consideration.

For instance, is Japan over-populated? Is she dependent on foreign supplies of foodstuffs and/or industrial raw materials? How far could Manchukuo and China take Japan's emigrants or supply her material requirements? What other countries are affected by their trade, shipping, or investment interests in the Far East? This raises the question of Japan's vulnerability to external pressure. Finally, how great is the financial strain to which both Japan and China are being subjected?

The pages which follow, therefore, examine the following subjects with special reference to Japan: (1) Population and migration; (2) Supply of foodstuffs and raw materials; (3) Foreign trade, shipping, and foreign investments; (4) Budgets, debts, balances of payments, and currencies.

One word of warning is an essential preliminary to any such analysis. In the case of Japan the facts and figures given below tell the story more or less as they would in the case of a European country. But in the case of China the size and diversity of the country, the political and economic decentralization, the lack of communications, and the relatively slow adoption of modern Western methods in government, finance, etc., mean that statistics give only a small part of the picture and are capable of giving an erroneous impression of the real state of affairs.

1. POPULATION AND MIGRATION

The population of Japan proper has doubled in sixty years, rising from 31,000,000 in 1872 to 70,000,000 to-day. This expansion was due primarily to a rising birth-rate, for the death-rate showed a definite increase until 1923. Since 1920 the birth-rate has shown a tendency to fall; but the death-rate has fallen still more rapidly. Hence the population is still expanding by just under 1,000,000 per annum,¹ and is expected to reach at least 80,000,000 and possibly 100,000,000. This will mean an addition to the working population (that is to say, of men and women between fifteen and sixty years of age) of approximately 500,000 per annum. These estimates may possibly be invalidated by a

(1) By contrast, the net increase of the population of the United Kingdom in 1936 was only 140,000, and is expected in a few years to be replaced by a net decrease.

*Limitations
of Chinese
Statistics*

*Growth of
Japanese
Population*

widespread extension of birth control. Contraceptives are, however, already manufactured as well as sold in Japan; and although there have been occasional prosecutions for the sale of birth control literature and appliances under the Peace Preservation Act, official opposition to birth control has gradually weakened. In 1931 a Minister declared that it was a personal matter, and that the Government would neither oppose nor encourage it.

The density of population in Japan is actually less than in Belgium, the Netherlands, or Great Britain. But the only really comparable figures are those relating population to *arable* land. On this basis the ratio for Japan is exceptionally high, since only one-fifth of her total area is cultivable.

*Density of
Population*

DENSITY OF POPULATION PER SQUARE MILE OF ARABLE LAND¹

Japan	2,774
United Kingdom	2,170
Belgium	1,709
Italy	819
Germany	806
France	467
U.S.A.	229

One-third of the Japanese population lives in cities,² 25 per cent in cities with over 100,000 inhabitants.³ But the pressure on the land is very great. The average farm is only 2½ acres in size; and it is generally agreed that Japan is suffering from agricultural over-population.

The annual number of emigrants from Japan to foreign countries (chiefly Brazil) in the ten years 1925-34 averaged only 20,000. Moreover, the number of returning emigrants averaged 14,000. These figures do not include emigration to the Japanese colonies nor, apparently, to Manchuria. But the total number of Japanese living outside Japan is under 2,000,000. Of these the bulk are distributed as follows:

*Emigration
from Japan*

JAPANESE RESIDENTS OUTSIDE JAPAN ⁴			
Korea ..	561,000	Brazil ..	173,000
S. Sakhalin ..	305,000	Hawaii ..	151,000
Formosa ..	264,000	U.S.A. ..	147,000
Kwantung ..	160,000	China ..	56,000
Manchukuo ..	340,000 ⁵		

Two main factors go far to explain the comparatively small numbers of Japanese emigrants. The Japanese have been excluded from countries with a higher standard of living (notably the United States and the British Dominions) whilst they have been unable to compete as agriculturalists in territories with a lower standard of living. The

(1) *Lytton Report*, p. 112.

(2) The chief cities are Tokyo (5,875,000), Osaka (2,990,000), Nagoya (1,083,000), Kyoto (1,081,000), Kobe (912,000), and Yokohama (704,000).

(3) This may be compared with the proportion in the case of the United Kingdom (45 per cent), Germany and the United States (30 per cent), Italy (17 per cent), and France (16 per cent).

(4) Figures from *Japan-Manchukuo Year Book*, 1937.

(5) Of whom 190,000 were in the S.M.R. Zone.

fact that the Japanese population of Manchukuo (including Kwantung) has doubled since 1931 to a total of 500,000 does not disprove this statement, for virtually all the Japanese in Manchukuo are business men, soldiers, or officials. An ambitious plan for the settlement of 1,000,000 families on the land in twenty years has been announced. But the actual number of agricultural emigrants to Manchukuo since 1931 has been 5,000.¹

*Immigration
into
Manchukuo*

There is undoubtedly room for further agricultural settlement in Manchukuo. Only 15 per cent of the total area is at present cultivated; and it is estimated that a further 19 per cent is cultivable. It is, however, arguable that the natural immigrants would be Chinese and to a minor extent Koreans, for more than a third of the 30,000,000 or more inhabitants of Manchukuo are immigrants from North China; whilst there are approximately 700,000 Koreans in the country.²

*China's
Population
Problem*

Emigration to Manchuria was, in fact, for thirty years the great safety-valve for the congested areas of North China (Shantung and Hopei), reaching a peak of nearly 1,000,000 in 1927. For China has a population problem possibly even more acute than that of Japan. It is true that the population of China is more or less stationary at something over 400,000,000, or approximately one-fifth of the human race, but this is simply because the pressure of natural conditions keeps the death-rate high. In fact, "it is possible, if not likely, that the population of China is at or near the Malthusian limit."³ The population of China is very unevenly distributed, there being six areas of high concentration, namely: the great plain of North China, the Yangtze delta, the Canton delta, the Red Basin of Szechwan, the coastal fringe between the Yangtze and Canton deltas, and the basin of Hupeh.⁴

*Emigration
from China*

During the last ten years about 200,000 emigrants are thought to have left China annually, but since 1930 roughly the same number have returned. The total number of Chinese residents abroad in 1936 has been estimated at 7,900,000, of whom 2,500,000 were in Siam, 1,700,000 in British Malaya, and 1,200,000 in the Netherlands East Indies.⁵ This concentration in tropical regions is at least partly due to the restrictions placed on Chinese immigration elsewhere. For it is particularly true of the Chinese that "if non-Europeans and especially Asiatics had not been kept out of the United States and the British Dominions they would have entered in very large numbers. By this time the population of the western sea-board of North America would have been largely Asiatic."⁶

(1) For details see *Mitsubishi Monthly Circular*, June 1937.

(2) Figures from *Japan-Manchukuo Year Book*, 1937.

(3) *World Population*, by A. M. Carr-Saunders, p. 290.

(4) The chief cities are Shanghai (3,490,000), Peking (1,556,000), Tientsin (1,292,000), Nanking (1,019,000), Canton (861,000), and Hankow (778,000). *Statesman's Year Book*, 1937.

(5) *Chinese Year Book*, 1936-7.

(6) A. M. Carr-Saunders, *op. cit.* p. 190.

It appears, therefore, that both Japan and China are suffering from agricultural over-population. There is room for settlement in Manchukuo. It might be argued, however, that the natural immigrants are not the Japanese but the Chinese. In any case no more than a fraction of the growth in the Japanese population can possibly be counter-balanced by emigration. The only real solution of the Japanese population problem lies in industrialization. But industrialization can only be undertaken if adequate supplies of foodstuffs and raw materials are available.

Summary

2. THE SUPPLY OF FOODSTUFFS AND RAW MATERIALS

Japan is not by any means a fully industrialized country; 45 per cent of the population is still engaged in agriculture, compared with 7 per cent in Great Britain. Only 20 per cent are engaged in industry, compared with 40 per cent in Great Britain. Moreover, the numbers engaged in commerce are exceptionally high (17 per cent). This is partly due to the superabundance of retail shops in Japan, but also to the prevalence of cottage industries, whose materials are supplied, and whose products are collected, by middle-men. The fact of the matter is that "Japan in her industrial development is a mixture of eighteenth and twentieth century England, having missed the nineteenth century phase."¹ Over half of those engaged in industry work in factories with less than five workers; and Japanese industries are predominantly light industries, nearly half of the industrial workers being engaged in the manufacture of textiles alone. Heavy industry is very unevenly developed. Shipbuilding and armaments production are fairly well advanced. But Japan scarcely exports any heavy industrial products. Indeed, in certain directions she is still very dependent upon imports—notably in regard to the machinery required for making machinery, to automobiles, and to aeroplane engines. Moreover, the practice of manufacturing and even assembling complicated metal products in domestic workshops makes for cheapness rather than efficiency.

Japanese Industry still in early stages

In striking contrast with these backward features, Japan has missed out the stage of capitalist competition. The control of industry has been concentrated from the start in the hands of the great Zaibatsu or "wealth-cliques," consisting of small groups of families with enormous interests in every branch of banking, insurance, industry, and commerce. Of these, Mitsui is said to control about 25 per cent of the capital invested in Japanese joint-stock companies, whilst Mitsubishi, Sumitomo, and Yasuda control a further 35 per cent.² The only great industry not dominated by the Zaibatsu is cotton-spinning, for their influence is far wider than their direct or indirect control of particular concerns. In the first place, they control the credit machinery of the

Concentration of Control

(1) Freda Utley, *Japan's Feet of Clay*, p. 215.

(2) "The Resources of Japan," *The Times*, September 8, 1937.

country. Secondly, through their trading companies they control the small producers and merchants. Thirdly, they dominate the cartels and associations which are prevalent throughout Japanese industry. Fourthly, they have a large influence on the political parties and the Civil Service.¹

Japan's Food Supply

Contrary to the general impression, Japan is virtually self-sufficient in foodstuffs. This is partly explained by the special nature of the Japanese diet. Over half of the total expenditure on food is accounted for by rice, of which Japan supplies 90 per cent of her requirements, whilst Korea and Formosa more than make good the deficit. In fact, the real problem is not one of a shortage but rather of a surfeit of rice. Soya beans, barley, and fish are the chief other items of diet. Japan supplies her own barley, and there is an abundant supply of fish in Japanese waters²; but some soya beans have to be imported. Sugar has also to be imported, but Formosa can provide a sufficient supply. Japan imports some wheat, but chiefly for re-export in the form of flour. On the other hand, a change of diet or a rise in the standard of living in Japan might require greatly expanded imports of wheat and also of meat and dairy products.

Manchukuo's Food Supply

At present, however, Japan's only serious deficiency is in regard to beans, and this can be met by imports from Manchukuo. For Manchukuo produces about 75 per cent of the world output of soya beans and is the only exporter of any significance. By contrast the other staple products of Manchukuo—millet and wheat—are primarily for local consumption. The output of wheat is not yet sufficient for local needs; sugar and rice are also imported into Manchukuo.

China's Food Supply

China is a considerable exporter of certain foodstuffs, notably eggs. Imports of foodstuffs (notably rice, wheat, and sugar) fluctuate violently according to world prices and to Chinese floods and harvests, and in some years are considerable.

Japan's Raw Material Supply

Japan's domestic production of coal is at present practically equivalent to her consumption. The coal is, however, expensive to mine and of inferior coking quality, whilst the reserves are definitely limited. For mineral oil Japan depends upon imports to the extent of over 90 per cent of consumption; of this a small part is supplied by the concession held by a Japanese company in North Sakhalin from the Soviet Government. Japan has made full use of her extensive water-power resources, so that she is now the sixth largest producer of electricity in the world.

Of the metals, iron is at once the most important and the most seri-

(1) Mitsui is particularly interested in foreign trading and mining; Mitsubishi in real-estate, shipping, shipbuilding, and engineering; Sumitomo in the heavy industries, especially non-ferrous metals; and Yasuda in banking and colonial enterprise. For further material on the Zaibatsu see "The Concentration of Economic Control in Japan" by Professor G. C. Allen, *Economic Journal*, June, 1937.

(2) Japan's fishing rights in Russian waters are of more political than economic significance.

ously lacking. Japan's total reserves are estimated to be no larger than one year's production in the United States. For the fiscal year beginning in 1937 it was officially estimated that Japan would have to import 73 per cent of her iron ore, 23 per cent of her pig iron, and 50 per cent of her large requirements of scrap iron.¹ Japan is an important producer of copper, accounting for 5 per cent of world output in 1935, but in the last few years approximately one-third of her requirements has had to be imported. She has also to import much of her manganese, tungsten, and zinc, and most of her tin, lead, nickel, and bauxite (the ore of aluminium). It should, however, be noted that Japan and Korea together account for nearly 4 per cent of the world production of both gold and silver.

Fertilizers are essential for Japan's intensive agriculture. Domestic supplies of synthetic nitrates and human excrement are available. But potash, phosphates, and soya bean cake are imported on a considerable scale.

The supply of textile materials is of outstanding importance for Japan. She produces 80 per cent of the world supply of raw silk, most of which is exported to the United States. On the other hand, she has to import practically all her raw cotton (production in Korea being negligible), and all her wool. The situation with regard to rayon pulp is less serious. More than half the area of Japan proper is covered by forests, whilst Formosa is also densely wooded. The fact that roughly one-quarter of Japan's heavy demand for timber for fuel, paper, rayon, and shipbuilding is met by imports is explained by the cheapness of foreign timber. Finally, for natural rubber Japan is completely dependent upon foreign supplies; and she has so far taken no steps to produce synthetic rubber.

The foregoing analysis goes far to explain why no less than 80 per cent of Japan's imports in 1936 consisted of raw materials and semi-manufactured goods, against only 12 per cent for manufactured goods and 8 per cent for foodstuffs.

*Nature of
Japanese
Imports*

Raw cotton alone accounts for over 30 per cent of the total value of imports. Raw wool and wood-pulp (chiefly for rayon) account for a further 10 per cent. Oil (7 per cent) and iron (6 per cent) are the chief other imports.

IMPORTS INTO JAPAN, 1936			
	<i>Million yen</i>	<i>%</i>	<i>Chief sources</i>
Raw cotton ..	850	31.0	U.S.A., India.
Raw wool ..	201	7.3	Australia. ²
Mineral oils ..	183	6.7	U.S.A., Netherlands India.
Iron ore ..	40	5.9	China, Australia, British Malaya.
Scrap iron ..	81		
Pig iron ..	42			U.S.A. India, Manchukuo.

See over.

(1) *Far Eastern Survey*, October 20, 1937.

(2) Owing to the trade dispute with Australia, imports of wool from South Africa have been nearly as large as from Australia during 1937, whilst imports from New Zealand and Argentina have also expanded markedly.

IMPORTS INTO JAPAN, 1936—*continued*

	Million yen	%	Chief sources
Fertilisers	105	3·8	India, Manchukuo.
Machinery and parts	91	3·3	U.S.A., Germany, Great Britain.
Drugs and chemicals	73	2·7	U.S.A., Germany, Great Britain.
Rubber	73	2·7	Netherlands India, British Malaya.
Wood-pulp	67	2·4	U.S.A., Norway, Sweden.
Soya beans	61	2·2	Manchukuo.
Timber	56	2·0	U.S.A., Canada.
Others	1,830	30·0	
	<u>TOTAL 2,753</u>	<u>100·0</u>	

*Nature of
Japan's
Exports*

Just as imports are dominated by raw cotton, so exports are headed by cotton piece goods (18 per cent of the total in 1936); and finished manufactures represent 60 per cent of the total value of exports. The export of cotton goods has expanded very rapidly, particularly since 1931, largely at the expense of Lancashire.

ANNUAL EXPORTS OF COTTON CLOTH¹

	(in million yards)	
	<i>Pre-War</i>	<i>Present-day</i>
Great Britain	6,500	2,200
Japan	250	2,750

Many factors combine to explain Japan's success. Japanese labour costs are at most one-fourth of any other major manufacturing country,² due partly to agricultural over-population and the employment predominantly of female and child labour; the yen depreciated further than other currencies after 1931³; Japan uses cheaper raw cotton than other countries; her cotton industry is more highly centralized; her machinery and plant is more up-to-date, and is usually run double shift, fairly long hours and more than six days a week.

The present dependence upon exports of cotton goods is to some extent being relieved by the production of other light industrial products for export—notably rayon, wool, and staple fibre manufactures, glass and porcelain, electrical apparatus, rubber goods, and tinned fish. But these too are beginning to meet with the quota restrictions which have already checked the expansion of Japanese cotton good exports to India, Netherlands India, those British Crown Colonies which are not pledged to maintain the Open Door, and practically every country in the world where Japanese competition has made itself seriously felt.

The fact that 30 per cent of Japan's exports consist of raw materials and semi-manufactures is largely explained by the importance of raw silk exports (15 per cent). The American market for raw silk is the Achilles heel of Japanese agriculture. For, since the War rice produc-

(1) "Self-Help in Lancashire," *The Times*, October 16, 1937. These figures refer to volume. In value, British cotton exports still considerably exceed Japanese.

(2) *The World Textile Industry*, I.L.O., 1937. Vol. I, p. 215. Chinese labour costs are considerably lower still.

(3) Since 1931 the yen has lost 65 per cent of its value, compared with only 40 per cent in the case of sterling and the dollar.

tion in Japan has really been subsidized by the profit on silk exports; and the collapse of the price of silk in 1934, when the value of the crop was one-fifth of that in 1929, even though the volume was the same, was the chief reason for the acute agrarian distress in Japan. Since 1934 the price of silk has recovered, but the danger of a new collapse in the demand for a luxury product remains.

EXPORTS FROM JAPAN, 1936			
	<i>Million yen</i>	<i>%</i>	<i>Chief markets</i>
Cotton piece-goods ..	484	18.3	India, Netherlands India, Manchukuo.
Raw silk	392	15.0	U.S.A.
Rayon piece-goods ..	149	5.7	India, Australia, Netherlands India, Kwantung.
Silk piece-goods ..	68	2.6	India, Great Britain.
Knitted goods, etc. ..	50	1.9	India, Great Britain, U.S.A.
Woollen piece-goods	46	1.7	Kwantung.
Iron and scrap ..	87	3.3	Kwantung, China.
Machinery and parts	82	3.1	Kwantung, China.
Tinned and bottled foods	71	2.7	Great Britain, U.S.A.
Potteries and glass ..	69	2.6	U.S.A., India.
Others	1,203	43.1	
TOTAL	2,701	100.0	

To what extent could Japan's raw material requirements be satisfied by the resources of firstly, Manchukuo, and secondly, China?

Manchukuo's staple product is the soya bean, of which she has hitherto been the only world supplier of any significance. Apart from its value as a foodstuff, the soya bean is a fertilizer (in the shape of bean cake) and an industrial raw material (for soap, candles, paints, varnishes, plastics, and even rayon).

One-third of Manchukuo is covered by forests, but these are not yet properly exploited, and there is still an import surplus of timber.

Manchukuo has extensive coal reserves, but only a small part consists of coking coal. The cost of production at Fushun, the chief source, is exceptionally low, since half the output is taken direct from open workings, and imports of Manchukuoan coal into Japan are restricted by quota. There are no known reserves of petroleum in Manchukuo, but at Fushun and elsewhere there is a layer of bituminous shale over some of the coal deposits from which oil can be extracted cheaply. Output is not yet of any significance relatively to Japan's oil requirements, but is potentially considerable.

Manchukuo has considerable reserves of iron ore, the material in which Japan is so strikingly deficient. But the iron content of the bulk of the ore is low (30-40 per cent). Moreover, coal has to be transported some distance to Anshan, the site of the chief enterprise (the Showa Iron and Steel Works); and it is doubtful whether production at Anshan has ever shown a profit. The bulk of the output is exported in the form of pig iron to Japan. These reserves could meet Japan's needs

*Manchukuo's
Raw
Material
Supply*

for a long time, provided that she was prepared to exploit them at a loss. The cost would be less if the metallurgical industry was developed in Manchukuo instead of Japan.

Salt is the chief other Manchukuoan product of potential importance to Japan.

*Nature of
Manchu-
kuoan Exports
& Imports*

Soya beans and their products account for just under 50 per cent of total exports. Coal (6 per cent) is also important; but pig iron represents only 1 per cent of total exports.

Cotton piece-goods (11 per cent) are the leading import, while silk manufactures (5 per cent) are also important. On the other hand, imports of raw cotton (3 per cent) reflect the beginnings of a domestic cotton industry.

But the striking feature of imports is the volume of capital goods—not less than 24 per cent of the total.

MANCHUKUO: COMPOSITION OF TRADE, 1936 ¹			
<i>Imports</i>	<i>%</i>	<i>Exports</i>	<i>%</i>
Cotton piece-goods ..	11.3	Soya beans	35.4
Metals and ores ..	7.3	Bean cakes	8.8
Vehicles and vessels ..	5.7	Bean oil	3.5
Machinery and tools ..	5.6	Coal	5.8
Silk manufactures ..	5.5	Millet	3.0
Sugar	4.5	Groundnuts	2.7
Wheat flour	3.9	Kaoliang	1.9
Raw cotton	2.7	Pig iron	1.0
Others	53.5	Others	37.9
	<hr/> 100.0		<hr/> 100.0

*China's Raw
Material
Supply*

China has very considerable coal reserves, part of which consist of coking coal. Four-fifths of the reserves are thought to be in Shansi and Shensi, but nearly 40 per cent of the present output is produced in Hopei, the Sino-British Kailan Mining Administration alone accounting for nearly 25 per cent. Chinese oil production is negligible. The output of electricity is also small, although expanding.

China's iron ore reserves are very much more extensive than those of Japan, and are of considerably higher iron content than the Manchurian ores; and it is widely thought that one of the main Japanese objects is to establish a heavy industrial base in North China. Nevertheless, China's reserves "must be termed very modest or even very scanty when her potentialities of industrial development are taken into consideration."² The bulk of the reserves are in Chahar and the Yangtze valley. At present, most of the ore is extracted in the Yangtze valley and exported direct to Japan. Pig iron production is very small and steel production negligible.

China produces over half the world output of tungsten and antimony, and 6 per cent of the world's tin—all of these in the south. Manganese production has very much declined in recent years. Other

(1) *Oriental Economist*, April 1937.

(2) H. Foster Bain, *Ores and Industry in the Far East*, p. 84.

metals may be present, but have not been exploited on any important scale.

China ranks third among the raw cotton producers of the world, producing 12 per cent of world output in 1936, against 39 per cent by the United States and 17 per cent by India. The chief producing districts are Kiangsu, Chekiang, Hunan, Hupeh, and the northern provinces. Production is expanding rapidly. The cotton is a coarse type of short staple, but efforts are being made to improve the quality by the introduction of American seed. China is also an exporter of wool, of which she produces about 3 per cent of the world output. Her silk production is second only to that of Japan.

China has suffered from excessive deforestation. Only 8 per cent of her total area is now afforested, and this is much too small for her needs.

Other important Chinese products include wood-oil, skins, bristles, eggs, and certain vegetable oil materials—notably groundnuts, sesame, rapeseed, and linseed.

Over half of China's imports consist of manufactured goods, although foodstuffs account for 13 per cent of the total. Her exports are for the most part industrial raw materials, foodstuffs, and semi-manufactures.

*Nature of
Chinese
Trade*

	<i>Imports</i> (1936)	<i>Exports</i> (1936)
	%	%
Foodstuffs	13	25
Raw materials	11	36
Semi-manufactures	21	23
Manufactured goods	55	16

Significant changes are visible in the nature of China's imports since 1933.¹ The fact that imports of rice and wheat were high in 1933 and low in 1936 is fortuitous; for these items always fluctuate violently according to world prices, floods, harvests, and American wheat loans. Imports of cotton goods, on the other hand, have shown a steady decline to about one-twentieth of their 1928 volume. As a consequence of the growth of a local cotton industry, cotton yarn imports are now "within measurable distance of extinction," whilst cotton piece-good imports "bid fair to follow the same course."² The decline in imports of raw cotton reflects the rapid development of domestic production, only long staple imports from Egypt being maintained.

*Nature of
Chinese
Imports*

The growth in the import of capital goods is explained by heavy investment in railways and industries. Competition is evident in this sphere between Germany, Japan, the United States, and Great Britain.

(1) Up till July 1932, Manchurian trade was included in the Chinese trade statistics.

(2) G. E. Hubbard, *Eastern Industrialization and its Effect on the West*, p. 190-1.

Mineral oils remain an important item, representing 9 per cent of total Chinese imports.

IMPORTS INTO CHINA			
	1933	1936	<i>Chief sources (1936)</i>
	%	%	
Metals and ores ..	7.2	11.5	Germany, Japan, Great Britain, U.S.A., Belgium.
Mineral oils ..	9.5	9.2	Netherlands India, U.S.A.
Machinery and tools	3.2	6.4	Japan, Germany, Great Britain, U.S.A.
Vehicles and vessels	2.7	5.6	U.S.A., Great Britain, Belgium, Germany, Japan.
Chemicals and drugs	3.8	5.5	Germany, Japan, Great Britain.
Metal manufactures	?	5.0	U.S.A., Germany, Japan, Great Britain.
Dyes, pigments, etc.	3.0	4.4	Germany, U.S.A., Japan, Great Britain.
Paper	3.3	4.1	Germany, Japan, Great Britain, U.S.A.
Raw cotton	7.3	3.8	India, U.S.A., Egypt.
Timber	2.8	3.1	U.S.A., Canada, Japan.
Rice	11.2	2.8	Siam, Indo-China.
Sugar	3.1	2.2	Netherlands India, Japan, Hong Kong.
Cotton goods ..	5.3	1.9	Japan, Great Britain.
Wheat and Flour ..	8.6	1.8	Australia.
Others	29.0	32.7	
TOTAL	100.0	100.0	

Nature of Chinese Exports

Amongst expanding exports wood oil (10 per cent) is a Chinese monopoly which has benefited from increased demand in the United States; but it is now threatened by production in that country itself. Half the metals and ores (8 per cent) consist of tin, the remainder of tungsten, antimony, and iron ore. Raw silk, silk piece-goods, cotton yarn and cotton piece-good exports all show falls.

A weak feature of China's export trade is the very great dependence of several commodities on single markets. Examples are wood oil (U.S.A.), eggs (United Kingdom), skins, hides, and leather (U.S.A.), and raw cotton (Japan).

EXPORTS FROM CHINA			
	1933	1936	<i>Chief Destinations</i>
	%	%	
Wood oil	4.9	10.4	U.S.A.
Metals, ores, etc. ..	5.3	8.0	Hong Kong (tin), Japan, Great Britain.
Raw silk & cocoons	9.4	6.3	France, Indo-China, India.
Eggs & egg products	6.0	5.9	Great Britain, Germany, U.S.A.
Skins, hides & leather	5.2	5.7	U.S.A.
Knitted goods, etc.	3.2	5.0	U.S.A.
Seeds & seedcake ..	3.1	4.8	Japan, U.S.A., Netherlands.
Tea	5.6	4.3	U.S.S.R., Morocco.
Raw cotton	4.9	4.0	Japan.
Hair, feathers, wool	3.5	4.0	Germany, U.S.A.
Bristles	1.9	3.6	U.S.A., Great Britain.
Groundnuts & products	3.9	3.2	Netherlands, U.S.A.
Cotton yarn	6.5	1.8	India, Hong Kong, Japan.

EXPORTS FROM CHINA—*continued*

	1933	1936
	%	%
Silk piece-goods ..	4.3	1.6
Cotton piece-goods	3.2	1.3
Others	29.1	30.1
TOTAL	100.0	100.0

Chief Destinations

Hong Kong, India.
British West Africa, Hong Kong,
British Malaya, Kwantung.

It thus appears that Japan's situation is very much more serious as regards industrial raw materials than as regards food-stuffs. But here again her difficulties are frequently exaggerated. The great majority of industrial countries share her lack of cotton, wool, petroleum, and rubber; while she has sufficient ordinary coal and nearly sufficient copper and timber. On the other hand, her deficiency in iron ore and coking coal is exceptionally pronounced and serious.

Combined Resources of the Far East

Only a fraction of Manchukuo's extensive coal reserves consist of coking coal; whilst her considerable low-grade iron ore resources can only be exploited at a loss. Manchukuo's oil shale and timber are of potential value. At present her great product is the soya bean.

China has abundant coal reserves, although it is not known what proportion consists of coking coal. Her iron supply is considerable, although not inexhaustible, and might form the basis of a Japanese steel industry situated in North China. China produces cotton and silk on a large scale, but her wool is not yet important. Tungsten, antimony, and tin are present in large quantities, and there is some manganese.

An economic bloc including Japan, Manchukuo, and China could, therefore, be fairly self-sufficient in coal, iron, cotton, timber, tin, tungsten, vegetable oils, and certain other materials. But it would be completely dependent on outside supplies of oil, wool, rubber, potash, bauxite, nickel, and certain other steel alloys, and partly deficient in copper, lead, zinc, and phosphates. In the long run, however, the lack of oil might be remedied by exploiting the oil-shale of Manchukuo, and the lack of wool by expanding the Chinese output.

Summary

The three best-endowed political units in the world are the United States, the U.S.S.R., and the British Empire. Of these the British Empire is strikingly deficient in petroleum and cotton, the U.S.S.R. (at present) in rubber, tin, bauxite, and nickel, and the United States in rubber, tin, manganese, and nickel, to name only the major gaps in each case.¹ Yet, judged purely in terms of resources the position of the Far Eastern bloc envisaged above, although not incomparable, would be definitely weaker than that of the United States, the British Empire, or, probably, the U.S.S.R.

(1) cf. *Raw Materials and Colonies*, p. 29. Information Department Paper, No. 18.

3. FOREIGN INTERESTS

The Powers with the greatest material interests in the Far East are Japan, Great Britain, and the United States. Japan monopolizes the trade and investments of Manchukuo, whilst her share in Chinese investments and shipping is second only to Britain's, and in Chinese trade second only to that of the United States. Britain, on the other hand, controls half the investments and nearly half the shipping in China. The British investments in Japan and share of the Chinese market are also important. American investments in China are only one-sixth those of Great Britain. The two countries' investments in Japan are more nearly balanced. But the chief American interest in the Far East is in trade—notably the sale of cotton, oil, and scrap iron, and the purchase of silk from Japan. It is interesting to note that the United States is primarily interested from a material point of view in Japan, whereas the great British stake is in China.

No other country has comparable interests in the Far East. But France has considerable investments in China, particularly in the French Concession at Shanghai; and Germany has doubled her share of the Chinese market since 1933. The Netherlands are chiefly interested in the sale of oil from the Netherlands East Indies.

(i) CHINA

Foreign Investments

It is naturally impossible to state the exact value of the foreign investments in China. The best available estimate, relating to the year 1931, places them at just under £500 millions.¹ This is Professor Remer's estimate, excluding his figure for foreign investments in Manchuria at that date (£160 millions). British investments account for nearly half (49 per cent) of the total. Japan accounts for a further quarter (24 per cent), followed by the United States and France (both 8 per cent). Belgian, German, Italian, and Dutch interests are considerably smaller.

FOREIGN INVESTMENTS IN CHINA, 1931²
(in £ millions)

	<i>Business Investments</i>	<i>Government Obligations</i>	<i>Total</i>	<i>%</i>
Great Britain	198 ³	46	244	49
Japan	74 ⁴	46	120	24
U.S.A.	32	9	41	8
France	19	20	39	8
Belgium	8	10	18	4
Germany	15	3	18	4
Italy	1	9	10	2

(1) C. F. Remer, *Foreign Investments in China* (Macmillan, 1933). It should be observed that Professor Remer interprets the term "foreign investment" in an unusually wide sense as including "all sources within China from which an income is received or is normally to be expected by persons who are not Chinese," regardless of whether the investor is or is not resident in China.

(2) Figures extracted from Remer, *Foreign Investments in China*, and converted at £1 = \$4.86.

(3) Including £18 millions invested in Hong Kong.

(4) Excluding Japanese investments in Manchuria, which amounted to £113 millions in 1931 and have since doubled.

FOREIGN INVESTMENTS IN CHINA, 1931—*continued.*

	(in £ millions)			
	<i>Business Investments</i>	<i>Government Obligations</i>	<i>Total</i>	<i>%</i>
Netherlands	2	4	6	1
Scandinavia	0·4	0·2	0·6	—
TOTAL	349·4	147·2	496·6	100·0

The Chinese Government obligations fall into four very distinct categories: (1) Loans secured on the Maritime Customs; (2) Loans secured on the Salt Gabelle; (3) Railway loans carrying the Government guarantee; (4) Unsecured loans.

*Government
Obligations*

(1) The service of the loans secured on the Customs has been maintained without any interruption.¹ The collection of Customs revenue and the prevention of smuggling are performed by the Chinese Maritime Customs.² The Inspector-General and other senior officials of the Maritime Customs have since 1854 been foreign (chiefly British) officials, who are, however, responsible to the Chinese Government. The service of the foreign loans secured on the Customs took £4,636,000 or 30 per cent of the total net Customs revenue in 1936. The first and third charges on this sum were the 4½ per cent Anglo-German Loan of 1898 (with just under £5,000,000 outstanding), and the 5 per cent Reorganization Loan of 1913 (with rather over £20,000,000 outstanding). The second charge (£2,288,000) is the service of the Boxer Indemnity Obligation.

*Chinese
Maritime
Customs*

The bulk of the Boxer Indemnity payments, however, do not have to leave China. Some of the countries concerned have abandoned their claims to a share in the Indemnity; whilst more, including Great Britain and the United States, have remitted their claims on condition that the funds released are devoted to cultural and constructive purposes. In fact, the only important portion which actually has to leave China is the French share (£806,000) which is used as security for the 5 per cent Gold Dollar Bonds of 1925, of which U.S. \$27,000,000 are outstanding. The total sum required for payment outside China of the service of the Customs Loans is thus not £4,636,000, but about £3,123,000.

Since July 1932 the Customs revenue from the Manchurian ports (including Dairen), which amounted to 11 per cent of the total in 1931, has not been made available for the service of the secured loans. Moreover, in the past few years smuggling of Japanese goods through North China has assumed very serious dimensions. It is estimated that the duty evaded on goods smuggled through East Hopei alone in 1936

(1) With the exception of a few weeks in 1914.

(2) In addition to collecting duties on imports and exports, the Chinese Maritime Customs (the name given to the Service on the overthrow of the Manchu monarchy in 1911) were charged with the collection of (a) duties on the coasting trade in foreign-built bottoms, whether Chinese or foreign owned; (b) tonnage dues on shipping; (c) transit duties exempting foreign imports from further taxation on removal inland. *China Year Book*, 1936, p. 68.

amounted to Chinese \$50,000,000, as against the total Customs revenue of Chinese \$325,000,000. Even more serious, particularly in view of the withholding of the Manchurian Customs revenue since 1932, is the situation created by the Japanese conquest of Shanghai, and of Tientsin and other northern ports. For Shanghai alone accounted for 46 per cent of the total Customs revenue in 1936, whilst Tientsin provided a further 11 per cent. Negotiations are still proceeding on this matter between the Japanese and the other foreign Powers interested in the Customs Loans.

CHINESE CUSTOMS REVENUE:
CONTRIBUTION OF PRINCIPAL PORTS

	1931	1936
	%	%
Shanghai	50.6	45.9
Tientsin	9.5	10.9
Hankow	3.9	7.3
Tsingtao	4.6	6.3
Canton	4.5	3.4
Kowloon	2.2	2.8
Chinkiang	0.8	2.5
Swatow	2.2	2.1
Dairen	5.1	nil
Harbin and other Manchurian ports	5.5	nil
Others	11.1	18.8
TOTAL	100.0	100.0

Salt Loans

(2) The record is not so good in respect of the Salt Loans—notably the Anglo-French Loan of 1908 (£500,000 outstanding), and a part of the Hukuang Railway Loan of 1911 (£5,600,000 outstanding). Temporary default on interest as well as amortization occurred in 1927-30. The net receipts of the Salt Gabelle have, however, risen steadily from Chinese \$54,000,000 in 1928 to Chinese \$205,000,000 in 1936; and the annual sum required for the service of the Salt Loans (£900,000) is under 8 per cent of the total revenue in 1936.

Railway Loans

(3) Of the total Chinese Government obligations Remer estimated that 35 per cent (approximately £50 millions) consisted of Railway Loans.¹ This total is thought to have increased by at least 250 million Chinese dollars (approximately £15 millions) in the past few years.² The 6,700 miles of railways in China (excluding Manchukuo) contrasts strikingly with the 254,000 miles in the comparable area of the United States; and an intensive programme of development has recently been undertaken, designed particularly to link up the south-western and western provinces with Nanking. Great Britain, Germany, France, and Belgium have participated actively in this programme, with Czechoslovakia and the United States playing minor parts, and Japan out of the

(1) Remer, *op. cit.* p. 135.

(2) "Railway Strategy in China: New Style," *Far Eastern Survey*, July 21, 1937, p. 169.

picture. This revival of interest in Chinese railway construction has been accompanied by a resumption of payment on some of the old railway loans, many of which have been in partial or total default for a number of years, on the basis of a scaling down of interest (although not of principal) and an extension of the period of repayment.

Over two-thirds of the foreign capital in China consist of business investments—chiefly foreign trading, manufacturing, real estate, banking and finance, shipping, mining, and public utilities.

Business Investments

The wide range of British interests in China is indicated by a mere list of some of the leading concerns involved: the great merchant houses of Jardine Matheson (whose many interests include the Ewo Cotton Mills and the Indo-China Steam Navigation Company), and Butterfield and Swire (controlling, amongst others, the China Navigation Company); the Hong Kong and Shanghai Banking Corporation; the Asiatic Petroleum Company (a subsidiary of Royal Dutch Shell); the Chinese Engineering and Mining Company (the British participant in the Kailan Mining Administration); the Peking Syndicate (which owns mines in Honan); the British-American Tobacco Company; Imperial Chemical Industries; the Shanghai Waterworks Company; the Shanghai Land Development Company; and various insurance companies.

Japanese capital is chiefly invested in shipping, cotton factories in Shanghai, and iron mines in the Yangtze Valley. Important American investments include the Shanghai Power Company, the Shanghai Telephone Company, the National City Bank, and carpet factories in Tientsin and Peking. One-third of the French total investments is accounted for by the Yunnan Railway, which is subsidized by the Government of Indo-China; other business investments are chiefly concentrated in the French Concession at Shanghai. The leading German concern in China is the Deutsch-Asiatische Bank.

No less than two-thirds of the total foreign business investments in China are invested in Shanghai. The chief creditor countries are as follows:

BUSINESS INVESTMENTS IN SHANGHAI¹

(in £ millions)			
Great Britain	..	..	152
Japan	..	..	44
U.S.A.	..	..	20
France	..	..	8

Germany and Belgium also have substantial, although smaller, investments in Shanghai.

The United States remains the chief source of imports into China (20 per cent), thanks primarily to her sharing the supply of mineral oils with the Netherlands Indies (8 per cent). Since 1933 Germany and Japan have advanced strikingly, Germany doubling her share from 8 per cent to 16 per cent, notable increases including sulphate of ammonia, iron and steel rails, and armaments, whilst Japan's share has

Source of Imports

(1) Remer, *op. cit.*

risen from 10 per cent to 16 per cent.¹ The United Kingdom has, nevertheless, maintained her position (12 per cent).² In fact, the recent development of China's railways and industries has benefited all the great industrial exporting countries. The countries which lost ground most strikingly between 1933 and 1936 were the suppliers of foodstuffs: Australia (wheat), Indo-China (rice), and Siam (rice). But this loss was largely ephemeral, caused by the exceptionally good harvest and the absence of floods in 1936. On the other hand, the decline in India's share of China's imports is a secular change due to the replacement of Indian by Chinese raw cotton supplies.

*Destination
of Exports*

It is not possible to discover the final destination of all China's exports, since 15 per cent of the total (particularly tin) goes to Hong Kong; and the bulk of this is re-exported, particularly to the United States. Quite apart from this factor, the United States takes 26 per cent of China's exports, nearly one-third of these consisting of wood oil. Japan is also an important market (15 per cent), notably for raw cotton, coal, and iron ore. China's chief other markets are the United Kingdom (9 per cent)—a third of this consisting of eggs and egg products, Germany (5 per cent)—chiefly eggs, wood oil, and wool, and France (4 per cent)—chiefly raw silk.

The United States and the British Empire together supply 41 per cent of China's imports and take 58 per cent of her exports. Japan supplies 16 per cent of her imports and takes 15 per cent of her exports.

CHINA: DIRECTION OF TRADE
(excluding trade with Manchuria)

<i>Imports from</i>	1933		1936		<i>Exports to</i>	1933		1936	
	%	%	%	%		%	%		
U.S.A.	22.0	19.6	U.S.A.	18.5	26.4				
Japan	9.7	16.3	Hong Kong	19.7	15.0				
Germany	8.0	15.9	Japan	15.7	14.5				
Great Britain	11.4	11.7	Great Britain	8.0	9.2				
Netherlands India	5.0	7.9	Germany	3.4	5.5				
Belgium	2.1	2.8	France	5.3	4.3				
India	5.4	2.6	India	4.7	2.6				
Canada	1.8	2.1	Netherlands	2.0	2.3				
Siam	4.6	1.9	British Malaya	2.2	2.2				
France	1.8	1.9	Indo-China	0.7	1.4				
Indo-China	5.6	1.9	Korea	2.9	1.4				
Hong Kong	3.3	1.9	British Empire	36.0	31.9				
Australia	6.4	1.7							
British Empire	30.7	21.5							

Shipping

84 per cent of the Open Port trade is handled by British (40 per cent), Chinese (27 per cent), and Japanese (17 per cent) steamships. No other country's share exceeds 3 per cent of the total. Roughly two-thirds of the trade are domestic trade, the remaining one-third being foreign trade. Great Britain actually has a larger share of the domestic than of the

(1) It should be remembered that an anti-Japanese boycott was in force in China in 1933.

(2) Since 1911, however, Great Britain has dropped from first (16 per cent) to fourth place as a supplier of imports, excluding Hong Kong.

foreign trade, but other foreign countries are chiefly interested in the foreign trade.

SHIPPING ENTERED AND CLEARED AT CHINESE OPEN PORTS
(1936)¹

	Foreign Trade %	Domestic Trade %	Total Trade %
British	35.7	41.3	39.5
Chinese	8.7	35.5	27.1
Japanese	20.8	15.5	17.2
Norwegian	4.3	2.6	3.1
American	6.9	0.6	2.6
German	4.3	0.7	1.8
Dutch	3.1	1.1	1.8
French	2.7	0.4	1.1
Danish	1.8	0.4	0.8
Portuguese	2.0	0.2	0.7
Others	9.7	1.7	4.3
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

(ii) MANCHUKUO

In 1932 the Lytton Commission reported that Chinese investments in Manchukuo "far exceed all others in importance."² This Chinese property consisted primarily of land, but also of railways, coal mines, forests, banks, public utilities, factories, shops, and trading organizations. The large Chinese investments were for the most part either official property or privately owned by officials; and in practice the bulk of them has been taken over by the Japanese or Manchukuoan authorities.

Of the more strictly "foreign" investments, probably over 90 per cent are Japanese. According to the estimates of the South Manchuria Railway, Japanese investments in 1931 amounted to 1,716 million yen,³ and have since expanded by 1,166 million yen,³ giving a total equivalent to nearly £170 millions. More than half of this total is under the control of the South Manchurian Railway Company, which, in addition to a large railway system, controls harbours, coal mines, steel works, public works of various kinds, and a wide range of industrial and commercial companies whose shares, in whole or in part, it holds. The South Manchurian Railway Company is, of course, a purely Japanese concern, but it is interesting that it still has £4,000,000 of sterling bonds outstanding.

Russian investments since the sale of the Chinese Eastern Railway to the Manchukuo Government in 1935 have been very small; there are, however, some White Russian shops and factories. The foreign investments of other countries, notably Great Britain, the United States, Germany, France, Scandinavia, and Czechoslovakia—are "comparatively negligible and in the aggregate probably do not exceed as

(1) Chinese Maritime Customs Reports.
 (2) Lytton Report: see footnote (1) overleaf.
 (3) Far Eastern Survey, May 12, 1937, p. 111.

much as 5 per cent of the total."¹ Moreover, the American and British oil-distributing companies² have been driven out of Manchukuo by the Oil Monopoly Law of 1934; for this law gives the Manchukuo Government a monopoly of retail distribution of oil products and empowers it to establish quota control of production, refining, and import, in spite of British and American protests against this infraction of the Open Door.³ Other foreign firms, including several German trading companies, have also withdrawn from Manchukuo.

Source of Imports

The import boom being primarily due to Japanese investment, it is not surprising that Japan's share of total imports has risen from 37 per cent to 73 per cent. Japan provides the lion's share of all the leading items; she not only monopolizes the market for cotton and silk piece-goods, but also provides practically all the metal goods, vehicles, vessels, machinery, and tools. The only important exceptions to this are that Manchukuo's raw cotton comes from India and China, and part of her wheat flour from Australia. Mineral oil is another item which has to be imported from countries other than Japan, at least until the Fushun oil-shale is properly exploited.

Destination of Exports

Japan's share of Manchukuo's exports (40 per cent) is not so great as her share of imports (73 per cent). But she is the chief purchaser of soya beans and takes practically all the coal and iron, only millet (Korea) and groundnuts (Netherlands and Germany) going elsewhere. On the other hand, Germany, Great Britain, Egypt, China, and the Netherlands also take Manchukuo's beans. German purchases rose rapidly until 1935. They then fell off, but in April, 1936, a tripartite agreement was reached whereby Germany undertook to expand her purchases of Manchukuo's soya beans in any case, and to do so still further should her favourable balance of trade with Japan exceed a specified figure. The decline in exports to the U.S.S.R. since 1930 from 13.1 per cent to 0.3 per cent is striking.

MANCHUKUO: DIRECTION OF TRADE⁴

Imports from			Exports to		
	1930	1936		1930	1936
	%	%		%	%
Japan	37.2	73.0	Japan	30.0	39.5
China	27.7	6.9	China	26.8	21.3
India	1.0	4.2	Germany	0.9	8.3
Korea	3.5	4.0	Korea	10.9	8.0
U.S.A.	7.0	3.4	Great Britain	2.7	4.5
Germany	4.1	1.9	U.S.A.	1.8	2.7
Great Britain	3.5	1.1	Netherlands	8.9	1.2

(1) "Chinese, Japanese, and Other Foreign Investments in Manchuria," *Supplementary Documents to the Report of the Lytton Commission*, League of Nations Series: C.663, M.320, 1932, vii.

(2) The Standard Vacuum Oil Corporation (American); the Texas Oil Company (American); and the Asiatic Petroleum Company (British), a subsidiary of Royal Dutch Shell.

(3) For further details see "The Manchukuo Oil Monopoly," *Bulletin of International News*, May 2, 1935.

(4) *Economic Handbook of Pacific Area*, 1934; *Oriental Economist*, April, 1937.

MANCHUKUO: DIRECTION OF TRADE—continued						
Imports from			Exports to			
	1930	1936		1930	1936	
	%	%		%	%	
Hong Kong	4.3	0.7	U.S.S.R.	13.1	0.3	
U.S.S.R.	4.0	—	Others	4.9	14.2	
Others	7.7	4.8				
	100.0	100.0		100.0	100.0	

(iii) JAPAN

No complete statistics are available regarding foreign investments in Japan. The figures regarding loans issued in terms of foreign currencies afford little indication, since a large proportion of these securities (according to one estimate more than 80 per cent of the total)¹ are held by Japanese citizens.

Foreign Investments

There is, however, no doubt about three main features. The first is that the chief creditor countries are: the United States (about £85 millions)² and Great Britain (about £53 millions).³ The second is that the great bulk of the investments consist of Japanese Government or municipal securities, the remainder consisting chiefly of interests in public utilities and direct investment by American manufacturers. The third point is that Japan has never defaulted on the interest or principal of any of her foreign debt.

The official figures for Japan's foreign trade are incomplete, since they exclude her trade with her colonies, with whom she has a Customs union. This omission is of considerable importance, since Korea and Formosa can together make up Japan's slight deficiency in rice, whilst Formosa can supply her requirements of sugar. In fact, the table which follows, adjusted to include the Japanese colonies, shows that these account for 24 per cent of Japan's imports and 25 per cent of her exports. Manchukuo and Kwantung⁴ supply a further 7 per cent of imports (soya beans, bean cake, coal) and take 13 per cent of exports (notably cotton piece-goods and metal goods). In the case of imports, the rise in Manchukuo's share since 1929 is counterbalanced by the fall in Kwantung's; but in the case of exports the share of both has risen, from a total of 7 per cent in 1929 to 13 per cent in 1936. The territories in the Japanese sphere of influence and the yen bloc thus provide 31 per cent of Japan's imports and take 37 per cent of her exports. By contrast, the proportion of Japan's exports taken by China (chiefly cotton piece-goods) fell from 11 per cent in 1929 to 4 per cent in 1936.

Direction of Trade

Outside the Japanese sphere of influence the great bulk of Japan's trade is conducted with the British Empire and the United States. The British Empire supplies over 20 per cent of all imports, of which India (raw cotton) represents 9 per cent and Australia (wool) 5 per cent, and

(1) Quoted in *Economic Handbook of Pacific Area*, 1934, p. 359.

(2) U.S. Department of Commerce Reports.

(3) Sir Robert Kindersley in *Economic Journal*, December, 1937.

(4) The Kwantung Leased Territory includes Dairen, the chief port for Manchukuoan produce.

takes over 20 per cent of total exports (of which India takes 8 per cent), chiefly cotton and silk piece-goods. The United States still supplies 25 per cent of imports (raw cotton, oil, scrap-iron), but her share of exports (half of them raw silk) has fallen from 35 per cent in 1929 to 16 per cent in 1936 (thanks partly to the fall in the price of silk).

Since imports and exports nearly balanced in value in 1936, it is possible to tell from the percentage figures which follow the state of Japan's trade balances with the leading countries. She takes a surplus of imports from Australia, the United States, Germany, India, and Formosa; her trade with China and Netherlands India is approximately balanced; and she has an export surplus with Kwantung and Manchukuo (due to heavy investment) and the United Kingdom.

DIRECTION OF JAPANESE TRADE ¹					
<i>Imports from</i>	1929	1936	<i>Exports to</i>	1929	1936
	%	%		%	%
U.S.A.	23·6	23·2	Korea ²	12·0	18·1
Korea ²	11·2	14·2	U.S.A.	35·0	16·6
Formosa ²	8·6	9·9	Kwantung	4·8	9·7
India	10·4	10·3	India	7·6	7·6
Australia	4·8	5·0	Formosa ²	5·4	6·5
Manchukuo	1·8	5·6	China ³	10·8	4·5
China ³	5·7	4·3	Netherlands Indies	3·3	3·6
Germany	5·7	3·2	Manchukuo	2·5	4·2
United Kingdom	5·5	2·0	United Kingdom	2·4	4·1
Netherlands Indies	2·8	3·1	Australia	1·7	1·9
Kwantung	6·0	0·9	Others	14·5	23·2
Others	13·9	18·3			
	100·0	100·0		100·0	100·0

The above facts and figures have some obvious bearing on the question of Japan's vulnerability to economic pressure. In this connection two other points are very relevant. In the first place, the Oil Law which became operative on July 1, 1934, requires all oil companies, both Japanese and foreign, to maintain six months' oil supplies in Japan at their own expense. Secondly, it is important to estimate whether Japan has laid in emergency stocks of key materials. The value of imports into Japan has shown an abnormal rise during 1937. On the other hand, this may be accounted for by the rise in raw material prices and by the high rate of industrial activity in Japan. The only really striking rise during 1937 shown by the following table is in imports of scrap iron (mostly from the United States), copper, and nickel.

	JAPANESE IMPORTS ⁴					
	(million piculs)					
	1929	1933	1935	1936	1936	1937
					6 mths	6 mths
						8 mths
Raw cotton	10·8	12·5	12·3	15·2	8·4	10·1
Raw wool	0·8	1·8	1·8	1·6	1·4	1·7
						12·2
						1·8

- (1) Including trade with Korea and Formosa.
- (2) Based on Korean and Formosan trade figures.
- (3) Excluding Manchukuo.
- (4) For the sources of the chief items see above, p. 91. [1 picul=1.18 cwt.]

JAPANESE IMPORTS—*continued*

	(million piculs)							
	1929	1933	1935	1936	1936 6 mths	1937 6 mths	1937 8 mths	
Crude rubber	0.6	1.2	1.0	1.1	0.5	0.8	0.9	
Salt	4.8	14.8	17.6	22.0	11.2	11.7	17.1	
Phosphorite	9.3	11.7	12.6	13.8	6.9	6.1	9.9	
Sulphate of ammonium, crude	6.3	1.8	4.0	5.2	4.4	2.1	3.1	
Iron ore	32.4	25.4	56.7	63.0	23.6	23.8	—	
Zinc ore	0.5	0.6	0.7	0.8	0.3	0.2	—	
Other ore	1.9	2.2	3.6	3.8	1.7	2.9	—	
Pig iron	10.9	10.7	16.0	16.2	8.4	6.6	—	
Scrap iron	8.7	16.9	28.2	25.0	8.1	15.8	—	
Copper ingots and slabs	0.08	0.22	1.09	0.80	0.37	0.82	—	
Lead ingots and slabs ..	1.01	1.11	1.50	1.60	0.75	0.89	—	
Aluminium ingots and slabs	0.20	0.06	0.16	0.15	0.11	0.06	—	
Tin ingots and slabs ..	0.07	0.06	0.07	0.08	0.03	0.06	—	
Zinc ingots and slabs ..	0.45	0.45	0.55	0.70	0.27	0.36	—	
Nickel	0.05	0.05	0.06	0.04	0.02 ¹	0.06 ¹	—	
Mineral oil, crude and heavy ²	1.6	2.3	3.5	3.9	2.1	2.3	—	
Other	0.4	0.5	0.7	0.7	0.39 ¹	0.44 ¹	—	
Industrial Activity ..	100.0	113.2	141.8	151.1	147.6	168.3	—	

4. FINANCE

This final section examines the position regarding the balances of payments, the national finances, and the currencies of Japan, Manchukuo, and China, in that order. It will be seen that the strain on the Japanese balance of payments and budget, and the favourable financial situation in Manchukuo, are both primarily due to the heavy rate of Japanese military expenditure and investment in Manchukuo in the past few years.

(i) JAPAN

Japan normally has a relatively small import surplus, which until 1937 has been more than covered by receipts from shipping services³ and emigrants' remittances, in spite of a sharp rise in Government expenditure abroad. But although the current items have shown a balance of payments, the capital account has shown a heavy deficit. In the years 1930 to 1932 this represented a flight of capital and was accompanied by a still larger export of gold. The export of capital in 1934 and subsequent years, however, was due to heavy investments in Manchukuo, and was apparently financed not by the export of gold but by the liquidation of foreign investments and foreign exchange reserves. In fact, "so far as her balance of international payments is concerned, Japan's recent difficulties are due not to anything in the realm of trade, but rather to her huge, continuous, and in part arti-

*Balance of
Payments*

(1) Seven months.

(2) Million kilolitres.

(3) The Japanese mercantile marine is only exceeded in size by the British and the American. Kobe and Osaka are the third and fifth busiest ports in the world.

cially forced, export of capital to Manchukuo."¹ During 1937, however, the adverse balance of trade has become a very much more serious factor, imports being 25 per cent greater than exports, and gold has been exported to the extent of 328 million yen. In these circumstances the fact that Japan and Korea produce gold worth rather more than 100 million yen a year may prove of some importance.

JAPAN'S BALANCE OF INTERNATIONAL PAYMENTS^a
(in million yen)
CURRENT ITEMS

	<i>Visible Trade Balance</i>	<i>Invisible Trade Balance</i>	<i>Combined</i>	<i>Capital Movements^b</i>	<i>Exports of Gold</i>
1924-9 (av.)	-387	+159	-228	+ 34	15
1930	-160	+133	- 27	-148	287
1931	-141	+ 84	- 57	-234	388
1932	- 59	+102	+ 43	-100	112
1933	- 78	+110	+ 32	- 21	21
1934	-132	+144	+ 12	-184	0
1935	+132 ^d	+178	+310	-372	0
1936	-102	+232	+130	-269	0
1937 (10 months) .. .	-664	—	—	—	328

*National
Budget*

Since 1932 more than a third of national expenditure has been unbalanced by revenue, and has had to be covered by loans. In the estimates for the current year expenditure has more than doubled, rising to 5,473 million yen, or well over a third of the national income.

The bulk of this enormous expansion is due to the demands of the fighting services. The percentage of total expenditure absorbed by the Army and Navy Departments rose from 31 per cent in 1931-2 to 47 per cent in 1936-7 and 65 per cent in 1937-8. The chief other object of new Government loans has been expenditure on Manchuria.

JAPANESE BUDGET

	(in million yen)				
	<i>Ordinary Revenue</i>	<i>Total Ex- penditure</i>	<i>Deficit</i>	<i>Expenditure on Army and Navy</i>	<i>Expenditure on Debt Interest</i>
1931-2	1,315	1,476	-161	454	213
1932-3	1,287	1,950	-663	686	241
1933-4	1,391	2,254	-863	851	334
1934-5	1,342	2,163	-821	942	378
1935-6	1,405	2,206	-801	1,022	389
1936-7 ^e	1,562	2,282	-720	1,078	383
1937-8 ^f	?	5,473 ^g	?	3,580	?

(1) "Manchukuo, the Key to Japan's Foreign Exchange Problem," *Far Eastern Survey*, May 12, 1937.

(2) "Manchukuo, the Key to Japan's Foreign Exchange Problem," *Far Eastern Survey*, May 12, 1937, and *Japan Commercial Chronicle*, November 25, 1937.

(3) Not including all movements of short-term capital, of which the inflow was important in 1924-9.

(4) Chiefly exports of silver, perhaps smuggled into Japan from China.

(5) Estimates.

(6) Includes special appropriations of 110 million yen (July), 410 million yen (August 4), and 2,064 million yen (September 5).

The series of budget deficits has had the effect of nearly doubling the national debt since 1931. The internal debt rose from 4,700 million yen in 1931 to 9,000 million yen in 1936, and, to judge by the present budget estimates, must exceed 12,000 million yen this year.¹ The national bond issues are taken up in the first place by the Bank of Japan which, at least up till the end of 1936, succeeded in placing them with commercial and savings banks and other financial institutions. An attempt is now being made to sell "baby bonds" to the general public.

One strong feature of the national debt position is the relatively small proportion of foreign debt (about £80 millions at the present rate of exchange). Japan borrowed abroad very heavily during and after the Russo-Japanese War, but in recent years the total of foreign indebtedness has tended, if anything, to decline.

JAPANESE NATIONAL DEBT

		(in million yen)			
		Domestic Debt		Foreign Debt ²	Total
		Funded	Floating		
1931 (March 31)	.. ..	4,477	198	1,479	6,154
1932	.. ..	4,715	224	1,473	6,412
1933	.. ..	5,664	320	1,390	7,374
1934	.. ..	6,724	544	1,415	8,683
1935	.. ..	7,687	522	1,403	9,613
1936	.. ..	8,522	454	1,332	10,308
1937 (Dec. 31)	.. ..	10,585		1,308	11,893

Up till January, 1930, there was an embargo on the export of gold; this was then removed and the yen went "on gold." But the political and financial crises of the next two years led to such a flight of capital that the gold reserves of the Bank of Japan were nearly halved. In December, 1931, the embargo on gold exports was reimposed, and the yen depreciated heavily until 1933. Since then it has remained relatively stable; but since 1931 it has lost over 65 per cent of its value, compared with only 40 per cent in the case of sterling and the dollar. There were signs of renewed strain in January, 1937, when the exchange restrictions originally imposed in 1932 were rigidly tightened up, a virtual embargo being imposed on many imports, including raw cotton. In spite of these measures gold exports to the extent of 328 millions became necessary. The Bank of Japan's reserve fell from 556 to 446 million gold yen between February and August.³

It would seem that the present pressure on the yen is chiefly due to the strain on the international balance of payments. For, so far, the expansion of the note circulation (which always shows a seasonal rise towards the end of the year) from 1,323 million yen at the end of 1931

(1) The national wealth is estimated at 101,188 million yen (1930).

(2) Valued at par, and therefore considerably below its true yen value.

(3) Revalued at 1,201 million yen in August, 1937, to correspond with the depreciation of the yen. Of this total, 400 million yen was used to set up an Exchange Equalization Fund.

to 1,767 million yen at the end of 1936,¹ seems justified by the expansion in the index of industrial activity of the country during that period from 92 to 164 (1929=100).

	<i>Gold Reserve</i> (in million yen)	<i>Note Circulation</i> (in million yen)	<i>Index of Industrial Activity</i>	<i>Yen's % of Parity</i> (yearly average)
	end of year			
1929	(²)	1,603	100·0	92·5
1930	826	1,425	94·8	99·1
1931	470	1,324	91·6	98·0
1932	425	1,385	97·8	56·4
1933	425	1,482	113·2	40·4
1934	465	1,549	128·7	35·6
1935	504	1,619	141·8	34·2
1936	548	1,767	151·6	34·5
1937 (Sept.)	446 ³	1,573	173·1 ⁴	34·2

(ii) MANCHUKUO

Balance of Payments

Up till and including 1932 exports considerably exceeded imports, but exports then fell while imports rose.

MANCHUKUOAN TRADE⁵
(in million yuan)

	<i>Imports</i>	<i>Exports</i>	<i>Balance</i>
1926-9 (av.)	459·5	639·0	+179·5
1930	478·9	618·9	+140·0
1931	341·6	739·2	+397·6
1932	301·1	616·2	+315·1
1933	515·8	448·5	-67·3
1934	593·6	448·4	-145·2
1935	604·1	421·1	-183·0
1936	690·7	598·7	-92·0

The heavy import surpluses since 1932 have been balanced by invisible exports in the shape of imports of Japanese capital.⁶

Budget

Contrary to the expectations of the Lytton Commission, the Manchukuo budget has been very nearly balanced in recent years. But this has been wholly due to four special factors. On the side of revenue, Customs receipts, which represent approximately half of the total revenue, have received an exceptional stimulus from the import boom financed by Japanese investment. On the side of expenditure, the Manchukuoan Government has been virtually relieved of the cost of defence, of economic development, and of the purchase of the Chinese Eastern Railway in 1935. Defence is undertaken by the Japanese

(1) At the end of September, 1937, the note circulation was down again to 1,573 million yen, but the gold reserve had meanwhile shown more than a corresponding fall.

(2) No comparable figures available.

(3) Revalued at 1,201 million yen in August, 1937, in view of the depreciation of the yen.

(4) July, 1937.

(5) "Four Years of Manchukuo": *Far Eastern Survey*, March 12, 1936.

(6) See above, pp. 107-8.

Kwantung Army, only one-tenth of the cost being borne by the Manchukuo Government. Economic developments of all kinds are financed by the South Manchurian Railway and other Japanese companies. The purchase of the Chinese Eastern Railway was financed by the flotation of a loan of 180 million yen in Japan.

MANCHUKUOAN BUDGET¹

		(in million yuan)	
		<i>Net Receipts</i>	<i>Net Payments</i>
		(excluding loans)	(excluding cash balances)
1932-3	.. ..	116·1	154·3
1933-4	.. ..	160·9	165·5
1934-5	.. ..	185·1	187·2
1935 (July-Dec.)	.. ..	63·8	106·1
1936 (Estimates)	.. ..	200·3	220·8

The maintenance of both the budget and the balance of payments in artificial equilibrium by Japanese investments has enabled a stable new currency, the yuan, to be established. For two years from July, 1932, the yuan was linked to silver and to the Chinese dollar. But, owing to the violent rise in the price of silver in 1934, due to the United States Silver Purchase Act, the yuan was gradually divorced from silver. Since November, 1935, it has been linked at par with the yen with the help of rigid exchange control. The note circulation shows a tendency to expand, but it is backed by a substantial reserve of about 60 per cent, consisting chiefly of foreign exchange.

(iii) CHINA

China has always had a very heavy import surplus, but this is partly explained by the fact that exports are undervalued by about 15 per cent. On the other hand, the growth of smuggling in recent years necessitates the addition of about 20 per cent to the value of imports.

To the import surplus must be added a considerable deficit on interest and dividend payments to foreigners. As against this, China's receipts from "other services"—notably emigrants' remittances, foreign military and naval expenditure,² and foreign missions—are considerably larger. But these items are not sufficient to counter-balance the combined total of the import surplus and of interest payments abroad. Part of the remaining deficit is known to have been covered by capital imports (although the statistics in this field are very incomplete). But the outstanding feature of the Chinese balance of payments in the past few years has been the heavy exports of both silver and gold, neither of which China herself produces on any but the smallest scale.

(1) "Financing the new State of Manchukuo": *Far Eastern Survey*, March 3, 1937.

(2) It has been pointed out that foreign Powers "put in" to China in the shape of military and naval expenditure approximately as much as they "take out" in the shape of interest and dividends.

Traditionally China has been an importer of silver, but since 1934 she has been a heavy exporter. This was at first due to the American silver purchase programme. In October, 1934, an embargo was placed on the export of silver from China, but large quantities were smuggled out during 1935. The American purchases were suspended in December, 1935, with disastrous consequences for the price of silver. But in May, 1936, the United States Government agreed to purchase silver from the Chinese Government in order that the latter might build up reserves of gold and foreign exchange as required by the monetary reforms of November, 1935.

Exports of gold have been on a slightly smaller scale, but smuggling has been no less important than in the case of silver.

CHINA'S BALANCE OF INTERNATIONAL PAYMENTS¹
(in million standard dollars)

	<i>Merchandise</i>	<i>Interest and Dividends</i>	<i>Other Services</i>	<i>Known Capital items</i>	<i>Silver Exports</i>	<i>Gold Exports</i>
1933 ..	-807.4	-108.0	396.0	30.0	14.3	189.4
1934 ..	-568.7	-132.6	421.0	80.0	279.9	111.5
1935 ..	-477.0	-162.4	404.0	140.0	289.4	68.0
1936 ..	-329.9	-107.8	468.0	60.0	289.6	45.6

National Budget

Budget figures are extremely unsatisfactory. Only estimates are available for the last three years; and even where actual results are given, these are incomplete. In the estimates for 1936-7 13 per cent of total expenditure is met by borrowing. Of the total revenue, exclusive of loans, over 40 per cent is provided by the Customs, the great bulk of this by import duties. This source of revenue is seriously jeopardized by smuggling (estimated to have added one-fifth to total imports in 1936), and by the loss of North China and Shanghai (which provided 19 per cent and 46 per cent respectively of Customs revenue in 1936). Military expenses account for approximately half of the total expenditure. Service of the public debt (both internal and external) represents a further third.

CHINESE NATIONAL BUDGET²
(in million Chinese dollars)

	<i>Receipts (excluding loans)</i>	<i>Loans</i>	<i>Expenditure</i>	<i>Balance</i>
1931-2 ..	646.9	138.0	784.9	—
1932-3 ..	559.3	112.6	644.8	+27.1
1933-4 ..	621.6	207.1	769.1	+59.6
1934-5 (E) ..	727.2	126.0	853.2	—
1935-6 (E) ..	888.1	70.0	961.3	-3.2
1936-7 (E) ..	865.7	125.0	990.7	—

National Debt

The total national debt is nearly 4,000 million Chinese dollars (£240 millions), of which roughly one-half represents domestic debt, one-quarter foreign general debt, and one-quarter foreign railway debt.

- (1) Bank of China Reports.
- (2) *League of Nations Statistical Year Books.*

The foreign debt is dealt with in the section on foreign investments in China.¹

Up till 1935 China was on the silver standard. This was the chief reason why the depression hit China later than other countries, for, from 1929 to 1931 the price of silver, like that of other raw materials, fell very much more than the general price-level. Hence prices in China, being reckoned in terms of silver, actually rose during this period. After 1931, however, the devaluation of first sterling and then the yen caused silver to appreciate in value. In consequence prices in China began to fall. *Currency*

This general deflationary process was very much aggravated by the passage of the United States Silver Purchase Act in June, 1934, which attracted silver from China to the United States on an enormous scale. In October, 1934, the Chinese Government attempted to check the drain by imposing a prohibitive tax on silver exports. But the chief result was to stimulate smuggling.

This was the situation in which the currency reforms of November, 1935, were dramatically introduced. The Government finally abandoned the silver standard and established a managed currency to be maintained at its existing level by an Exchange Equalization Fund. Since then the exchange value of the Chinese dollar has remained remarkably stable.

In order to build up reserves as backing for the new currency, all silver stocks in the country were nationalized, the notes of all three Government banks being henceforward the legal currency of the country.² Steps were then taken to sell large quantities of silver to the United States Government under agreements reached in December, 1935, and May, 1936. By a further agreement of July, 1937, the United States Government undertook to exchange gold for silver. In this way the Chinese Government built up considerable reserves of gold and foreign exchange abroad, which were stated by the Finance Minister in May, 1937, to amount to 800 million Chinese dollars (£48 millions).

The currency reforms of November, 1935, met with a surprising degree of success. Currency notes were substituted for silver coins. The fall in prices was arrested and a pronounced rise became evident. Production, trade, and banking were stimulated. The chief obstacle to complete success was the fact that although, or perhaps because, the British³ and other foreign banks co-operated actively in the currency reforms, particularly in the matter of surrendering silver stocks, the Japanese in North China prevented the removal of silver stocks by the Government and caused independent series of currency notes to be printed.

(1) See above, pp. 99-101.

(2) Steps are now being taken to limit the right of issuing notes to one central bank, 40 per cent of whose shares are to be held by the Government.

(3) Sir Frederick Leith-Ross was consulted before the currency reforms were announced.

PART IV

THE INTERNATIONAL STATUS OF SHANGHAI

Shanghai is the largest industrial city, as well as the greatest port, in China.¹ Its population of over three and a half millions includes many thousand foreigners, of whom the Japanese and British residents, estimated at nearly 25,000 and 9,000 respectively, are the most numerous.

*Foundations
of Inter-
national
Settlement
1845*

By the Treaty of Nanking, signed on August 29, 1842, Shanghai was opened to foreign trade in 1843, and two years later the foundation of the International Settlement was laid by the conclusion of an arrangement between the British Consul and the Taotai, the Intendant of Circuit and Superintendent of Customs. This arrangement, embodied in regulations adopted on November 29, 1845, was merely one granting foreigners the right to lease land in a certain specified area, and there was no question of obtaining from the Chinese Government a "concession," or area of land to serve as a site for the trading establishments or residences of foreigners, as was done at Canton, Tientsin, and Hankow. The agreement concluded simply provided for the setting apart of an area in which British subjects might acquire land from Chinese owners, and it was arranged that a British purchaser, as soon as he had come to terms with the owner, should report his agreement to the British Consul, who, in turn, reported it to the Taotai. The latter would then issue to the British purchaser, through the Consul, a title in the form of a perpetual lease, under which a small annual rent was reserved for payment to the Chinese Government, the theory being that, as all land belonged to the Emperor, there could be no out-and-out sale to a foreigner, and foreigners must, therefore, be content to be lessees.

The Settlement was at first regarded as British, and all land transactions had to be registered at the British Consulate, but the maintenance of this position was not insisted upon, and the right of other foreigners to acquire land within the area was recognized, while each foreign Consul, besides exercising jurisdiction over his own nationals, took part in the general supervision of Settlement affairs. An American and a French Settlement were established on similar terms during the following few years, but the former was amalgamated with that of Great Britain in 1863. A plan for amalgamating the French Settlement with the other two was agreed upon by the local representatives, but was not accepted by the French Government, which retained special jurisdiction over the area and established for it a separate system of municipal administration. It is administered by the French Consul-

(1) No less than two-thirds of the total foreign business investments in China are invested in Shanghai. For details see above, p. 101.

General and has been referred to as the French Concession ever since, though the agreement with the Chinese authorities was similar to that concluded by the British Consul, and no "concession" area was leased by the Chinese to the French Government.

*French
Concession*

The International Settlement began with an area of 138 acres, which was increased to 470 acres as early as 1848. By 1893, the addition of the American area and other fresh delimitations brought it up to 1,780 acres, and additions since have resulted in the total area amounting to 5,584 acres. Including the French Concession of 2,525 acres, the total area is now 12.66 square miles.

The Settlement was originally intended to be reserved for foreigners, the land was to be gradually acquired by them, and no Chinese were expected to reside within its limits, except those who kept shops for the purpose of supplying the foreign residents and those who worked as servants. It is interesting to note that the circumstance which was responsible for the disappearance of this restriction was the insecurity of life in the surrounding areas, which, as early as 1853, led to 20,000 Chinese taking refuge in the Settlement when the Chinese City was captured by the rebels in the Taiping rebellion.

*Origin of
Autonomous
Status*

It is also of interest to recall that the presence of the armies, both of the Emperor and of the rebels, being considered a menace to the safety of the Settlement, the British Consul sent a message to the Commander of the Imperial forces in 1854, demanding the immediate removal of his camp to a site at a safe distance from the Settlement. The request not being complied with, a party of sailors and marines from British and American warships, assisted by local volunteers, attacked the camp and compelled the Chinese to move to the south side of the city. Again, in 1860 and 1862, British and French forces assisted the Chinese Imperial forces to beat off an attack by the Taipings, and the disturbed conditions in the surrounding countryside resulted in refugees coming into the Settlement in thousands—in fact, by 1862 the Chinese population was estimated to number half a million, though the majority left again when the Rebellion came to an end two years later.

The danger to which the Settlement was exposed in 1854 was the origin of two developments of a particularly important character; in the first place, it revealed to the inhabitants their weakness so long as they remained an unorganized community consisting of groups of foreigners belonging to different nations, each living under its own laws and subject to the jurisdiction of its own Consuls. To quote the Feetham Report¹: "They found themselves in need both of organized provision for protection against dangers from without, and of improved machinery for purposes of internal administration, but, before these needs could be effectively met, it was necessary for the community to acquire some degree of unity under a Constitution

(1) Published in Shanghai in 1931 by the North China Daily News and Herald Ltd, on behalf of the ~~Mongolian~~ Municipal Council.

Municipal

which would be accepted as binding on all its members." Accordingly in the new code of Land Regulations adopted in 1854 provision was made, for the first time, for the establishment (in place of the Committee of Three hitherto appointed by the British Consul) of an elected representative body—the forerunner of the present Municipal Council—for the organization of a police force and for the exercise of compulsory powers of taxation.

The Municipal Council, which administers local affairs, is composed of representatives of foreign residents, including Japanese, and of Chinese residents, and the position of the Japanese is, therefore, the same as that of other foreigners. In time of military emergency the ultimate authority rests with the Consular body.

It should be added that an important development in the organization of this self-contained community is the admission of Chinese members to a share in the administration. In 1920 a Chinese Advisory Committee was appointed and a Chinese Ratepayers' Association was formed. In 1926 the Ratepayers' Meeting adopted a resolution approving the addition of three Chinese members to the Municipal Council, and they took their seats for the first time in April, 1928; while in May, 1930, their number was increased to five.¹ In 1927, the Municipality of Greater Shanghai was established, and a mayor appointed who was a Chinese, and in that year and in 1930 new Courts were established to replace the Shanghai Mixed Court. Apart from these changes, however, the Settlement is governed to-day under a Constitution which dates from 1866, and has operated with minor modifications ever since.

In the second place, as experience showed that the Chinese Government was either unable or unwilling to assume responsibility for the protection of the residents of the Settlement, the latter took it upon themselves to organize and conduct their own defence, and to declare the area neutral ground. There was no international law which could lend its sanction to such a position, involving, as it did, the assumption by the residents of the responsibility of an armed neutrality, but, as the British Consul stated at the time: "It was based on an obvious necessity under the law of self-preservation." As was also pointed out at the time, when civil war was being waged at the very door of the Settlement and no authority existed, there were but two courses open to the residents: either to evacuate the city and leave it to the mercy of the contending armies, with all the moral and material loss this would involve, or to remain, and, with such military means as were at hand, to defend themselves and their possessions from all aggression, and to do this it was necessary to declare the Settlement neutral ground. The prolongation of the civil war made it necessary to adopt further measures to regularize the position and consolidate the organization of the life of the Settlement. Legally, the Consuls had no power to order the em-

(1) The number of foreign members is 9, i.e. 5 British, 2 American, and 2 Japanese.

ployment, even for self-defence, of the forces of the governments which they represented. By the terms of the Treaty of Nanking they could not take measures which involved occupying Chinese territory without the assent of the Chinese Government, nor had they undertaken by treaty to protect their subjects on shore in Chinese territory. Once they had taken it upon themselves to do so, however, it was soon evident that the first necessity of security for the future was the constitution of a municipal body which could give sanction to measures of resistance, and the organization of a police force capable of maintaining order.

Thus was developed a special doctrine as to rights which, by virtue of its unique political status, the Settlement community should be deemed to possess. These rights may be summarized under the three heads of self-defence, armed neutrality, and exclusion of Chinese armed forces, and to all of them the Settlement as a corporate body made good its claim. As regards the second point, the attitude of neutrality has been consistently maintained, even at the risk of collision with forces owing allegiance to the government recognized for the time being by the Powers as the Government of China, and the Municipal Council has not hesitated to call in assistance from foreign Powers for the purpose of protection against aggression from no matter what quarter. As to the exclusion of Chinese troops, the Chinese authorities have been invited to recognize the right of the Settlement in this respect, and have, in practice, recognized it ever since the events of 1852-3. At the same time, the events of early 1932 showed how difficult it is to carry this theory into effect when one of the members of the Settlement community is a belligerent. There is no separate Japanese section of the Settlement, and, in the absence of any statutory provision for its neutrality, it is impossible to interfere with the Japanese when using it as a base for their forces, as in the operations in 1932 and in 1937. In this connection it is of interest to note that in February, 1932, the Municipal Council issued the considered opinion of its Director-General, himself a lawyer, to the effect that the Settlement enjoys only a qualified neutrality for defensive purposes, and that the Council is, therefore, not responsible for the disposition of the defence of the Settlement. This was understood in Shanghai to mean that the Council could not go much beyond friendly remonstrance with the Japanese for their use of the Settlement as a base of operations.

*Privileged
Status*

From the foregoing short outline of the history of the Settlement emerge two important points: first, that the territory on which the Settlement is situated is not withdrawn from the sovereignty of China, despite the fact that its administration is in the hands of an international Municipal Council; and secondly, that the neutral status which it enjoys, and to which it has made good its claim over a period of sixty or seventy years, is not secured by any treaty or agreement and is sanctioned solely by tradition.

During the last ten years the International Settlement has on three occasions (1927, 1932, and 1937) been confronted with a serious threat, not only to the lives and material interests of its inhabitants, but also to its future as an autonomous area in Chinese territory—a unique position which has contributed markedly to the development of prosperity in which the Chinese themselves have had a large material share, and to the establishment of money and commercial markets, which has resulted in Shanghai becoming the financial centre of the country.

*The 1927
Emergency*

In 1927 the anti-foreign trend of the Nationalist movement, of which instances had been given in the attacks on the British Concessions at Hankow and Kiukiang in January and the treatment of foreigners when the Nationalist armies entered Nanking in March, convinced foreign Powers that, if foreign lives and property were to be protected in the International Settlement at Shanghai, naval and military forces should be sent. Troops were sent by Great Britain, U.S.A., Japan, France, Italy, the Netherlands, Spain, and Portugal, and in March these numbered more than 16,000,¹ while a month later the total of those in or *en route* to Shanghai had risen to 40,000. As a result of these precautions, when the Nationalists took Shanghai on March 21 the International Settlement was protected from a repetition of the Hankow and Kiukiang and Nanking incidents and became a refuge not only for its foreign inhabitants, but also for foreign nationals from the interior, as well as many thousands of Chinese.

*The 1932
Affair*

In 1932 the circumstances were somewhat different. One result of the Manchurian campaigns had been an intensification of the anti-Japanese boycott throughout China proper and particularly in Shanghai, where it was accompanied by looting and acts of violence. After an incident on January 18, 1932, in which five Japanese were wounded, one of them fatally, the Japanese Consul-General presented to the Chinese Mayor of Greater Shanghai five demands relating not only to a formal apology, the punishment of the assailants, and the payment of compensation to the victims, but also to the adequate control of the anti-Japanese movement and the "immediate dissolution of all anti-Japanese organizations actively engaged in fostering hostile feelings and anti-Japanese riots and agitation." When the Mayor replied, on January 21, that he was ready to consider the first three points, but that he would have difficulty in complying with the last two, Rear-Admiral Shiozawa declared that, unless the Japanese demands were fulfilled without delay, he was determined to take "the necessary steps" in order to protect Japanese imperial rights and interests. On January 24, Japanese naval reinforcements arrived at Shanghai, and on the 27th the Chinese were given a time limit expiring at 6 p.m. on the 28th, in which to deliver their reply. The latter, which was received during

(1) Of these 7,100 were British, 4,000 Indian, 1,630 Japanese, 1,434 American, 1,200 Shanghai Volunteer Corps.

the following afternoon, was described by the Japanese Consul-General as being entirely satisfactory.

In the meantime the Municipal Council had declared a state of emergency, and the International Settlement Defence Committee had brought into operation a scheme for the protection of the foreign area from internal disorder and external aggression, whereby each of the various national forces was made responsible for the defence of a certain section. To the Japanese contingent was allotted the sector bordering on the Chinese area of Chapei, including the Hongkew area (where most of the Japanese in the Settlement were living) and the western area outside the boundaries of the Settlement. It appears, from the Consular Committee's report to the League of Nations,¹ that the Chinese were not notified of this arrangement; when, therefore, the Japanese troops moved into position on the night of the 28th, fighting occurred as a result of the resistance offered by Chinese regular troops; and on the 29th Japanese seaplanes dropped incendiary bombs on Chapei, setting on fire the greater part of the district.

Through the mediation of the British and American Consuls-General a truce was arranged in the course of the day, but it was never more than nominal, and lapsed altogether on February 2. On the same day the British and American diplomatic representatives in China and Japan made joint *démarches* with a view to securing the cessation of mobilization on both sides, the establishment of a neutral zone in the Shanghai area, and the initiation of negotiations to settle "all outstanding controversies between the two nations . . . without prior demand or reservation, and with the aid of neutral observers or participants"; these proposals were accepted by the Chinese Government, but virtually rejected by Japan, who objected, in particular, to the implication that the Shanghai question should be linked with that of Manchuria in a general settlement. In a statement of their aims and policy, published on February 7, the Japanese Government justified the operations of January 28-9 by the declaration that it was the Chinese who had opened fire on the Japanese marines, and the subsequent despatch of Japanese reinforcements by the "predicament of Japanese residents"; at the same time they stated that they cherished "no political ambitions in the region of Shanghai, nor any thought of encroaching on the rights and interests of any other Power."

*Attempts
at
Mediation*

In the meantime Japanese warships bombarded Nanking² on February 1—apparently as a protest against Chinese military preparations and anti-Japanese activities there—while Japanese reinforcements continued to arrive at Shanghai. After February 3 a state of open warfare existed in Woosung and Chapei, and on the 18th a

*Outbreak of
Hostilities*

(1) The Consular Committee, which was constituted in Shanghai early in February at the request of the Council, made four reports to the League.

(2) The chief result of this action was the temporary removal of the Chinese Government from Nanking to Loyang.

Japanese ultimatum was presented, requiring the withdrawal of all Chinese troops within a distance of twenty kilometres from the boundary of the Settlement. On the Chinese refusing to accede to this demand a general attack was begun with the object of driving them from the Shanghai area; a determined resistance was put up by the Cantonese 19th Route Army, and this objective was not achieved until March 3.

It is significant that the affair of 1932 was the first occasion on which one of the Powers enjoying treaty rights in Shanghai made use of the International Settlement—which had hitherto been accepted by tradition as neutral ground—as a base for military operations against Chinese troops in Chinese administered territory. Such use might well have led to a Chinese attack on the Settlement itself, while in any case the mere fact that fighting was taking place all round constituted a danger to the lives and property of foreigners residing within its boundaries. Repeated *démarches*¹ were made to the Japanese Government by the British and American Ambassadors in Tokyo, making it clear that their Governments disapproved of the use of the Settlement except for defensive purposes; while there was a series of Consular protests, in Shanghai itself, against interference by Japanese marines with patrols in the sectors allocated to other foreign troops; against the falling of stray bombs within the Settlement boundaries and the flight of Japanese aeroplanes over the Settlement on their way to drop bombs on Chapei; and in particular against the disembarkation of reinforcements at Japanese wharves in the Settlement. These protests were on the whole effective; the flight of aeroplanes across the Settlement became infrequent, while on February 26 the Japanese Foreign Minister stated, in reply to representations by the American, British, French, and Italian Ambassadors, that, although Japan had the "right to land troops in the Settlement and to anchor ships of war in their present position," she was "earnestly desirous of minimizing danger to the Settlement," and that the military and naval authorities had decided "to give the matter as favourable consideration as possible." From that time only reliefs seem to have been landed in the Settlement.

Throughout the campaign persistent efforts at mediation had been made by the Consuls of the neutral Powers, and later by the British,

(1) In a statement to the House of Commons on February 9, 1932, the Prime Minister (Mr Baldwin) said that they had made it clear, on three occasions, to the Japanese Government that they could not approve of the use of the Settlement by military forces except for purely defensive purposes, but he pointed out that there was no separate section of the Settlement which could be regarded as the Japanese portion, and it was, therefore, extremely difficult, if not impossible, to make a strict demarcation.

The British Government had, in fact, no statutory right to question the action of the Japanese in, for example, landing their troops within the Settlement boundaries, and all that the local authorities could do was, first, to endeavour to prevent any fighting within the boundaries, and secondly, to defend the area itself from any attack from outside, from whatever quarter this might come.

American, and French Ministers in China, and by Admiral Sir Howard Kelly (the Commander of the British Squadron), who arranged a meeting on February 28 between Chinese and Japanese leaders on board his flagship, at which mutual withdrawal was agreed to in principle. Moreover, on March 4 and 11 the Special Assembly of the League passed resolutions calling for the cessation of hostilities, and recommending negotiations at Shanghai with the assistance of the interested neutral Powers. Formal negotiations for a truce, begun on March 9 under the guidance of the British Minister, Sir Miles Lampson, resulted in the signature of an armistice agreement on May 5, providing (Article 2) that the Chinese troops should "remain in their present positions¹ pending later arrangements upon the re-establishment of normal conditions" in the Shanghai area; that the Japanese troops should withdraw (Article 3) within the sector allotted to them by the Municipal Council on January 28; and that a joint commission, including representatives of "the participating friendly Powers" should be established (Article 4) to certify the actual withdrawal, and to superintend the transfer from evacuating Japanese forces to the incoming Chinese police.

*Truce
Agreement
May, 1932*

By May 31 all Japanese troops, with the exception of 2,500 marines on garrison duty, had left Shanghai, and the evacuated areas had been handed over to the Chinese Special Police Force. The "later arrangements" referred to in Article 2 with regard to the position of the Chinese troops were never made—or, if made, were never published. In announcing the Japanese Government's decision to effect complete evacuation, the Foreign Office spokesman stated on May 11 that: "While hoping that the Chinese would strictly observe the terms of the armistice and not permit Chinese troops to enter the twenty kilometre zone, Japan would hold the other Powers and world opinion accountable if the Japanese withdrawal resulted in a fresh menace to Shanghai." If this statement be interpreted as implying the existence of a permanent demilitarized zone, it must be set against the fact that, in signing the Truce Agreement, the Chinese representatives had made a specific declaration that "nothing in this Agreement implies any permanent restriction of the movements of Chinese troops in Chinese territory"—a reservation which appears to have been accepted without question by the Japanese representatives at the time.

In 1937, the International Settlement was faced with the most serious threat not only to its security but to its very existence. The beginning of hostilities between the Chinese and Japanese forces resulted from the usual "incident." On August 9 a Japanese sub-lieutenant named Ohyama was killed outside the Hungjao aerodrome (two miles south-west of the French Concession) in circumstances which have so far not been cleared up. A Chinese sentry was also killed, but the Japanese claimed that his body had been placed on the spot subse-

*The 1937
Conflict*

(1) These were defined in Annex I of the Agreement.

quently; also that the lieutenant carried no revolver. The Chinese version of the affair was that the Japanese refused to halt when challenged at the entry to the aerodrome—the lieutenant was in a car driven by a seaman who was also killed—and that the lieutenant had first fired and killed the sentry.

Two days afterwards, on August 11, fifteen warships of the Japanese Third Fleet arrived at Woosung, with decks cleared for action. An official Japanese statement, ignoring the reservations made by the Chinese when signing,¹ declared that the Chinese were violating the Agreement of May 5, 1932, by stationing troops in and around Shanghai.

The Japanese demanded the withdrawal of the Peace Preservation Corps and of all military effectives to a distance not less than thirty miles from Shanghai. Their estimate of the number of Chinese troops "surrounding" Shanghai (100,000) was apparently their justification for this attitude.

Actually, the Chinese 88th Division from Nanking did reach the Shanghai area on August 12, and the Japanese at once convened a meeting of the International Truce Commission (set up in 1932) and lodged a protest. The Chinese representative argued that Japan herself, by posting troops in Chinese territory, had absolved China from any obligation to observe any longer the terms of the Agreement, and all the Japanese demands were rejected.² The meeting adjourned to allow the Chinese to refer to Nanking, and both sides undertook not to attack unless fired on.

On the next day, however, a bombardment was opened by three Japanese warships to stop a Chinese attack on some Japanese cotton mills near the river front. Street fighting also occurred round the Japanese districts, without it being clear which side was responsible for beginning it.

On August 15, following an attempt by the Chinese to bomb the Japanese flagship *Izumo* the day before,³ the Japanese Government issued a statement explaining why military action had at once to be taken. It claimed that Japan had exercised the utmost patience, and had tried to reach a settlement locally and in a peaceful manner. The Nanking Government, however, had not only refused to follow her advice that all provocative acts should be stopped, but had proceeded to complete warlike preparations against her. In "flagrant violation of solemn military agreements" vast armies had moved northwards, and troops had been concentrated in and around Shanghai.

(1) See above, p. 121.

(2) These included the dismantling of all the defences prepared within the area. The Japanese complained that machine-guns were being installed at points round the Japanese part of the International Settlement.

(3) The ship was not hit, and bombs dropping in the International Settlement killed over 1,000 people.

Finally, "at Shanghai they opened fire on our naval headquarters and bombed our warships from the air. Thus the Chinese insulted the Japanese Government and committed acts of unpardonable atrocity against us and gravely endangered the lives and property of our nationals throughout China, finally exhausting the patience of the Japanese Government."

It should be mentioned also that the statement included assurances that Japan would "spare no effort to safeguard foreign rights and interests in China." She harboured no territorial designs; her object was the realization of Sino-Japanese co-operation. She had no ill-will against the innocent masses of China, but intended only to bring the Nanking Government and the Kuomintang to reason.

Reference must be made also to another Japanese statement, issued in Tokyo on August 16, as this explains the reasons why they considered impracticable a British proposal, made at the time, that Shanghai should be spared all fighting owing to the international character of its population and business. There were 30,000 Japanese in the city, it was explained, and it was inadmissible that the Marines should abandon them. At this stage, too, withdrawal would have been interpreted by the Japanese people as a humiliation for their Government, while throughout China the population would have been told that the Japanese had retreated before the Chinese Army and called upon foreign Powers to save them.

The history of the military operations conducted in and around Shanghai has been related elsewhere.¹ It remains to note here certain developments arising out of the fact that by November 9 the Japanese had established control of practically the whole area of the city, excluding the Settlement. The implications of this control were immediately reflected in various official Japanese pronouncements. On November 11, General Matsui, the Japanese C.-in-C., in a statement to foreign press correspondents, in which he deplored the difficulty of co-operating with the other Powers, said: "Generally speaking, and as a matter of principle, I respect the interests of the third Powers, but, if necessity arises, we will have to take steps to remedy the situation." Again, notwithstanding the assurance subsequently given by a Japanese Foreign Office spokesman in Tokyo that these remarks had been "misunderstood," and that Japan had no intention of occupying the Settlement, the General made a further statement on November 17, reserving the right to take any measures necessary unless the Settlement authorities speedily curbed the anti-Japanese and Communist activities conducted by Chinese within its boundaries; while on the 21st a series of demands was presented to the authorities of the International Settlement and of the French Concession, which included the suppression of such activities, the withdrawal of Chinese officials, and the suppression of the Chinese censorship of the posts and tele-

*Japanese
Policy*

(1) See above, p. 81.

graphs and of the Chinese press, and of unauthorized radio communication. Although compliance, as far as was possible, with these requests was promised, on the 28th the Japanese authorities assumed control of the Chinese telegraph and wireless administrations, and of the censorship of the Chinese press.

One of the most disturbing factors in the situation at Shanghai concerned the question of the Customs revenue, which is the security for the service of certain Chinese Government loans. On November 21 the Japanese stated that, while they had the right to take over all sovereign rights formerly exercised by the Chinese Government affecting the Customs Administration within the Settlement, they would recognize the use of the Customs revenue for the purpose of serving foreign loans, but would object to the transfer of any surplus to the Chinese Government. This statement was followed by the seizure of Customs launches and the replacement of European by Japanese officials in the Customs Administration. In reply to strong representations made by the British, French, and U.S. Ambassadors in Tokyo on November 28, however, the Japanese Government gave assurances that "due consideration would be given to the wishes of foreign Powers concerned, before any provisional arrangement was reached between the Japanese authorities and the officials of the Customs."

The uneasy relations between the Japanese and the Settlement authorities continued throughout December. Disregarding the protests of the Municipal Council, the Japanese military authorities insisted on carrying out a "Victory March" of troops through the Settlement on December 3, ostensibly as a warning against anti-Japanese activities among the Chinese population. The throwing of a small bomb by a Chinese spectator was made the occasion for the occupation by Japanese troops of the area where the incident occurred, but, on representations by the British Commander of the Settlement Police, they were withdrawn. Again, on the 6th, friction arose over the arrest by Japanese Consular Police of four Chinese in the Settlement. The Municipal Council protested to the Consular body against this infringement of its exclusive right of arrest, and all interested Consuls were understood to have referred the matter to their governments. The arrested Chinese were released within an hour, and on December 7 the Japanese Consul-General tendered a formal apology; the incident was symptomatic, however, of the deterioration in the position of the International Settlement since the beginning of the Japanese occupation.

W. H. H. by. XXI
1915. p. 249-260

APPENDIX I

NOTE ON THE TWENTY-ONE DEMANDS

The "Twenty-One demands" presented to China on January 18, 1915, were grouped under five headings.

Group I concerned Shantung. Japan requested China (1) to assent in advance to any agreement between Germany and Japan as to the disposition of German rights in Shantung; (2) to agree not to alienate "to a third Power" any territory in, or along the coast of, Shantung; (3) to grant to Japan certain railway and commercial concessions.

Group II concerned South Manchuria and eastern Inner Mongolia, in which territories "the Chinese Government has always acknowledged the special position enjoyed by Japan." The leases of various ports and railways were to be extended. Japanese subjects were to be permitted to reside, "engage in business and manufacture of any kind whatsoever," to lease or own land in both provinces, and to have "the right of opening mines" in South Manchuria. China was not to employ "political, financial, or military advisers or instructors in these territories without consulting Japan." Subjects of a third Power were not to be allowed to build railroads therein; the raising of loans for such a purpose or the pledging of local taxes of these areas was to be dependent on Japan's consent.

Group III was concerned with the interests of the two countries in the Han-ye-hing Company at Hanyang, the largest iron-mining and smelting company in China.

Group IV requested that, "with the object of effectively preserving the territorial integrity of China," the Government should engage "not to cede or lease to a third Power any harbour, bay, or island along the coast of China."

Group V was a miscellaneous collection of requests rather than demands. China was to employ influential Japanese as advisers in political, financial, and military affairs. In important places the police departments were to be jointly administered by Japanese and Chinese. Concessions with regard to the purchase of munitions and the construction of railways were also requested. Finally, Japan asked that in case of the development of the Province of Fukien by foreign capital she should first be consulted.

In actual fact, during the years immediately following the end of the World War, China was virtually released from seventeen out of the original Twenty-One Demands. The Shantung Treaty of May, 1915, embodying Group I, was superseded by a new agreement reached during the Washington Conference in 1921-2. Group II was modified by Japanese concessions made at the same Conference, whereby Japan threw open to the new banking consortium her exclusive options for the construction of railways and for loans to be secured on the local taxes in South Manchuria and eastern Inner Mongolia, and abandoned her preferential rights regarding the engagement of advisers in South Manchuria. As regards Group III Japan does not appear to have renounced any of her rights. Group IV may be considered to have been superseded by a declaration which the Chinese delegation made at the Washington Conference on November 22, 1921, to the effect that China was prepared to give an undertaking not to alienate or lease any portion of her territory or littoral to any Power. Finally, Japan consented, at the Conference, to withdraw the reservation which she had made in signing the instruments of May 25, 1915, to the effect that Group V of the original demands would be postponed for future negotiations.

Mae Nair. Sp. 766-768

APPENDIX II

THE [NINE POWER] TREATY OF WASHINGTON, FEBRUARY 6, 1922

The United States of America, Belgium, the British Empire, China, France, Italy, Japan, the Netherlands, and Portugal:

Desiring to adopt a policy designed to stabilize conditions in the Far East, to

(1) See p. 38.

safeguard the rights and interests of China, and to promote intercourse between China and the other Powers upon the basis of equality of opportunity;

Have resolved to conclude a treaty for that purpose and to that end have appointed as their respective Plenipotentiaries;

[Names follow]

Who, having communicated to each other their full powers, found to be in good and due form, have agreed as follows:

Article 1: The Contracting Powers, other than China, agree:

~~(1) To respect the sovereignty, the independence, and the territorial and administrative integrity of China;~~

~~(2) To provide the fullest and most unembarrassed opportunity to China to develop and maintain for herself an effective and stable government;~~

~~(3) To use their influence for the purpose of effectually establishing and maintaining the principle of equal opportunity for the commerce and industry of all nations throughout the territory of China;~~

~~(4) To refrain from taking advantage of conditions in China in order to seek special rights or privileges which would abridge the rights of subjects or citizens of friendly States, and from countenancing action inimical to the security of such States.~~

Article 2: The Contracting Powers agree not to enter into any treaty, agreement, arrangement, or understanding, either with one another, or, individually or collectively, with any Power or Powers, which would infringe or impair the principles stated in Article 1.

Article 3: With a view to applying more effectually the principles of the Open Door or equality of opportunity in China for the trade and industry of all nations, the Contracting Powers, other than China, agreed that they will not seek, nor support their respective nationals in seeking:

(a) Any arrangement which might purport to establish in favour of their interests any general superiority of rights with respect to commercial or economic development in any designated region of China;

(b) Any such monopoly or preference as would deprive the nationals of any other Power of the right of undertaking any legitimate trade or industry in China, or of participating with the Chinese Government, or with any local authority, in any category of public enterprise, or which by reason of its scope, duration, or geographical extent is calculated to frustrate the practical application of the principle of equal opportunity.

It is understood that the foregoing stipulations of this Article are not to be so construed as to prohibit the acquisition of such properties or rights as may be necessary to the conduct of a particular commercial, industrial, or financial undertaking or to the encouragement of invention and research.

China undertakes to be guided by the principles stated in the foregoing stipulations of this Article in dealing with applications for economic rights and privileges from governments and nationals of all foreign countries, whether parties to the present Treaty or not.

Article 4: The Contracting Powers agree not to support any agreements by their respective nationals with each other designed to create Spheres of Influence or to provide for the enjoyment of mutually exclusive opportunities in designated parts of Chinese territory.

Article 5: China agrees that, throughout the whole of the railways in China, she will not exercise or permit unfair discrimination of any kind. In particular there shall be no discrimination whatever, direct or indirect, in respect of charges or of facilities on the ground of the nationality of passengers or the countries from which or to which they are proceeding, or the origin or ownership of goods or the country from which they are consigned, or the nationality or ownership of the ship or other means of conveying such passengers or goods before or after their transport on the Chinese Railways.

The Contracting Powers, other than China, assume a corresponding obligation in respect of any of the aforesaid railways over which they or their nationals are in a position to exercise any control in virtue of any concession, special agreement or otherwise.

Article 6: The Contracting Powers, other than China, agree fully to respect

China's right as a neutral in time of war to which China is not a party; and China declares that when she is a neutral she will observe the obligations of neutrality.

Article 7: The Contracting Powers agree that, whenever a situation arises which, in the opinion of any one of them, involves the application of the stipulations of the present Treaty, and renders desirable discussion of such application, there shall be full and frank communication between the Contracting Powers concerned.

Article 8: Powers not signatory to the present Treaty, which have governments recognized by the signatory Powers and which have treaty relations with China, shall be invited to adhere to the present Treaty. To this end the Government of the United States will make the necessary communications to non-signatory Powers and will inform the Contracting Powers of the replies received. Adherence by any Power shall become effective on receipt of notice thereof by the Government of the United States.

Article 9: The present Treaty shall be ratified by the Contracting Powers in accordance with their respective constitutional methods and shall take effect on the date of the deposit of all the ratifications, which shall take place at Washington as soon as possible. The Government of the United States will transmit to the other Contracting Powers a certified copy of the procès-verbal of the deposit of ratifications.

The present Treaty, of which the French and English texts are both authentic, shall remain deposited in the archives of the Government of the United States, and duly certified copies thereof shall be transmitted by that Government to the other Contracting Powers.

In faith whereof the above-named Plenipotentiaries have signed the present Treaty.

Done at the City of Washington the Sixth day of February, One Thousand Nine-Hundred and Twenty-Two.

[Signatures]

APPENDIX III

NOTE ON TANGKU TRUCE, MAY 31, 1933

(at Tientsin)

On May 31, 1933, a truce was concluded at Tangku over the signatures of General Okamura and General Hsu Yen-mo, who represented the authorities at Peiping (Peking). The terms were reported¹ to be as follows:

(i) The Chinese Army will withdraw to the west and south of the line from Yen-Ching to Chang-Ping, Kao-Li-Yung, Sun-Yi, Tung-Chow, Hsiang-Ho, Pao-Ti, Lin-Ting-Kow, Ning-Ho and Lu-Tai, and undertakes not to advance beyond that line and to avoid any provocation of hostilities.

(ii) The Japanese Army may use aeroplanes or other means to verify the carrying-out of the above article. The Chinese authorities will afford them protection and facilities for such purpose.

(iii) The Japanese Army, after ascertaining the withdrawal of the Chinese Army to the line stated in Article (i), undertakes not to cross the said line and not to continue to attack the Chinese troops, and shall entirely withdraw voluntarily to the Great Wall.

(iv) In the region to the south of the Great Wall and to the north and east of the line as defined in Article (i), the maintenance of peace and order shall be undertaken by the Chinese police authorities.

(v) The present Agreement shall come into effect upon its signature.

The terms of the truce, as communicated to the public, contained no mention of the immediate outstanding issue between "Manchukuo" and China, namely, the question of Customs establishments and the resumption of traffic across the frontier (that is to say, railway connection along the Peiping-Mukden line and postal traffic, both of which were suspended); nor were questions of political status or diplomatic relations included. It was, however, asserted at once in certain Chinese quarters, and particularly in Canton, that secret terms had been added, dealing not

(1) League of Nations, *Official Journal*, Special Supplement No. 113.

p. 336

The Tangku Pact of 1933 marked China's extreme humiliation. Only one pacifist Hu Shih regarded it. But he also became a supporter as the cause of resistance to the war.

only with frontier matters but with such vital affairs as a cessation of the boycott on the Chinese side and the surrender of extraterritorial rights on the part of Japan, and even including suggestions—to quote from a protest addressed to the League of Nations by the South-West Political Council—for Sino-Japanese treaties for the maintenance of an “Asiatic Monroe Doctrine.”

APPENDIX IV

STATEMENT BY THE SPOKESMAN OF THE JAPANESE FOREIGN OFFICE [AMAU STATEMENT], APRIL 18, 1934¹

Owing to the special position of Japan in her relations with China, her views and attitude respecting matters that concern China may not agree in every point with those of foreign nations; but it must be realized that Japan is called upon to exert the utmost effort in carrying out her mission and in fulfilling her special responsibilities in East Asia. Japan has been compelled to withdraw from the League of Nations because of their failure to agree in their opinions on fundamental principles of preserving peace in East Asia. Although Japan's attitude towards China may at times differ from that of foreign countries, such difference cannot be evaded owing to Japan's position and mission.

It goes without saying that Japan at all times is endeavouring to maintain and promote her friendly relations with foreign nations, but at the same time we consider it only natural that to keep peace and order in East Asia we must even act alone on our own responsibility, and it is our duty to perform it. At the same time there is no country but China which is in a position to share with Japan the responsibility for the maintenance of peace in East Asia.

Accordingly, unification of China, preservation of her territorial integrity, as well as restoration of order in that country, are most ardently desired by Japan. History shows these can be attained through no other means than the awakening and voluntary efforts of China herself.

We oppose, therefore, any attempt on the part of China to avail herself of the influence of any other country in order to resist Japan; we also oppose any action taken by China calculated to play off one Power against another. Any joint operations undertaken by foreign Powers, even in the name of technical or financial assistance, at this particular moment after the Manchurian and Shanghai incidents are bound to acquire political significance. Undertakings of such nature, if carried through to the end, must give rise to complications that might eventually necessitate discussion of problems like division of China, which would be the greatest possible misfortune for China and at the same time would have most serious repercussions upon Japan and East Asia.

Japan, therefore, must object to such undertakings as a matter of principle, although she will not find it necessary to interfere with any foreign country negotiating individually with China on questions of finance or trade as long as such negotiations benefit China and are not detrimental to peace in East Asia.

However, supplying China with war aeroplanes, building aerodromes in China, and detailing military instructors or military advisers to China, or contracting a loan to provide funds for political uses, would obviously tend to alienate friendly relations between Japan, China, and other countries, and to disturb peace and order in East Asia. Japan will oppose such projects.

The foregoing attitude of Japan should be clear from policies she has pursued in the past, but, on account of the fact that positive movements for joint action in China by foreign Powers under one pretext or another are reported to be on foot, it was deemed not inappropriate to reiterate her policy at this time.

(1) *The Times*, April 24, 1934.

EXTRACT FROM SPEECH BY MR HIROTA, JANUARY 21, 1936¹

... As for the relations between Japan, Manchukuo, and China, though some improvements have been effected, an urgent necessity is felt to regulate further the tripartite relations and put them upon a normal footing so as to strengthen the foundations of the peace of East Asia. The Japanese Government have, therefore, formulated after careful deliberations a definite programme for their policy towards China. This programme consists mainly of the following three points.

The first point is concerned with the basic readjustment of Sino-Japanese relations, by which we aim to bring about the cessation by China of all unfriendly acts and measures, such as have been hitherto adopted. In fact, what we want is not only such a negative attitude on the part of China but her active and effective collaboration with Japan. Antagonism between Japan and China, which obviously works to the disadvantage of both, is a thing intolerable from the larger viewpoint of East Asia. It would be most regrettable should China resort to unfriendly actions or to her habitual policy of playing off a third Power against this country, thus undermining the stability of East Asia. On the other hand, if she should come to a full realization of this point, we would, of course, be ready to extend to her our moral and material support for her advancement. Taking a long view of the situation, we have remained patient and forbearing, inviting China's self-reflection and her realization of her own responsibilities in East Asia, and waiting for a change in her policy towards our country. It is within the past year or so that China has shown her willingness to improve Sino-Japanese relations. At the last session of the Diet we declared our policy of non-aggression and non-menace towards the neighbouring countries, and set out to regularize the relations between Japan and China, and to readjust the mutual interests of the two countries. Nevertheless, I am sorry that our endeavours in this direction have not brought forth fully satisfactory results so far.

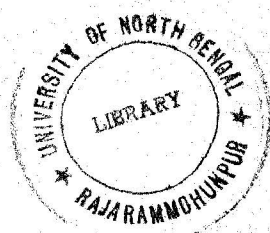
The rehabilitation of Sino-Japanese relations must necessarily be attended by the regularization of the relations between Manchukuo and China, because in North China particularly the interests of these two countries and of Japan are directly and closely bound up. Owing to the fact that the Chinese Government has not recognized Manchukuo, which is contiguous with North China, and also to the singular local circumstances that have prevailed in North China itself for long years, a situation arose in that region last year which appeared disquieting for some time. More recently, however, the tension has been considerably relaxed through the establishment of the Hopei-Chahar Political Council. At any rate, it is plain that no stability can ever be attained without the adjustment of the relations between Japan, Manchukuo, and China. In the fulfilment of this purpose lies the second point of our programme. We are convinced that as the first step to a complete and final adjustment of the relations between Japan, Manchukuo, and China, the Chinese Government should recognize Manchukuo, and the two countries should open diplomatic intercourse and harmonize their interests. It is hoped that the day will soon arrive when this is done. In the meantime we believe a temporary measure should be devised in order to prevent any untoward eventuality in the relations between the three countries.

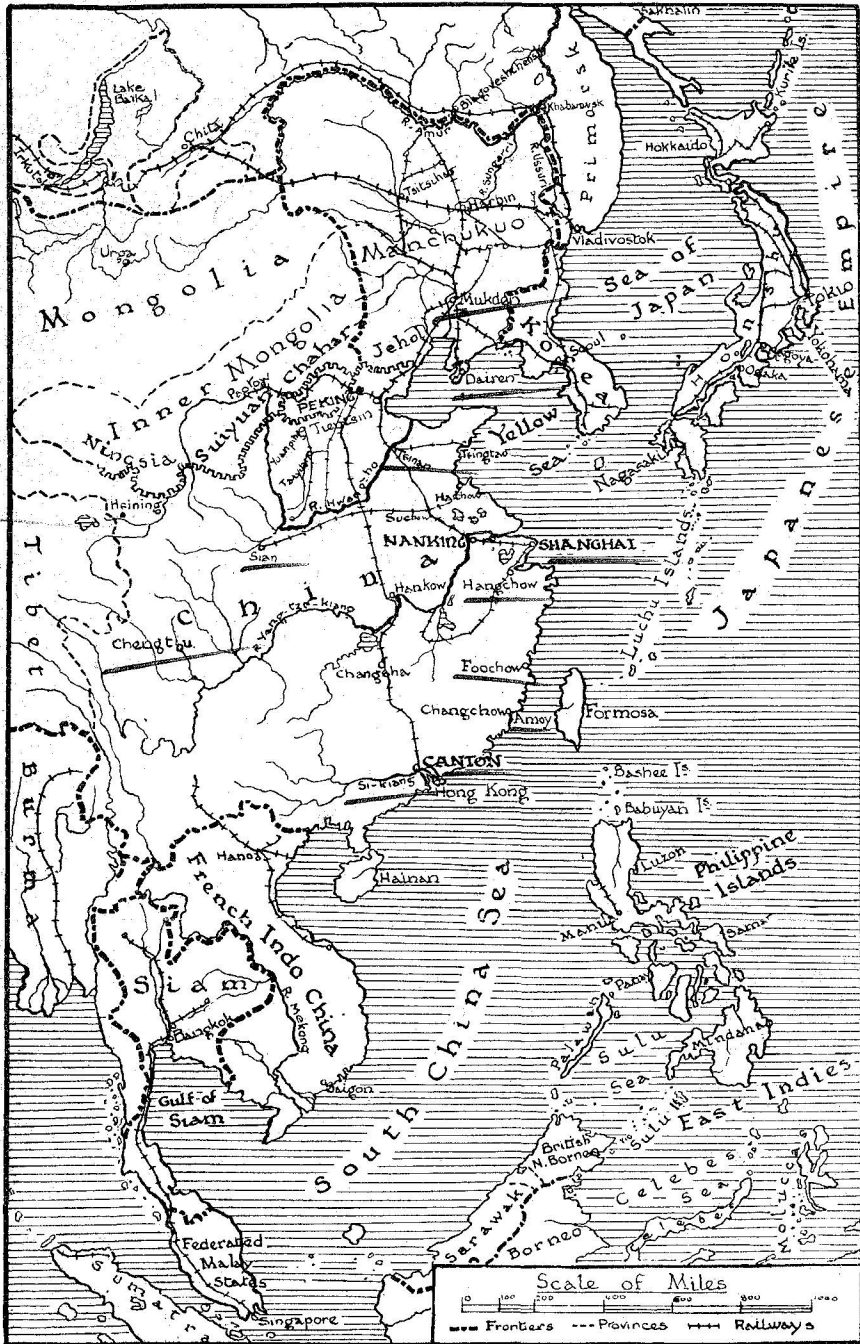
The greatest of all difficulties confronting China to-day is, I believe, Communism, which has found a ready soil for propagation in the unsettled conditions of East Asia, and which has affected China most seriously, endangering not only her border regions but her internal social order itself. The rampancy of Communism in China seems to surpass all our knowledge. The Red menace is, of course, not confined to East Asia, which has been selected as a field of action just at this time. The suppression of the Communist activities in our part of the globe and the liberation of China from the Red menace are, therefore, a matter of vital importance not only for China but for the stabilization of East Asia and of the world. Herein lies the third point. It is the desire of the Japanese Government to co-operate with China in various ways for the eradication of Communism.

These, then, are the three points of our programme. They involve no new or startling principles. In fact they are nothing but the most obvious and elemental

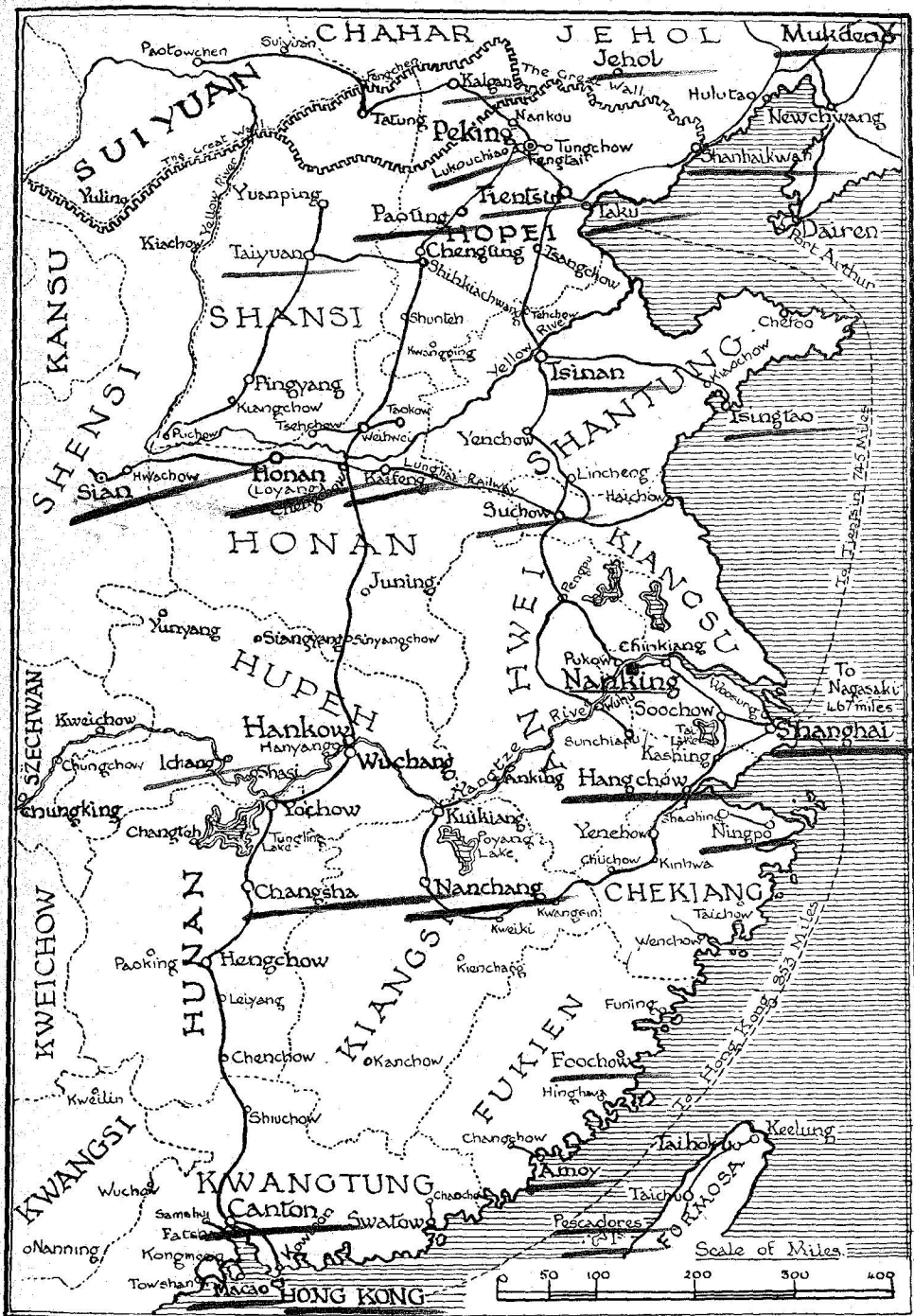
(1) In the Imperial Diet. Text supplied by the Japanese Embassy in London.

R concepts that must underlie the great undertaking of ensuring the stability of East Asia, and as such they should, I do not hesitate to say, constitute a common cause of all nations in East Asia. The Chinese Government not only has indicated its concurrence with our views, but has proposed recently to open negotiations on Sino-Japanese rapprochement along these lines stated above. Although, much to our regret, there are at this moment student agitations in China which contravene the very spirit of our programme, it is expected that the present situation will soon be rectified by the Chinese authorities, and an auspicious atmosphere for the opening of the said negotiations will prevail. The Japanese Government have communicated their acceptance of the Chinese proposal, and are awaiting the notice from the Chinese Government of the completion of its preparations. With the progress of these negotiations we shall be able, I am confident, to lay the foundation for a thorough readjustment of Sino-Japanese relations . . .





EASTERN ASIA



CHINA