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THE INFLUENCE OF AMERICAN COMMERCIAL INTERESTS
IN CHINA UPON UNITED STATES POLICY
TOWARD JAPAN, 1937-1938

BY

ROBERT J. COLBORN, JR.

A THESIS SUBMITTED IN PARTIAL FULFILLMENT OF THE
REQUIREMENTS FOR THE DEGREE OF
MASTER OF ARTS
IN
HISTORY

UNIVERSITY OF RHODE ISLAND

1960

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ABSTRACT

The purpose of this thesis is to investigate the degree of influence which American business interests in China exerted upon United States policy toward Japan during the period 1937-1938. On the night of July 7, 1937, Japanese military forces invaded the Republic of China without a prior declaration of war. During the months of undeclared but unrestrained war which followed, foreign investments in the trade and industry of China were threatened with extinction. As hostilities became more widespread, business activity within China was brought to a virtual standstill, and properties owned by foreign commercial groups frequently suffered extensive damage. The Japanese Government, moreover, made deliberate efforts to force the withdrawal of all foreign industry and trade from those areas of China under its control.

American business interests in China condemned Japan's war of aggression and called upon the United States Government to defend the commercial rights which were guaranteed by the Open Door policy. Throughout 1937 and 1938, the commercial groups in China insisted that the government in Washington adopt more spirited measures against the Japanese. The business community was well organized and succeeded in keeping its observations and opinions

regarding developments in China before the American Government and the American people. This study will investigate the role which American business interests sought to play in the formulation of United States policy toward Japan.

A most valuable source of primary materials was provided by Volume I of the Foreign Relations of the United States: Japan, 1931-1941, a compilation of diplomatic papers published by the Department of State in 1943. The China Weekly Review, an English language newspaper published in Shanghai, reflected the attitude of American citizens resident in China during 1937 and 1938. The Commercial and Financial Chronicle, a leading commercial journal, indicated the opinion of businessmen in the United States toward the war in East Asia. The Congressional Record revealed what was being thought on Capitol Hill in the period 1937-1938. Henry L. Stimson's On Active Service in Peace and War, Joseph C. Grew's Ten Years in Japan, and The Memoirs of Cordell Hull, provided valuable insights into United States foreign policy.

Several secondary sources were of special value in this study. John W. Masland's "Commercial Influence Upon Far Eastern Policy," published in the Pacific Historical Review, must be rated as of primary importance. An excellent survey of the nature and value of American commerce in China was presented in Miriam S. Farley's "America's Stake in the Far East," which appeared in Far

Eastern Survey in 1936. Other noteworthy secondary sources were A. Whitney Griswold's The Far Eastern Policy of the United States, William C. Johnstone's The United States and Japan's New Order, and Robert E. Osgood's Ideals and Self-Interest in America's Foreign Relations.

The major finding of this study is that American commercial interests in China did exert an ultimate influence upon United States policy toward Japan. This influence, however, was indirect and overshadowed by the broader concerns of American national self-interest. Although the American Government came to the defense of the Open Door in China during 1937 and 1938, it was not motivated by any intrinsic desire to preserve Sino-American economic relations. The United States Government and public opinion in general had never considered the China trade to be of vital national importance. But in 1937 American statesmen were vitally interested in obstructing Japan's efforts to create a "new order" in East Asia. It was to thwart Japan that the United States upheld the Open Door, and not because of any inherent desire to sustain American commercial interests in China.

Although the business community was unsuccessful in its attempts to influence American policy directly, there is a sense in which the commercial interests in China did affect the subsequent course of Japanese-American relations. The repeated destruction of American lives and properties by the Japanese gradually angered the people of the United

States. As public resentment grew, the American Government was given increased latitude in its efforts to deter Japanese imperialism in East Asia. It is in this way that the violation of American commercial rights in China was to have an ultimate influence upon United States policy in East Asia.

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CHAPTER I

INTRODUCTION AND HISTORICAL BACKGROUND

Early Diplomatic and Commercial Relations, 1784-1900

Since the earliest days of the American Republic, American merchants have carried on commercial relations with China. The voyage of the Empress of China in 1784 marked the first time an American ship had sailed directly to Canton, the center of the early China trade.¹ Within thirty years, Canton was the site of a growing community of resident American commercial agents.²

Like the European traders who proceeded them, American merchants sought the exotic products of the ancient Celestial Kingdom. The early China clippers brought back silks, spices, and tea, which were paid for largely in specie. This early trade, though small in volume, was of considerable importance to a youthful and small maritime nation which in its early years depended heavily upon foreign trade and shipping for its livelihood.³ Although many

¹Paul H. Clyde, The Far East: A History of the Impact of the West on Eastern Asia (New York: Prentice-Hall, Inc., 1948), p. 127.

²Julien Arnold, China: A Commercial and Industrial Handbook, U. S. Dept. of Commerce Trade Promotion Series No. 28 (Washington: U. S. Government Printing Office, 1926), p. 139.

³Miriam S. Farley, "America's Stake in the Far East, I: Trade," Far Eastern Survey, V (July 29, 1936), 162.

Americans interested in the Far Eastern trade considered China to be the most valuable Asian market, their considerations were based mainly on the hope of future developments rather than upon present accomplishments.⁴ This emphasis upon the potential trade with China rather than its actualities was to be a constantly recurring theme in Chinese-American relations.

The first American merchants conducted their trade with a larger measure of individual freedom than did the British, their chief rivals. Americans, however, did not enjoy the financial backing or the prestige of the English East India Company, nor did they have the naval protection of their government. As long as the early American trader felt that he enjoyed equal trading terms with the British, there was little agitation for the official support of the authorities in Washington. But as relations grew more strained between the British and the Chinese Government after 1834, this early indifference to official support gave way.⁵

When the Chinese gave indication in 1839 that they would work to limit the volume of foreign trade at Canton, then the only Chinese port open to foreign commerce, the American businessmen of that city petitioned the United

⁴William L. Neumann, "Ambiguity and Ambivalence in Ideals of National Interest in Asia," Isolation and Security, ed. Alexander DeConde (Durham, North Carolina: Duke University Press, 1957), p. 151.

⁵Clyde, p. 127.

States Congress to send a commercial agent who was authorized to conclude a treaty of commerce. Furthermore, they requested a naval force adequate to protect American citizens and property. It was during this period of worsening Anglo-Chinese relations that the attention of the American Government and American citizens was turned upon the embryonic commerce at far away Canton.⁶

Before the American Government felt constrained to act, however, the first of a series of wars which were to prove fatal to China's sovereignty took place. The occasion for the first armed clash between China and a western power was the illegal traffic in opium which Great Britain had been engaging in. The unprecedented growth of this trade in the years immediately prior to hostilities produced serious consequences for China. To pay for this vastly increased importation in opium the Chinese Government had been forced to export silver, much to the nation's economic detriment. The efforts of China to curtail this trade provided the cause for war.⁷

The so-called Opium War (1839-1842) between Great Britain and the Chinese Empire ended disastrously for the already enervated Celestial Kingdom of the Manchus. Helpless before the superior strength of a "barbarous" nation, China was forced to sue for peace with Great Britain. The days of China's exclusiveness and superiority were at an end. The next hundred years would see increasingly

⁶Ibid., p. 128.

⁷Ibid., p. 123.

voracious foreign intruders dictate the terms under which China might enjoy trade and peace.⁸

The Treaty of Nanking (1842) which officially ended the Opium War, and a supplementary treaty signed a year later, set the basic principles which were "to govern China's international status for a century."⁹ China was forced to open new ports to foreign commerce, agreed to a uniform and moderate tariff, provided for extraterritorial jurisdiction in criminal cases--a serious infringement upon China's sovereignty--and secured the most-favored-nation treatment for Britain. This latter provision guaranteed that if the Chinese Emperor subsequently granted additional privileges or immunities to other foreign countries, the same immunities and privileges would be extended to and enjoyed by British subjects.¹⁰

When the American Government learned that Great Britain had wrung the most-favored-nation agreement from the overwhelmed Manchus, the United States felt that the time had come to give serious attention to the future of American trade and commerce in China.¹¹ It was to safeguard the future of this trade and commerce that President John Tyler authorized the intrepid diplomat Caleb Cushing to seek the most-favored-nation treatment for American

⁸Ibid., p. 124. ⁹Ibid., p. 125. ¹⁰Ibid., p. 126.

¹¹Ibid., p. 129.

businessmen.¹²

Cushing was eminently successful in carrying out the instructions of his superior. In 1844, the United States concluded its first treaty with Peking. Both Congress and the American public gave hearty approval to the commercial treaty which Cushing had concluded, for as one Congressman observed, no one knew "just how much of our tobacco might be chewed [by the Chinese] in place of opium."¹³ The most-favored-nation treatment for American merchants which Cushing had obtained in the Treaty of Wanghia "expressed so exactly the real interests of Americans that it survived for a century."¹⁴ From this time forward, equal commercial opportunity in China was to be the cardinal principle of America's Far Eastern policy.¹⁵

In the strained atmosphere which existed in China after the Treaty of Nanking, the occasion for a new war against the Manchus was not long in presenting itself. Purported insults to the British Crown and the murder of a French Catholic priest were the "convenient pretexts for armed action."¹⁶ The ensuing conflict was brief and

¹²John W. Masland, "Commercial Influence Upon Far Eastern Policy, 1937-1941," The Pacific Historical Review, XI (September, 1942), p. 281.

¹³Clyde, p. 131.

¹⁴Ibid., p. 129.

¹⁵A. Whitney Griswold, The Far Eastern Policy of the United States (New York: Harcourt, Brace & Co., 1938), p. 6.

¹⁶Clyde, p. 152.

decisive. In the treaties of Tientsin (1858), the Chinese Government was compelled to accede to an expansion of the principles and practices set forth in the treaties of 1842 and 1844.

China was now fully opened to the inroads of foreign commerce. During the fifty years which followed the treaty settlements at Tientsin, China was subjected to policies which reduced its sovereignty to a fiction.¹⁷ But at this moment, the eyes of America were not upon China. A civil war was about to break upon the badly divided American Republic. And when that war had come and passed, the United States was well on the way to becoming an industrial nation. Attention for the remainder of the nineteenth century would be turned inward upon self-development rather than upon the commercial prospects that lay beyond the broad Pacific. Although exports from the United States to China had increased rapidly during the fifteen years after the Treaty of Wanghia, rising from \$2,276,000 in 1845 to \$8,906,000 in 1860, the Civil War was to bring a change. The next thirty years or so were to see exports fall and a general languishing of the China trade. Absorption of productive capacity in the development of the American West was the primary reason for this decline.¹⁸

¹⁷Harold S. Quigley, Far Eastern War, 1937-1941 (Boston: World Peace Foundations, 1942), p. 32.

¹⁸Charles S. Campbell, Jr., Special Business Interests and the Open Door Policy (New Haven: Yale University Press, 1951), p. 10.

The outcome of this process of internal development was the transformation of the United States into a great industrial nation. By the end of the nineteenth century, America was already entering into that phase of mass production which was to give birth to a renewed interest in foreign markets.¹⁹ Exports to China shared in the general expansion of foreign trade which had lain stagnant for the previous three decades. Between 1890 and 1900, exports from the United States to China increased from \$7,385,362 to \$23,745,000. During this same period, however, America's total exports to all parts of the world rose from \$857,502,548 in 1890 to \$1,478,050,000 in 1900.²⁰

Despite the fact that the China trade had recovered and risen to new heights in the decade prior to 1900, the combined imports and exports of the United States with China amounted to only 2 per cent of total American foreign trade. The American industrial and financial community as a whole paid little attention to the Chinese market. Although some business groups expressed considerable interest in the potential of the China trade, the fundamental fact remained that "China was a remote and relatively insignificant province of American economic enterprise."²¹

Other forces were afoot, however, which were to

¹⁹Farley, Far Eastern Survey, V (July 29, 1936), 162.

²⁰Campbell, p. 10.

²¹Griswold, p. 24.

support the speculations of those business interests which envisioned a bright future for American enterprise in China. As a result of the Spanish-American War, the nation became increasingly conscious of the Far East.²² The United States emerged from the war as a power having important territorial interests in Asia.²³ Those business circles in the United States which constantly stressed the value of the China market to America's continued prosperity combined with the small but vocal expansionist clique to press for the annexation of the Philippines.²⁴ Both the desire for the annexation of the Philippines and the desire for a more spirited defense of American rights and interests in China were co-products of the expansionist impulse of the period.²⁵ Although this group was small, it can be credited with producing a climate of opinion favorable to the adoption of the Open Door Policy by the administration of President William McKinley.²⁶

The Doctrine of the Open Door

In the last two decades of the nineteenth century, China's humiliation had been made complete as the insatiable hunger of the Western powers for empire drove them to tear away areas over which China exercised suzerainty. In 1884, France seized Indochina. Two years

²²Campbell, p. 41.

²³Farley, Far Eastern Survey, V (July 29, 1936), 162.

²⁴Masland, The Pacific Historical Review, XI (September, 1942), 82.

²⁵Griswold, p. 26.

²⁶Campbell, p. 1.

later, Burma was absorbed into the British Empire. Japan provoked a war in 1894 which ended with China's loss of Formosa, its forced recognition of Korean "independence," and, to make Peking's shame complete, the imposition of a large cash indemnity. Whenever China resisted, it was dealt with the more harshly, compelled to sign more "treaties," "lease" more territory, and pay more "indemnities."²⁷

By 1897, the moment seemed very near when the Great Powers would begin the actual annexation of their respective "spheres of influence." The delicate balance of power among the Great Powers in China seemed on the verge of collapse, and in all probability the extinction of Chinese independence would follow.²⁸ China's quasi-colonial position resulted not only from the spheres which the powers had carved out over a fifty year period but also from the treaty rights that had been wrung from the declining Manchus. Extraterritoriality was the most extensive of these privileges, but there were also tariff restrictions, and the rights of coastal and river navigation, of garrisoning troops, and of establishing a postal system. The United States had shared in this complex of prerogatives which so drastically limited China's freedom of action.²⁹ But whereas the European states had carved

²⁷Forman Harrison, Changing China (New York: Crown Publishing Co., 1948), p. 44.

²⁸Campbell, p. 25. ²⁹Quigley, pp. 34-35.

their initials upon China by marking off special enclaves of influence, the United States had denied itself this type of concession.³⁰

By 1898, then, all the salient features of the Far Eastern policy of the United States had virtually jelled. Equality of commercial opportunity, not territorial acquisition, was America's objective. Peace, amity, and trade formed the bed-rock of United States' policy toward China.³¹ But a half-century of gradual encroachments upon China's territories was apparently about to terminate in a flurry of land-grabbing which would spell an end to China's territorial integrity. These developments alarmed American merchants and missionaries alike, both groups fearing that they would be eliminated from the glorious future in China which both envisioned. Appeals were made to the State Department to intervene in the course of events. The British, who had a much vaster trade and financial stake in the Chinese Empire, added their exhortations to the clamor.³² Thus it was that Great Britain, which had considerable interests throughout all of Asia, and the United States, which had negligible interests but "gargantuan expectations," found reason to make common cause against

³⁰Griswold, p. 6. ³¹Ibid., p. 8.

³²Thomas A. Bailey, The Man in the Street (New York: The Macmillan Co., 1948), p. 286.

further infringements upon China's tattered sovereignty.³³

Secretary of State John Hay, working in close collaboration with the British, penned the first of the famous Open Door notes in 1899. In these notes, Hay urged the powers to accept the ideal of commercial equality in China. Although most of the Great Powers accepted the principle of commercial equality only with extensive qualifications, Hay publicly announced that he had received replies from the powers which were "final and definitive." When the Boxer Rebellion flared up in China only months later in 1900, Hay announced--this time without benefit of notes to the other powers--that the Open Door had been extended to include the territorial integrity of China, as well as equality of commercial opportunity within the Chinese Empire. "Thus, on the rushing tide of dramatic events, the new Open Door was floated before the public gaze."³⁴

The popular notion persists that Hay's pen had effected the rescue of China at a time when its denouement appeared certain. Such was hardly the case, however. China was to a large degree the beneficiary of the growing rivalries among the Great Powers of Europe. In their efforts to make certain that none gained any undue

³³Robert E. Osgood, Ideals and Self-Interest in America's Foreign Relations (Chicago: The University of Chicago Press, 1953), p. 61.

³⁴Bailey, pp. 286-87.

advantage, they effectively prevented each other from pursuing their territorial aspirations in China.³⁵ The doctrine was no more effective than the power of Great Britain and the United States to back it up, and the United States did not have the armed strength to rescue China had Hay's bluff been challenged. In point of fact, "neither Hay nor any other American official had any intention of enforcing it if called to book."³⁶

Furthermore, it should be noted that until 1900, America's respect for China's territorial integrity was merely a self-imposed regulation. The United States was under no obligation to rush to China's defense if another power or combination of powers threatened to dismember it. As long as the United States pursued this policy, it was able to remain free of serious involvement in the political entanglements of Eastern Asia. But with Hay's pronouncement that the American policy of the Open Door now included the territorial integrity of China, such a degree of detachment in the future would be virtually impossible.³⁷

The Open Door and Sino-American Economic Relations, 1900-1931

Threats to China's territorial integrity and America's commerce, however, were not to cease at the flourish of a pen. Theodore Roosevelt's first impulse

³⁵Ibid., p. 287. ³⁶Osgood, p. 62.

³⁷Griswold, p. 7.

during the Russo-Japanese War of 1904-1905 had been to favor Japan so that Russia's hold on Manchuria might be weakened and the Open Door thereby protected.³⁸ Russia's efforts to restrict American commercial enterprise in Manchuria had been analyzed as but one expression of the czarist government's desire to dominate all North China. The treaty of peace itself, which had been concluded under the mediation of President Roosevelt, contained a provision binding Japan and Russia "not to obstruct any general measures common to all countries, which China may take for the development of the commerce and industry of Manchuria."³⁹

President William Howard Taft's policy of Dollar Diplomacy as it was made manifest in China was an aggressive but ill-conceived attempt to promote American capital by insisting upon the right of American interests to participate in a three-power consortium to build the Hukuang railway. His efforts had been succeeded by the even more inept attempts by his Secretary of State, Philander C. Knox, to interest several powers in a financial scheme to tear the Manchurian railways away from Russian and Japanese control.⁴⁰ Both efforts proved unsuccessful, with the erstwhile enemies, Russia and Japan, cooperating to defeat

³⁸Osgood, p. 67.

³⁹T. A. Bisson, American Policy in the Far East, 1931-1940 (New York: Institute of Pacific Relations, 1940), p. 9.

⁴⁰Osgood, p. 103.

this plan to internationalize the Manchurian railway system.⁴¹

During the first four years of Woodrow Wilson's administration, Taft's policy of Dollar Diplomacy in China was discontinued.⁴² Wilson had insisted that the financial adventures in China which the preceeding administration had championed be halted because of "the stringent controls it involved over the Chinese Administration."⁴³ In 1917, however, Wilson departed sharply from his policy of aloofness to international financial projects in China. Secretary of State Robert Lansing gave notice to American bankers and foreign governments that the United States was interested in joining in the creation of a new consortium based upon a broader membership and upon conditions that would not depreciate China's sovereignty. This abrupt shift in attitude grew out of new apprehension for the Open Door which had been engendered by the Chinese Government's reckless borrowing from Japanese banks. The Chinese Government, however, was not interested in the new consortium and the proposal came to nothing.⁴⁴

Both Taft and Wilson had attempted to implement the policy of the Open Door by interjecting American influence in the form of private participation in large loans to the Chinese Government, and by encouraging direct investments

⁴¹Quigley, p. 37.

⁴²Bailey, p. 240.

⁴³Quigley, p. 37.

⁴⁴Ibid., p. 39.

by American businessmen. Both presidents had been thwarted in their efforts largely because of the apathy of American investors for such projects, an indifference which was based partly upon the knowledge of the extensive investments by other states already existing in China, and partly upon the tradition of "avoidance of foreign entanglements." These obstacles placed the Department of State in the position of having to muster public opinion in support of this new departure into world affairs.⁴⁵ Public opinion, however, largely turned against Dollar Diplomacy.⁴⁶ Investments in China remained small during this period, and the United States was forced to content itself with the more limited objective of merely acting as a brake upon the more aggressive powers.⁴⁷

Although few commercial groups in the United States believed in the viability of the China market, the American Government did not fail to provide the necessary agencies and facilities for the promotion of Chinese-American commercial relations. Diplomatic officials concerned with Far Eastern affairs during the first several decades of the twentieth century were motivated by the basic assumption that China would one day be a great market capable of

⁴⁵Ibid., p. 36.

⁴⁶Samuel Flagg Bemis, The United States as a World Power: A Diplomatic History, 1900-1955 (New York: Henry Holt & Co., 1955), p. 61.

⁴⁷Quigley, p. 36.

absorbing vast amounts of American products.⁴⁸ Government officials wrote pamphlets giving details on every phase of commercial life in China, invariably pointing out the "vast opportunities for industrial development," outlining the facilities available to Americans resident in China, and even optimistically suggesting a criteria for the selection of the business representative in China.⁴⁹

The commercialized coastal region of China was the site of most of the markets for manufactured goods coming from the United States.⁵⁰ It was in this area that trade promotional organizations and activities were concentrated. A representative of the Department of Commerce was sent to the ancient capital city of Peking in 1914. American Chambers of Commerce were functioning vigorously at Shanghai, Tientsin, Hankow, and Peking by the early 1920's. By 1925, American trade commissioners located in Shanghai and Canton were compiling a monthly resume of the China trade for general distribution among all Americans desiring such information.⁵¹

⁴⁸Masland, The Pacific Historical Review, XI (September, 1942), 293.

⁴⁹See Julean Arnold, China Trade Facts, U. S. Dept. of Commerce, Bureau of Foreign and Domestic Commerce (Washington: U. S. Government Printing Office, 1925).

⁵⁰Walter A. Radius, "United States Trade and the Sino-Japanese War," Far Eastern Survey, VII (January 5, 1938), 2.

⁵¹Arnold, p. 12.

Official encouragement, however, was not enough to stimulate greater American business activity on the China mainland. While total American investments abroad rose very rapidly after 1914--from \$2,500,000,000 to more than \$16,000,000,000 in 1930--less than \$200,000,000 (exclusive of missionary, medical, and educational enterprises) was invested in China. Only \$40,000,000 of this total was in the form of loans.⁵² In comparative terms, this means that of all the foreign investments in China as of 1930, only 6.1 per cent were American.⁵³ By contrast, British financial interests in China were six and one-half times as great as American holdings in 1931. Totaling nearly one billion dollars, British holdings constituted 39 per cent of all foreign business investments in China. The Japanese were next with 37 per cent of the total, while Russian investments were a poor third with 11 per cent.⁵⁴

About four-fifths of all American investments in China were in business concerns: banks, public utilities, shipping, tobacco companies, oil stations, newspapers, and small factories. These direct business investments by private American concerns totaled approximately \$160,000,000 or about 80 per cent of all American commercial interests

⁵²Quigley, p. 40.

⁵³William W. Lockwood, Jr., "America's Stake in the Far East, II: Investments," Far Eastern Survey, V (August 12, 1936), p. 181.

⁵⁴Quigley, p. 41.

in China.⁵⁵ The remaining 20 per cent, or about \$40,000,000, was in portfolio investments. This same ratio of direct to portfolio investments held true for all foreign investors in China in 1930.⁵⁶

On the eve of Japan's invasion of Manchuria in 1931, American concerns made two major investments in China. Both investments were located in Shanghai, long the focal point of American commercial activity in China. In 1929, two large American utility companies acquired a controlling interest in the Shanghai Power Company under terms which gave the company a monopoly in supplying electric power to the International Settlement at Shanghai. One year later, the American-owned International Telephone and Telegraph Corporation purchased the Shanghai Mutual Telephone Company, a transaction which gave the American concern a dominant interest in the telephone service supplied to the large foreign community in Shanghai. These two transactions substantially increased the American stake in the internationally controlled city.⁵⁷

The Rivalry of Japan and the United States in East Asia

Japan had emerged as the chief challenger of the

⁵⁵Quigley, p. 40.

⁵⁶Wei Ying-lin, China and Foreign Capital (Chungking, China: China Institute of Pacific Relations, 1945), p. 43.

⁵⁷Lockwood, Far Eastern Survey, V (August 12, 1936), 178.

Open Door in China from the early days of the twentieth century. At the outbreak of the Russo-Japanese War in 1904, President Theodore Roosevelt and the great mass of the American people had favored the Japanese, who were regarded as a civilizing force at work in the Far East, and had opposed the Russians, who were looked upon as semi-barbaric and a threat to American commercial interests situated in Manchuria.⁵⁸ Mr. Roosevelt soon realized, however, that the Open Door policy had not been strengthened by the substitution of Japan for Russia in Manchuria.⁵⁹ From the standpoint of America's long-range interests in the Far East, Roosevelt grew as anxious to restrain Japan as he had been to check the advances of the Russian bear.⁶⁰ From this time on, relations between Japan and the United States steadily worsened. The Open Door policy became increasingly a barrier to Japanese advances on the Asian continent.⁶¹

Not only did Japan come to resent America's position in China and the Far East as a whole, but it also became convinced that all foreign investors in China were a potential threat to the continued economic prosperity of

⁵⁸Osgood, p. 67.

⁵⁹Samuel Flagg Bemis, American Foreign Policy and Diplomacy (New York: Henry Holt & Co., 1959), p. 357.

⁶⁰Osgood, p. 67.

⁶¹Bemis, American Foreign Policy, p. 356.

the Japanese Empire. As Japan had grown more industrialized during the last three decades of the nineteenth century and had adopted the techniques of mass production, it had become increasingly pressed to find commodity outlets on the Asian mainland.⁶² Japan had therefore come to regard the presence of other powers in China as inimical to its own vital interests.

During World War I, Japan made its first serious challenge to the Open Door when it lodged the notorious Twenty-One Demands against China. These exactions were so far-reaching in character that if the young Chinese Republic had been compelled to accept them in toto, China would have become a virtual Japanese protectorate.⁶³ Here again, however, the Open Door policy was used to block Japan's ambitious efforts to gain suzerainty over China. As soon as the content of the Twenty-One Demands was made public, Secretary of State William Jennings Bryan, in a note dispatched on March 13, 1915, informed both China and Japan that the United States Government would not recognize any agreement or undertaking which would impair "the treaty rights of the United States and its citizens in China, the political or territorial integrity of the Republic of China, or the international policy relative to China

⁶²Charles A. Beard, American Foreign Policy in the Making, 1932-1940 (New Haven: Yale University Press, 1946), p. 112.

⁶³Bemis, The United States as a World Power, p. 210.

commonly known as the Open Door policy."⁶⁴ The subsequent labors of American diplomacy, moreover, succeeded in persuading Japan to withdraw those demands which would have been fatal to Chinese sovereignty. Although the United States could not prevent China's acceptance of the remaining demands, the American Government had once again blocked Japan's principal national objective: to gain mastery over China.⁶⁵ Despite this setback on the Asian mainland, Japan emerged from the First World War "with an equality in power and prestige" that could not be denied. Japan's new position of strength and the increasing rivalry between the United States and Japan in the Far East led shortly to the Washington Naval Conference of 1921-1922.⁶⁶

The agreements reached at Washington in early February, 1922, ended the period of crisis in East Asia which had emerged as a by-product of the war in Europe.⁶⁷ The three principal treaties which resulted from the conference represented an effort to strike a compromise between Japan and the Western powers. The Five Power Naval Treaty between the United States, Great Britain, Japan, France, and Italy, declared a ten year "naval holiday" during which no new capital ships were to be built, and imposed a ratio

⁶⁴Bisson, p. 12.

⁶⁵Bemis, The United States as a World Power, p. 210.

⁶⁶Bemis, American Foreign Policy, p. 456.

⁶⁷Bisson, p. 13.

of 5-5-3-1.75-1.75, respectively, on capital ship tonnage.⁶⁸ The terms of the Four Power Treaty constituted a multi-lateral pledge between the three great naval powers and France regarding the insular possessions in the Pacific. The four states agreed to respect each other's rights in insular possessions in the Pacific region and to consult together if those rights became the subject of controversy or should be threatened by an outside power. A third agreement, the Nine Power Treaty, embodied the most sweeping affirmation of the American principle of the Open Door ever made. All the nations assembled at Washington agreed to respect the territorial and administrative integrity of China, as well as equality of commercial opportunity within China.⁶⁹ The special treaty privileges which had been wrung from China in years past were not touched by this pact, however.

The Washington Conference allowed the United States to retreat from "active diplomacy in the Far East" by making the American policy of the Open Door the responsibility of all the powers which subscribed to the Nine Power Treaty. The United States was thus no longer the sole guardian of those principles embodied within the Open Door. The naval limitations imposed by the Five Power Treaty, moreover, made it impossible for the American Government to defend the Open Door.⁷⁰ This condition,

⁶⁸Osgood, p. 339. ⁶⁹Ibid., p. 340.

⁷⁰Bemis, American Foreign Policy, p. 460.

however, was not substantially different from that which had existed prior to the Conference; the United States had never been sufficiently powerful to sustain the Open Door. "From the time of Hay's original announcement of the Open Door policy no American statesman had ever contemplated its enforcement: the Five Power Treaty did not change this situation."⁷¹

America's frustrating intervention in the episode of the Twenty-One Demands in 1915, President Wilson's attempt to revive the four-power consortium in 1917, the disturbing presence of American troops in Siberia immediately following World War I, and the restrictions theoretically imposed upon Japan at the Washington Conference in 1922, persuaded the Japanese that they had found an antagonist in the United States.⁷² It was the diplomatic efforts of the United States, then, rather than the extent of American investments, which ultimately convinced the Japanese that American policy was designed to frustrate their expansion in China and throughout the Far East.⁷³

⁷¹Osgood, p. 341.

⁷²Ibid., p. 335.

⁷³Quigley, p. 36.

CHAPTER II

AMERICAN COMMERCIAL INTERESTS IN CHINA, 1931-1937

The Manchurian Crisis and United States Policy

On the night of September 18, 1931, Japan went on the rampage in Manchuria. The contest between the militarists and the moderates which had been constant in twentieth century Japan had turned once again--and for the last time--to the favor of the expansionists.

In the decade before the thrust in Manchuria, the moderates had directed the fortunes of the Japanese Empire. The agreements made at Washington in 1922 had been a "model of friendly conciliation" involving compromises by the government in Tokyo which no militaristic regime would have permitted.¹ To be sure, the years before 1931 had seen no retreat on the part of the Japanese from their determination to maintain the special position which they had achieved in Manchuria at such a cost in the Russo-Japanese War of 1904-1905. But Japanese foreign policy in the period before the Manchurian incident had been guided by men who had attempted to find a solution to the "Manchurian problem" by conciliatory means. The militarist clique,

¹Henry L. Stimson and McGeorge Bundy, On Active Service In Peace and War (New York: Harper & Bros., 1947), p. 224.

however, had continually sought to replace the economic objectives of the moderates with a program of active imperialism. In the parlance of the extremists, they were determined to undertake a more "positive" course of action in Manchuria.²

The grinding circumstances which resulted from a world-wide economic depression did much to discredit the moderates in the eyes of the Japanese people. Between 1929 and 1931 the foreign trade of Japan, vastly important to that maritime nation, was slashed in half. When other nations sought to export the depression by raising prohibitive tariff barriers against imports--a beggar-my-neighbor policy which the United States itself adopted--the Japanese economy felt the pinch. Under such conditions, Japanese opinion moved away from its former acceptance of a program based upon the peaceful pursuit of trade abroad.

The expansionists had been ready at hand with an alternative program of forceful imperialism which they presented in glowing terms to a people stricken by economic blight.³ With a finger on the pulse of the nation, the Japanese militarists had moved decisively in mid-September, 1931, swiftly over-running the Manchurian provinces of China, and presenting in short order their people and the world with a fait accompli. The government in Tokyo, which at the last minute had learned of the plot and had attempted desperately to stop it, felt compelled to ratify

²Ibid., p. 225. ³Ibid.

the action "doubtless in the conviction that if it did not a revolt of the Army would ensue."⁴

The official American response to Japan's assault upon Manchuria came on January 7, 1932 in a note which was delivered to both China and Japan. This caveat, which had been prepared by Secretary of State Henry L. Stimson at the direction of President Hoover, informed both parties that the United States would not recognize the legality of any de facto situation nor of any treaty or agreement which might impair "the treaty rights of the United States or its citizens in China, including those which relate to the sovereignty, the independence, or the territorial and administrative integrity of the Republic of China."⁵

This was the Stimson doctrine of nonrecognition. Stimson himself, however, gave full credit to William Jennings Bryan for providing him with a precedent of non-recognition in the Far East. When Japan had lodged its notorious Twenty-One Demands against China in 1915, Bryan had notified both China and Japan that the United States would not recognize any agreement which violated American rights under the Open Door.⁶

Secretary Stimson had wanted to halt the Japanese

⁴Joseph W. Ballantine, "Mukden to Pearl Harbor: The Foreign Policies of Japan," Foreign Affairs, XXVII (July, 1949), 652.

⁵Stimson, pp. 235-36.

⁶Cordell Hull, The Memoirs of Cordell Hull, I (New York: The Macmillan Co., 1948), 270.

by taking more forceful measures against their imperialistic advances in Manchuria. But the American people were "in no mood to depart from the non-entanglement tradition."⁷ The Great Depression had given rise to a plethora of domestic problems which had turned a traditionally isolationist people even more in upon themselves. Stimson himself wrote in November of 1931 that "the policy of imposing sanctions of force . . . had been rejected by America in its rejection of the League of Nations."⁸ The American people, Stimson wrote, had "deliberately chosen" to rely solely upon treaties which had achieved the sanction of "public opinion alone."⁹

With this background of popular sentiment, the Stimson doctrine of nonrecognition achieved considerable popular support in the United States. Aggressive measures which might have provoked war were neatly avoided and yet the moral position of the United States was secure. The policy had only one flaw: it did not stop the Japanese militarists "for as much as five minutes" in Manchuria or elsewhere.¹⁰ With each new report of Japanese advances in Manchuria and with mounting evidence that the Japanese foreign office was swinging in behind the militarists, it became increasingly clear that the forces of moderation within the Imperial Government had failed in their efforts

⁷Bailey, p. 249. ⁸Stimson, p. 244.

⁹Ibid. ¹⁰Bailey, p. 281.

to regain authority.¹¹

No matter what illusions the American people might entertain about the efficacy of nonrecognition, Stimson was aware of its severe limitations. The policy served as a purely moral weapon designed "less as a method of bringing the Japanese to reason than as a method of reasserting the American conviction that no good whatever could come from the breach of treaties."¹² The United States had spoken up in defense of international morality, but in terms of diplomacy it had hardly been very successful. By mid-January of 1932, Japan had achieved a complete military and diplomatic victory in Manchuria. The government in Tokyo had effectively resisted all attempts by other nations of the world to intervene in Japan's military penetration of the Asian mainland.¹³

As for the threat which Japan's invasion of Manchuria might pose to American commercial interests located there, Manchuria was not in 1931 nor indeed had it ever been a factor of much economic significance for the United States, either in terms of American trade as a whole, or in terms of imports or exports of any important commodities.¹⁴ To Stimson's way of thinking, the fundamental factor at stake was American prestige in China and throughout the Far East, a factor of such importance that it transcended in his mind any immediate damage which

¹¹Stimson, p. 228.

¹²Ibid., p. 234.

¹³Ibid., p. 239.

¹⁴Farley, Far Eastern Survey, V (July 29, 1936), 163.

might be done to American trade in Manchuria. It was his conviction that, in the final analysis, all of America's material interests in East Asia hinged upon retaining the prestige which the United States enjoyed "by virtue of its traditional support of China's territorial and administrative integrity."¹⁵ He believed that if China's sovereignty and independence were allowed to be destroyed by Japanese aggression, the future of the United States in the Far East would be placed in serious jeopardy; a struggle between China and Japan might not only destroy the "potentially profitable" commercial relations between China and the United States, but might even constitute a danger to America's territorial possessions in that region. For Stimson, then, American policy could not be based upon any narrow appraisal of what the American commercial community stood to lose by Japan's war in Manchuria. It was by insisting upon a close respect for international order and stability that American prestige and, consequently, America's material interests throughout East Asia could best be served.¹⁶

In formulating his policy, Stimson had been tightly encircled by the prevailing temperament of the American people. The dominant thought of the period surrounding the Manchurian crisis was all for avoidance of Leagues and

¹⁵Osgood, p. 353.

¹⁶Ibid., p. 354.

treaties or any agreement which implied commitments.¹⁷

Largely for this reason, it cannot be said that the American government, between 1921 and 1933, advanced very far toward the concept of collective security. The dictum that America should retain its "freedom of action" thoroughly dominated United States policy. The climate of opinion ran strongly against taking part in any common action against an aggressor.¹⁸ Unable to defy such a powerful body of opinion, Stimson had taken the only course he saw open to him: a grand-scale affirmation of the United States' traditional policy of the Open Door as expressed in the doctrine of nonrecognition.¹⁹

The lines were now clearly drawn between the United States and Japan. On one side stood the United States, persistent in its opposition to any action which would threaten the Chinese Republic's independence and territorial integrity. On the other stood Japan, irritated by the "fictions" of the Nine Power Treaty and unbending in its determination to impose a solution single-handedly upon the China problem.²⁰ After January, 1932, America's traditional sympathy for China and its hatred of militarism and autocracy became increasingly important factors in the popular attitude toward Far Eastern policy.²¹

¹⁷Dexter Perkins, "The Department of State and American Public Opinion," The Diplomats, 1919-1932, ed. Gordon A. Craig, and Felix Gilbert (Princeton: Princeton University Press, 1953), pp. 284-85.

¹⁸Ibid., p. 298. ¹⁹Griswold, p. 424.

²⁰Stimson, p. 255. ²¹Osgood, p. 360.

The moderate cabinet of Baron Shidehara fell from power on December 11, 1931. It had fought a losing battle to regain control over the military since the September attack had been launched against Manchuria. With the last vestiges of opposition removed, the conquest of Manchuria was rapidly completed with the capture of Chinchow on January 2, 1932.²²

The Open Door Closes In Manchuria

It soon became clear that Japan's political and military control over Chinese territory was to be accompanied by the elimination of foreign business and industry from the conquered areas. Foreign trade was restricted to non-competitive commodities and those items most needed by the Japanese to assist them in consolidating the gains thus far made.²³ During the next several years, Japanese capital investments in Manchuria greatly increased. By early 1935, Japan had achieved a virtual monopoly of investments in Manchuria. All other foreign interests, including the small American one, steadily diminished in importance.²⁴ Foreign banking, trading, and construction concerns, finding themselves at a considerable disadvantage,

²²Griswold, p. 421.

²³William C. Johnstone, The United States and Japan's New Order (New York: Oxford University Press, 1941), p. 142.

²⁴John R. Stewart, "Foreign Investments in Manchuria," Far Eastern Survey, IV (June 5, 1935), 81.

began to withdraw.²⁵

The Open Door for foreign investments in Manchuria had never, in fact, been held very wide. In the days prior to Japan's military conquest of the area in 1931, foreign trade and industry had been almost exclusively in the hands of either the Russians or the Japanese.²⁶ In 1930, Japan held 70 per cent of all foreign investments in Manchuria, valued at an estimated \$808,483,000. Russia's holdings constituted about 25 per cent of the whole, or approximately \$295,000,000. All other foreign investments accounted for less than 4 per cent of the total.²⁷

American investments in Manchuria at this time were estimated at only \$13,200,000. These business interests were predominately of a commercial nature, including oil, tobacco, and match distribution, as well as banking facilities. The only American commercial interest in Manchuria of any real importance, the profitable field of oil distribution, was eliminated by the Manchoukuo authorities in November, 1934, with the passage of an oil monopoly law. Under its provisions, the sale and distribution of oil was made a government monopoly. Foreign companies could continue to import petroleum products, but only if they agreed to sell exclusively to the Manchoukuo Oil Monopoly

²⁵T. A. Bisson, "American Policy in the Far East," Foreign Policy Reports, XII (February 1, 1937), 274.

²⁶Stewart, Far Eastern Survey, IV (June 5, 1935), 81.

²⁷Ibid., p. 82.

Bureau.²⁸

The American Government made frequent protests against the application of this law on the grounds that it was a violation of the Open Door, a protest echoed by Great Britain and the Netherlands.²⁹ Tokyo replied that, by refusing to recognize Manchoukuo, these powers had forfeited their claim to open door treatment in that area.³⁰ By mid-1935, the Manchoukuo Oil Monopoly had succeeded in forcing the Standard-Vacuum Oil Company, the Asiatic Petroleum Company, and the Texas Oil Company to close their offices in Manchuria.³¹

New Threats to the Open Door, 1934-1936

In the spring of 1934, Japan made still another attack upon the doctrine of the Open Door. On April 17, Eiji Amau, a spokesman for the Japanese Foreign Office, released a statement to the press which boldly put forth Japan's claim to exclusive control in China.³² It acknowledged that Japan had a "special position and mission" in Eastern Asia. The note contended that Japan was compelled to act "single-handedly" in order to maintain peace and order in East Asia, a responsibility which Japan shared

²⁸Ibid., p. 84.

²⁹Lockwood, Far Eastern Survey, V (August 12, 1936), 177.

³⁰Griswold, p. 442.

³¹Bisson, Foreign Policy Reports, XII (February 1, 1937), 274.

³²T. A. Bisson, "Struggle of the Powers in China," Foreign Policy Reports, XII (August 1, 1936), 122-23.

with China alone. The Japanese Government would, therefore, oppose any attempt on the part of China to involve other powers in what was exclusively the duty of China and Japan.³³

As for outside nations, the Amau statement warned them against undertaking any operations in China which might be prejudicial to Japanese interests, for under existing conditions even technical and financial assistance would acquire political significance. Supplying China with warplanes, constructing airdromes in China, sending military instructors or observers to China, or contracting loans to provide funds for political use would, the note concluded, tend to disturb the friendly relations between China, Japan, and other countries, and would endanger the peace and order of Eastern Asia. Japan, therefore, would be opposed to such projects "as a matter of principle."³⁴

The Amau statement was a direct challenge to British and American rights and interests in China. More specifically, the terms of the pronouncement called into question "a whole series of American economic and governmental relations with China."³⁵ One year earlier, the Chinese Government had arranged with the United States for a three-year, \$50,000,000 wheat and cotton credit to Nanking from the Reconstruction Finance Corporation. In

³³Ibid., p. 124. ³⁴Ibid. ³⁵Ibid.

1930, the China National Aviation Corporation had been formed with 55 per cent of this airline owned by the Nationalist Government while the remaining 45 per cent was held by Pan-American Airways. Toward the end of 1933, the Central Aircraft and Manufacturing Company had been organized in China, with the Curtiss-Wright Corporation owning 64 per cent of this aircraft manufacturing plant, and the Douglas Aircraft Company controlling another 16 per cent.³⁶ By 1936, this concern would be turning out sixty military aircraft a year for the Nanking Government.³⁷ During 1932 and 1933, moreover, the Aeronautics Trade Division of the Commerce Department had cooperated with these American aircraft corporations in the selection of a number of American aviation officers who assisted in establishing training schools for Chinese pilots.³⁸ During this same period, the sale of American aircraft and accessories, including military planes, had greatly expanded, rising from \$207,000 in 1932 to \$2,359,000 in 1933.³⁹

The Amau statement received world publicity. Its claim to Japanese preeminence in East Asia could not be allowed to pass unanswered. Within ten days, Secretary of State Cordell Hull had formulated Washington's official

³⁶Lockwood, Far Eastern Survey, V (August 12, 1936), 178.

³⁷Bisson, Foreign Policy Reports, XII (August, 1936), 123.

³⁸Bisson, Foreign Policy Reports, XII (February 1, 1936), 275.

³⁹Bisson, Foreign Policy Reports, XII (August 1, 1936), 123.

response. On April 28, 1934, Ambassador Joseph C. Grew, the ranking American official in Tokyo, delivered Hull's reply to the Japanese Foreign Office. In this note, Hull called attention to the fact that the United States, by virtue of existing treaties, "had certain rights and obligations" in China and was associated with China, Japan, and other nations in certain multilateral treaties relating to the Far East.⁴⁰ No nation, Hull reminded Japan, could, without the consent of the other states concerned, "rightfully endeavor to make conclusive its will in situations where there are involved the rights, the obligations, and the legitimate interests of other sovereign states."⁴¹

To this communication, the Japanese Government made no official response, and the matter was allowed to rest. Hull had reaffirmed American allegiance to the same principles and treaty rights which Stimson had sought to uphold at the time of the Manchurian incident in 1931. The United States Government had again refused to recognize Japan's right to disregard them.⁴² The Amau statement, for all its boldness, did not succeed in curtailing American relations with China.

On December 19, 1934, Japan gave notice that it intended to end participation in the naval limitations

⁴⁰Hull, I, 279.

⁴¹Bisson, American Policy in the Far East, p. 31.

⁴²Griswold, p. 444.

treaties of 1921-1922. Those entrusted with the formulation of American policy in the Far East were once again at the crossroads of decision. As Secretary Hull saw it, there were two possible courses of action which the United States might follow. One was to withdraw gradually, "perhaps with dignity," from the Far East. This would mean, Hull believed, acquiescence in the nullification of American treaty rights, the closing of the Open Door, the abandonment of China to the acquisitive designs of Japan, relinquishment of the right to protect American nationals in China, and the surrendering of American commercial rights on the Asian mainland. It would, in effect, turn over the entire Pacific area west of Hawaii to the domination of Japan.⁴³ The other course of action was to continue to insist on the maintenance of law, the faithful observance of China's territorial and administrative integrity, and upon the rights and interests of Americans in the Far East. To pursue the latter course meant "a firm, though not aggressive," policy toward Japan.⁴⁴

As a nation attempting to uphold the doctrine of world order under law, both Hull and President Roosevelt felt that they could do no other than choose the second course. The most immediate reason for this decision to continue America's traditional policy in East Asia was the deep-seated concern for the security of American territorial

⁴³Hull, I, 290.

⁴⁴Ibid., p. 291.

possessions in the western Pacific. The Philippine Islands, long recognized as the United States' "Achilles heel" in the Far East, was still very much Japan's hostage.⁴⁵

During the next several years after the conquest of Manchuria, a new phase of Japanese economic and political penetration opened in North China. The technique of mass smuggling was employed in a conscious effort to undermine both Chinese and Western interests in that region. These smuggling operations seriously affected the position of all the Western powers in their trade relations with China. In 1935, it was estimated by the Bank of China that illegal entry of Japanese goods reached a total value of about \$63,000,000. If Japan's legal exports to China in 1935 are added to this figure, the total value of Japanese goods sold to China for that year can be placed at over \$100,000,000. By contrast, United States exports declined from \$69,000,000 in 1934 to \$38,000,000 in 1935.⁴⁶ Both the United States and Great Britain protested against Japan's efforts "to bring about a substantial change in the political status and conditions in several of China's northern provinces."⁴⁷ Such protests, however, were completely ineffective.

⁴⁵Griswold, pp. 449-50.

⁴⁶Bisson, Foreign Policy Reports, XII (August 1, 1936), 131.

⁴⁷Ibid., p. 129.

Sino-American Economic Relations on the Eve of War

On the eve of Japan's military assault upon China proper, American investments in China were estimated at a maximum of \$200,000,000. These investments remained predominately business holdings in properties owned and operated by American nationals. Nothing had happened to make Chinese corporations more attractive to American capital. Similarly, American investments in Chinese Government obligations continued to be small and not very successful. In 1936, the only American issue of Chinese Government securities was the one-fourth share of the Hukuang Railway bonds of 1911. It will be recalled that the participation of American bankers in this project was secured only after President Taft made a dramatic appeal to the Chinese Regent requesting that American capital be allowed equal participation with British, French, and German funds. Of the original £1,500,000 allotted to the United States, £1,402,000 were still outstanding in 1936, with interest payments in arrears by £402,810.⁴⁸ The direct return enjoyed by Americans from such investments remained a "negligible item" even in the Great Depression year of 1935.⁴⁹

By 1936, the predictions of a vast China trade were still to be realized. The growth which had occurred in the Far Eastern trade must be attributed, not to China, but primarily to other countries: the Philippines, British

⁴⁸Lockwood, Far Eastern Survey, V (August 12, 1936), 178.

⁴⁹Ibid., p. 183.

Malaya, the Netherlands Indies, and above all, Japan. In 1936, Japan accounted for no less than 43 per cent of all American trade with the Far East.⁵⁰ In 1936, the value of American exports to Japan was \$204,300,000, while China accounted for only \$55,400,000 of America's exports. Of imports from the two countries, the United States received from Japan commodities worth \$171,000,000. America's aggregate imports from China were valued at \$82,800,000. In brief, Japan was the United States' third best customer in 1936, while the United States was Japan's best customer. China ranked well below Japan in each capacity.⁵¹

While the dollar value of America's trade with China had grown through the years, its relative importance revealed little change: from 2.7 per cent of imports and 2.3 per cent of exports in 1901-1905, to 3.2 per cent of imports and 3.7 per cent of exports in 1931-1935, with only minor fluctuations along the way.⁵² Despite a policy of hostility to Japan from the first years of the twentieth century, American trade with Japan had doubled and sometimes tripled that with China.⁵³

Among the items which loomed large in America's exports to the Far East during the mid-'thirties were cotton, tobacco, and petroleum products. Cotton represented more than one-third of the value of all American

⁵⁰Farley, Far Eastern Survey, V (July 29, 1936), 163.

⁵¹Griswold, p. 468.

⁵²Farley, Far Eastern Survey, V (July 29, 1936), 163.

⁵³Griswold, p. 468.

exports to East Asia. Constituting more than half of all exports to Japan, the cotton trade was of the most vital concern to the Southern states. China's share of this trade, never large, declined during the early 'thirties, while that of Japan increased.⁵⁴

More than half of the United States' flue-cured tobacco was exported in the 1928-1929 season, and more than one-third of this amount was exported to the Far East, mainly to China and Japan. The growth of the Chinese cigarette industry caused exports to fall off drastically in 1935. It was chiefly the decline of the Chinese market which was responsible for the fact that exports of flue-cured tobacco to East Asia represented only about 7 per cent of domestic production in 1934-1935, as compared with 19 per cent in 1928-1929. A high tariff prevented Japan from being a large consumer of American leaf tobacco.⁵⁵

The major industrial group with a considerable stake in the Far East in 1935 was the petroleum industry. Although oil was the most important non-agricultural item sold to Asia, exports to the Far East represented no more than about 2 per cent of domestic production of refined products. China took a large percentage of the United States' exports of kerosene while Japan's growing fuel requirements made her an increasingly important customer for crude petroleum, gasoline, gas oil, and fuel oil.⁵⁶

⁵⁴Farley, Far Eastern Survey, V (July 29, 1936), 166-67.

⁵⁵Ibid., p. 167.

⁵⁶Ibid.

Throughout the early 'thirties, however, a fundamental change in the character of America's trade with China was perceptible. Throughout this period there was a growing trend on the part of China away from the importation of agricultural commodities and toward an increased demand for manufactured goods.⁵⁷ This shift in emphasis resulted in part from technological advances in Chinese agriculture. By instituting a policy of agricultural protectionism, China was able to limit importations of American cotton, wheat, wheat flour, and tobacco, and to replace them with domestic output. The four agricultural products which constituted the bulk of China's imports from the United States in 1932 had shrunk to less than 20 per cent of the total in 1935, and in 1936, to less than 15 per cent of all imports from America.⁵⁸

While Chinese importations of American goods diminished between 1932 and 1935, Chinese exports to the United States steadily increased from 1932 to 1937. This increase was largely the result of the United States' growing participation in the export trade of Szechwan Province. In 1936, about one-third of American imports from China consisted of wood oil and goat skins, both of which came primarily from this area of western China.⁵⁹

Vastly more important than the changes which took

⁵⁷Kurt Bloch, "Chinese-American Economic Relations and the War," Far Eastern Survey, VIII (January 19, 1939), p. 13.

⁵⁸Ibid., p. 14.

⁵⁹Ibid., p. 15.

place in the Sino-American trade were the economic results of a silver purchase policy inaugurated by the United States Government in 1933. This policy restored "virtually unlimited marketability" to silver.⁶⁰ In May of 1936, the Republic of China and the United States concluded an agreement which provided for the purchase by the United States of large amounts of silver from the Central Bank of China. In 1937 and again in 1938, the scope of the original arrangement was extended and broadened.⁶¹ These agreements were to have the greatest political as well as economic significance. With the establishment of dollar exchange, the greatest obstacle to Chinese currency reform was removed. Under the provisions of the Silver Purchase Act of 1934, China was at last able to sell her previously unmarketable hoard of silver, thereby exchanging it for a war chest of liquid resources totaling more than \$400,000,000, a sum of importance both absolutely and in comparison to the resources available to Japan.⁶²

⁶⁰Ibid., pp. 15-16.

⁶¹Johnstone, pp. 188-89.

⁶²Bloch, Far Eastern Survey, VIII (January 19, 1939), 17.

CHAPTER III

THE SINO-JAPANESE WAR, 1937-1938: THE CHALLENGE TO AMERICAN INTERESTS IN CHINA

Japan Invades China, 1937

On July 7, 1937, Japanese forces launched the second all-out attack upon China. The immediate cause for this direct assault upon the mainland grew out of a minor incident near Peiping, provoked and enlarged upon by the Imperial Japanese forces stationed in the area. The Japanese army had once again chosen the time and the place for the attack, much as it had in Manchuria only six years before. This new aggression on the Asian continent, moreover, was a natural consequence of the fixed policy of expansionism upon which the army had been bent since 1928. Unlike the tottering moderate government of Prime Minister Tanaka in 1932, however, the Japanese Government in 1937 made no real effort to limit the fighting. Quite to the contrary, Prime Minister Konoye revealed to the Diet several weeks after the beginning of hostilities that the Japanese Government intended to mold a "new order" in East Asia. Thus, although the July aggression had been provoked by the Army, it was not now out of consonant with the government's avowed objective of reducing China to a state of

vassalage.¹

Conditions existing in Japan had played a large part in the evolution of the expansionistic policy which had entered its second stage with the July 7 attack near Peiping. The home islands had been feeling the pressures of a burgeoning population. All usable land was already under cultivation. Anxious attempts were underway to expand both old and new industries, but capital resources were limited and raw materials from foreign lands were essential if progress was to be made in this quarter. In spite of such serious limitations, the nation had been determined to have a military and naval force equal to those of the more affluent powers. In short, Japan's resources and her ambitions had been sadly out of balance.²

Japan's already precarious position had been further jeopardized in the mid-'thirties by the impact of a catastrophic and world-wide depression. Many foreign nations had raised import barriers as a measure to fight the internal effects of general economic collapse, making it increasingly more difficult for Japan to sell its products abroad. The nation still possessed ample gold reserves, but if this supply were to be drained off by a prolonged period of unfavorable balance of trade, Japan would be forced to drop back to a poorer standard of

¹Ballantine, Foreign Affairs, XXVII (July, 1949), 654.

²Herbert Feis, The Road to Pearl Harbor (Princeton: Princeton University Press, 1950), p. 3.

living, and her stature as a nation among nations would inevitably diminish. Rather than face this unpleasant prospect, the Army and the "excitedly patriotic" had preferred another solution: the territorial extension of the Japanese Empire.³

Conditions abroad in 1937 made it seem not only possible but urgent for Japan to act decisively. In China, the spirit of nationalism was gaining momentum, threatening not only Japan's activities in that country where more than 90 per cent of its foreign investments were located,⁴ but also endangering Japan's control over Korea and Manchoukuo. Many alarmed Japanese observers believed that if this surge of Chinese nationalism were to go unchecked, the result would be the ultimate expulsion of all Japanese interests from China. The opinion soon formed, especially in the army, that Japan must make its will felt quickly and forcefully on the China mainland.⁵

An analysis of the situation in Europe seemed to offer further support for the bold course of action which the firebrands advocated. France and England, the two great foreign landholders in Asia, were held in balance by Germany and Italy. The United States, for its part, had so badly neglected its army and navy that it was incapable of

³Ibid.

⁴"What's Our Stake in China," Business Week, August 7, 1937, p. 15.

⁵Feis, p. 4.

undertaking a war in the western Pacific. In addition, the American people, deeply involved in domestic problems, would not, it was judged, go to war to rescue China or to protect European colonies.⁶ The future for Japanese arms in China appeared bright indeed.

These expectations were realized to a large degree. In the last half of 1937, Imperial armies penetrated deep into China. To consolidate their gains, the Japanese established puppet regimes through which Tokyo could exercise control over the conquered territories. On December 14, 1937, the Peking Provisional Government was formed in Peking for operation in the five North China provinces under Japanese domination. Four months later, on March 28, 1938, the Reformed Government of Nanking was established under Japanese sponsorship to administer affairs in the region of the lower Yangtze Valley. As principal cities were conquered, local systems of government were established, such as the Ta Tao or "Great Way" Government in the area of Shanghai.⁷

Through these administrative agencies, Japanese authorities began to institute the "new order" which had as its objective the creation of a regional economy that would reduce Japan's dependence upon the outside world. In this scheme of things, the role of the Chinese nation was obvious: it was to be a market for the manufactured goods of Japan and a primary source of the raw materials which

⁶Ibid.

⁷Johnstone, p. 142.

would make those same manufactures possible. Furthermore, cheap Chinese labor would be used to carry forward certain export industries, most particularly textiles, Japan's largest single export commodity.⁸

Japan's Policy of Commercial Exclusion in China

As soon as the Japanese had restored a degree of order in those areas under their occupation, measures were initiated by the puppet governments which were designed to ensure Japan's economic control over the subjugated areas.⁹ It was soon made abundantly clear that the presence of other foreign interests was not compatible with Japan's economic objectives in China. The measures instituted under the direction of Japanese officials were detrimental to all but Japanese commerce. Americans and members of other foreign commercial communities found themselves saddled with travel and transportation restrictions, impeded by discriminatory regulations in the use of port facilities, hampered by censorship of correspondence, cramped by import and export restrictions, and subjected to certain tariffs from which Japanese merchants were exempt.¹⁰ Foreign shippers were not permitted to use the railways without the

⁸Bisson, American Policy in the Far East, p. 96.

⁹Johnstone, p. 143.

¹⁰John R. Stewart, "The War and Western Interests in North China," Far Eastern Survey, VII (October 12, 1938), p. 231.

assistance--at a price--of Japanese forwarding companies. Closure of the lower and middle Yangtze River to all but Japanese shipping gave to Japanese companies a lucrative monopoly of passenger and freight service on the most traveled sections of the river.¹¹ Western businessmen were often denied the right of access to their property and warehouses long after hostilities had ceased.¹² Such was the gamut the foreign commercial agent was forced to run if he wished to continue business operations in occupied China.

The establishment of a Japan-China-Manchoukuo economic bloc under the direction of the Japanese authorities was another instrument of discrimination used against the Western businessman. In March, 1938, the Federal Reserve Bank of China was established on the basis of yen credits extended by the Yokohama Specie Bank. The new North China yuan currency which was subsequently issued was inconvertible into any foreign currency and was linked to the Japanese yen and the Manchoukuoan yuan in a tight yen bloc. The net result was the immobilization of a considerable amount of Western trade and investments in North China, and the simultaneous stimulation of Japanese commerce.¹³

¹¹Quigley, p. 129.

¹²David H. Popper, "Progress of the Sino-Japanese Conflict," Foreign Policy Reports, XIV (May 15, 1938), 60.

¹³Stewart, Far Eastern Survey, VII (October 12, 1938), 231.

The North China Development Company and the Central China Promotion Company, organized in May and June, respectively, of 1938, represented further attempts by Tokyo to force from the field all other foreign competition of any consequence. Both organizations were, in fact, agencies of the Japanese Government, established to monopolize every form of large-scale business enterprise.¹⁴ These two large holding companies and their subsidiaries cornered the principal heavy industries and utilities in the areas under Japanese control. Through their operation, the Japanese pre-empted the whole field of industrial development in China for themselves. Economic control of occupied China soon rested almost exclusively with Japan.¹⁵

One of the most drastic developments affecting not only foreign rights and interests but the very sovereignty of China arose from the purchase of Chinese real estate by Japanese nationals. Since the earliest days of China's contact with the West, alien landownership had been severely restricted. Even during the most aggressive days of Western economic imperialism, Chinese authorities had succeeded in limiting alien landownership to the immediate vicinity of the treaty ports and concessions.

Under Japanese military pressure, however, Chinese landowners were compelled to sell property indiscriminately.

¹⁴Quigley, p. 125.

¹⁵Stewart, Far Eastern Survey, VII (October 12, 1938), 234.

This new infringement--especially since citizens of other countries were excluded from the same privilege--further buttressed the preferential economic position Japan was carving out for itself in China.¹⁶

To the American businessman resident in China, the economic measures which were taken by Japan in those areas under its control seemed reminiscent of what had occurred after the creation of Manchoukuo in 1932. In the years which immediately followed the formation of that puppet state, Japanese monopolies, with the aid of Japanese capital, had almost entirely eliminated American business north of the Great Wall. It was obvious that the same methods were now being applied in China with the same disastrous results almost certain to overtake American commerce.¹⁷

Effects of the War on Sino-American Trade

By August of 1937 the fighting had engulfed Shanghai, paralyzing China's most important seaport and industrial center, and the site of 65 per cent of all American business investments in China.¹⁸ The Shanghai Power Company and the Shanghai Telephone Company alone were

¹⁶Kurt Bloch, "Alien Landownership Versus Open Door in China," Far Eastern Survey, VII (August 24, 1938), 198-99.

¹⁷Bisson, American Policy in the Far East, p. 96.

¹⁸C. F. Remer, Foreign Investments in China (New York: The Macmillan Co., 1933), p. 282.

valued at over \$40,000,000.¹⁹ In the course of the fighting around the great international city, the property of the Shanghai Power Company escaped serious harm, but the Shanghai Telephone Company sustained damage in excess of several hundred thousand dollars.²⁰ While an accurate estimate of property damage was impossible, officials and businessmen placed the injury done to American holdings in the lower Yangtze Valley alone at \$25,000,000.²¹

Chinese-American trade relations were dealt a stunning blow by the hostilities of 1937-38. China's foreign trade had been in a flourishing condition in the years immediately prior to the renewal of hostilities. In the first six months of 1937, with law and order extended over a larger area of China than at any time since 1911,²² the Chinese Republic had just begun to import considerable amounts of capital goods in the prospect of undertaking an extensive program of industrial development.²³ The United States had shared in this increase in China's import and export trade. With much of America's industrial capacity gathering dust under the impact of a severe economic

¹⁹"What's Our Stake in China," Business Week, August 7, 1937, p. 14.

²⁰Johnstone, p. 190.

²¹This sum includes damage to all American property, both commercial and non-commercial.

²²Johnstone, p. 165.

²³Bisson, American Policy in the Far East, p. 95.

depression, many optimistic heads had once again begun to dream of the vast benefits that could be reaped from a China undergoing modernization.

The resumption of the Sino-Japanese conflict, however, had dashed this prospect. The announcement by the Japanese in late August, 1937, of a blockade along the Chinese coast, and the bombing of China's limited internal communications network severely disrupted all foreign trade. As a result of the unfavorable conditions created by the war, the value of American exports to China dropped precipitously from \$6,081,000 in August, 1937, to \$1,559,000 in the following month of September, with only a slight recovery by the end of the year.²⁴ The first half of the year, however, had seen such vigorous trade relations between the two countries that the total value of American exports to China in 1937 (\$49,697,000) exceeded that for 1936 (\$46,819,000). Tracing trade returns from July of 1937 reveals a steady decline through the following twelve months of 1938. Again comparing figures on a yearly basis, American exports to China declined to \$34,719,000 in 1938, a drop of nearly \$15,000,000 from the previous year.²⁵

In terms of specific commodities, the great

²⁴Paul B. Taylor, "America's Role in the Far Eastern Conflict," Foreign Policy Reports, XIII (February 15, 1938), p. 282.

²⁵Johnstone, pp. 168-69.

reduction in China's industrial activity after the beginning of hostilities was reflected in the sharp decrease in exports of American textiles, petroleum products, lumber, and iron and steel products to the Chinese Republic.²⁶ The small trader who dealt in these commodities was particularly injured by the resumption of the war in 1937.²⁷ Only those who participated in exports of war materials to independent China found the years 1937 and 1938 distinctly profitable.

China's exports to the United States fell even more sharply, spiraling downward from a total of \$103,616,000 in 1937 to the considerably diminished sum of \$47,189,000 in 1938.²⁸ The heaviest reductions were noted in imports from North China, an area of major Japanese military activity. Tung oil, the most important Chinese raw material purchased by the United States, could be supplied in 1938 to only about half the quantity and value of 1937.²⁹

Reaction of the American Business Community to Japanese Aggression

The extensive dislocation which the Sino-Japanese war visited upon Chinese-American trade and the unmistakable efforts of Japanese authorities to force out all foreign commerce from those areas under its control did not fail to galvanize the American commercial community in

²⁶Bloch, Far Eastern Survey, VIII (January 19, 1939), 17.

²⁷Johnstone, p. 180. ²⁸Ibid., pp. 168-69.

²⁹Bloch, Far Eastern Survey, VIII (January 19, 1939), 17.

China into action. Commercial groups entertained no notion of withdrawing from China, as isolationist elements in the United States urged. Quite to the contrary, they were determined to make every effort to hold on, and they were persistent in their demands for the full protection of the United States Government.³⁰ By the end of 1937, there was a far greater degree of unanimity of attitude among members of both business and non-business groups than at any previous time.³¹

When Manchuria was overrun in 1931, American business agents in China had hesitated in their opposition to Japan. They had not envisioned Japanese aggression as a direct threat to their own rights and interests. By 1937, however, Japan's objectives had become clear, and American commercial groups were thoroughly alarmed by the prospect of Japanese hegemony over the whole of China. With Japan's military assault upon China proper, Americans in China almost without exception condemned Tokyo's policy of expansion and voiced support for the Nationalist Government.³²

Americans resident in China were quite concerned by the inaction and indecision which they believed to characterize Washington's official position with regard to the Far East. They roundly denounced the "professional

³⁰Masland, The Pacific Historical Review, XI (September, 1942), 293.

³¹Johnstone, p. 215.

³²Masland, The Pacific Historical Review, XI (September, 1942), 295.

pacifists" and the "Japanese protagonists" who were so anxious to "leave the field to the Japanese" that they called for the immediate withdrawal of all Americans from China.³³ The very fact that such outrageous demands enjoyed a wide audience in the United States--even among certain "hysterical" officials in Washington--made it clear that the American people at home were "uninformed" and the Administration "confused." The American people in the United States, it was felt, would be brought to their senses only if Americans in China took the lead in indicating what should be done.³⁴

American business interests did not shrink from the task of making the United States public an informed public. The American business community in China was well organized and able to secure wide expression of its views in the United States. The American Chambers of Commerce were the most active organizations, sending frequent cables directly to the State Department, the White House, and to various Congressional committees. The American Chamber of Commerce in Shanghai acted as a clearing house for its sister organizations in Tientsin, Hankow, and Canton.³⁵ Indications of business opinion in China were usually well reported in the American press. The Shanghai and Tientsin Chambers of Commerce and the Shanghai American Junior Chamber of

³³The China Weekly Review, September 11, 1937, p. 19.

³⁴The China Weekly Review, October 2, 1937, p. 66.

³⁵Johnstone, p. 218.

Commerce regularly communicated their attitudes to the United States Chamber of Commerce. Many of these communications were, in turn, transmitted directly to government officials and to the press.³⁶

Shortly after the outbreak of hostilities in 1937, businessmen and other residents of the American community at Shanghai organized the American Association, a body established to coordinate the programs and activities of Americans in that city.³⁷ Its primary objective was to promote the safety of American life and property in Shanghai, and wherever else possible in China.³⁸ This committee frequently protested to Washington against Japanese behavior, especially in cases where personal or property rights were violated.³⁹

Working closely with the American Association was the American Information Committee, formed in October of 1938.⁴⁰ The Information Committee often issued joint statements with the American Chamber of Commerce in Shanghai. Its most important work, however, was the publication of a series of booklets for distribution in the United States, by means of which it hoped to inform the American public of precisely what was happening in the Far East.⁴¹ These pamphlets consistently expressed support for

³⁶Masland, The Pacific Historical Review, XI (September, 1942), 296.

³⁷Ibid. ³⁸Johnstone, p. 219.

³⁹Masland, The Pacific Historical Review, XI (September, 1942), 296.

⁴⁰Ibid. ⁴¹Johnstone, pp. 221-23.

the Chinese and advocated a stronger United States policy toward Japan.

All these groups were bitterly aroused by the discriminatory commercial policies which the Japanese initiated in North China and the Yangtze valley region during 1937-1938. They applauded the United States Government when it spoke firmly to Japan in defense of American rights in China, and called for a stiffening of American policy when Washington appeared to vascilate.⁴² But at all times a steady stream of intelligence flowed from China to the United States, informing the American public and the United States Government of Japan's latest efforts to eliminate all American commerce from China.⁴³

Reaction of the United States Government to Japanese Aggression

With the renewal of the conflict in China, the American Government was again faced with the thorny problem of determining what course of action the United States should follow in the Far East. There were three main, divergent lines of policy which could be pursued: (1) all possibility of conflict with the belligerents could be avoided by declaring the Neutrality Act of 1937 to be in effect, accompanied by the withdrawal of American citizens

⁴²"American Chamber at Tientsin Warns U. S. Businessmen," Export Trade and Shipper, XXXVIII (December 5, 1938), 8.

⁴³Stewart, Far Eastern Survey, VII (October 12, 1938), 230.

and troops from danger zones; (2) the United States could participate in various collective measures designed to suppress war; (3) the United States could undertake the protection of American rights and interests abroad on a strictly unilateral basis.

The first possibility, although enjoying considerable support in the United States--and especially favored by the isolationist and peace blocs--did not find favor with the administration. If this purely isolationist course were followed, Japan might be encouraged to press forward the more rapidly, convinced that there was nothing to be feared from the United States.

While fervently desiring to discourage aggression, Washington did not feel free to join in any collective action against the aggressor. The League of Nations, with which the United States had cooperated during the investigation of the Manchurian incident in 1932, was by 1937 a moribund organization that commanded no respect from lawless nations. Great Britain and France, confronted with a rapidly rearming Germany and an obstreperous Italy, were deeply embroiled in the growing tensions of Europe. In the United States itself, furthermore, the isolationist spirit was at flood tide, making American participation in any collective action against a foreign power virtually impossible.⁴⁴

Thus confronted with the dilemma of searching for

⁴⁴Taylor, Foreign Policy Reports, XIII (February 15, 1938), 278-79.

effective ways of causing Japan to desist while staying uninvolved,⁴⁵ the Roosevelt Administration resorted to the traditional policy of insisting upon proper respect for American rights and interests in China. This was, in effect, a compromise policy between the complete abandonment of American interests and activities on the China mainland, and active intervention to protect them.

On July 16, 1937, Secretary of State Hull issued a formal press release in which he repeated the principles which he had extolled since his entrance into office. He called upon all nations to faithfully observe international agreements and to uphold the principle of the sanctity of treaties. Without special reference to either China or Japan, he declared that the United States sought "effective equality of commercial opportunity," and urged upon all nations the "application of the principle of equality of treatment."⁴⁶

This was diplomacy by morality, a flickering candle in a naughty world. "In pure righteousness it outdid the Stimson policy of 1932."⁴⁷ It expressed an attitude rather

⁴⁵Feis, p. 10.

⁴⁶U. S. Department of State, Papers Relating to the Foreign Relations of the United States: Japan, 1931-1941, I (Washington: United States Government Printing Office, 1943), 326. (Cited hereafter as Foreign Relations: Japan, 1931-1941.)

⁴⁷Donald F. Drummond, The Passing of American Neutrality, 1937-1941 (Ann Arbor: The University of Michigan Press, 1955), p. 53.

than a policy. Its severe limitations were all too apparent. But existing conditions, both foreign and domestic, regimented against any firmer expression of national policy at that time. If the United States could not move forward, at least it could decline to withdraw, and the reassertion of the Open Door and its attendant treaty rights seemed the one way in which the administration could offer resistance to Japanese expansionism in the Far East.⁴⁸

One of the foremost concerns of the United States Government after the resumption of hostilities was the presence of some 12,000 Americans in China. Many of these persons were in areas which were under attack. Both the President and his cabinet feared the repercussions which might result if American lives were lost. The outbreak of serious fighting around Shanghai in the fall of 1937 made the problem of adequate protection acute.⁴⁹

To safeguard these Americans, Washington acted with considerable dispatch. Diplomatic and consular officials were ordered to urge citizens of the United States to leave the danger zones as quickly as possible, and where possible to assist in this evacuation. To facilitate this process of removal, Secretary Hull asked Congress on August 17, 1937 to appropriate \$500,000. At the same time, the government ordered that 1,200 marines located at San Diego be sent to Shanghai in order to give more adequate protection to those Americans remaining in the area of those preparing

⁴⁸Ibid.

⁴⁹Taylor, Foreign Policy Reports, XIII (February 15, 1938), 283.

to depart.⁵⁰ Infantry and marine detachments stationed at Peiping and Tientsin were kept on active duty, as were the nine river gunboats cruising in Chinese waters.⁵¹ Admiral Yarnell, commander of the United States' Asiatic fleet, issued a statement in late September that the fleet would not be withdrawn and that it would accept any "necessary risk" to protect Americans who still remained in China.⁵²

During the first several months of hostilities when the United States Government was making every effort to protect American lives and property, President Roosevelt had purposely refrained from applying the Neutrality Act of 1937 to the war in China.⁵³ Under the provisions of this act, it was left a prerogative of the President to determine when a state of war existed between two countries. If he formally declared that two or more powers were at war, a mandatory and impartial embargo upon loans and munitions exports to belligerents automatically became operative. The isolationist architects of the Neutrality Act had thus hoped to eliminate the possibility of some "incident" occurring which would draw the United States into a conflict for which it was not responsible.⁵⁴

The President's reasons for not calling the Neutrality Act into effect were twofold. First, by

⁵⁰Foreign Relations: Japan, 1931-1941, I, 350.

⁵¹Griswold, p. 461.

⁵²Taylor, Foreign Policy Reports, XIII (February 15, 1938), 284.

⁵³Feis, p. 10.

⁵⁴Taylor, Foreign Policy Reports, XIII (February 15, 1938), 280.

applying the act to the Sino-Japanese conflict, he saw that he would be helping Japan and hurting China. If American vessels were prevented from carrying materials of war to the two belligerents, no particular hardship would be worked upon the Japanese who had no shortage of weapons. The Chinese, however, would be left virtually defenseless. Second, if the American Government declared China and Japan to be at war--a condition which the governments of both countries had not acknowledged to exist--it might prove regrettable. "Names count; a war might be harder to end than an incident."⁵⁵

There was also the possibility that a neutrality proclamation might lead to a formal declaration of war between the two belligerent nations. If Japan then invoked the rules of war and demanded the withdrawal of the armed forces of all third parties from China, the Americans resident there would be left without the slightest vestige of protection.⁵⁶ Japan might go still one step farther and, under the privileges granted by international law in time of war, challenge the right of the United States to trade with China. If American merchant vessels were stopped by Japanese warships and cargoes seized or destroyed, there would be no telling where recriminations might end.⁵⁷ Despite the very real possibility that the United States might become involved in a foreign war as a direct result

⁵⁵Feis, p. 10.

⁵⁶Taylor, Foreign Policy Reports, XIII (February 15, 1938), 281.

⁵⁷Hull, I, 558.

of imposing the Neutrality Act, American isolationists never tired of denouncing President Roosevelt for his failure to apply the measure.

As it was, the danger of interference with American shipping in the western Pacific almost forced the administration's hand on this issue. On August 25, 1937, the Japanese fleet proclaimed a blockade against Chinese shipping along the China coast. Foreign merchantmen were not mentioned. The following day, however, Japanese naval authorities declared that foreign vessels might be boarded for purposes of proper identification. Furthermore, the Japanese Government reserved the right to confiscate vessels carrying cargoes that in time of war would be considered contraband.⁵⁸ Only a few days later, the accidental bombing of the U. S. S. President Hoover by a Chinese flier led Admiral Yarnell to warn American merchant ships to make no further calls at Shanghai. Such a rapid succession of incidents were fresh tinder for the advocates of an immediate declaration of the United States' neutrality.⁵⁹

These events in Asian waters occurred at the very moment when isolationist groups in the United States were focusing the public attention upon the sailing of the Wichita, a government-owned vessel carrying a cargo of nineteen planes destined for the Chinese Government.⁶⁰ With an eye toward recent happenings in the Far East,

⁵⁸Taylor, Foreign Policy Reports, XIII (February 15, 1938), 280.

⁵⁹Ibid., p. 284.

⁶⁰Bisson, American Policy in the Far East, p. 61.

Secretary of State Hull announced on August 27 that the United States Government reserved all rights on its behalf and on behalf of its nationals for damages to or loss of American lives or property sustained as a result of Japanese military activities.⁶¹ Four days later came the Japanese reply. The Minister of Foreign Affairs, Koko Hirota, informed Washington that the government of Japan was not liable for damages or losses suffered by nationals of third parties as a result of the fighting in China.⁶² With this announcement, neutralists brought even greater pressure to bear upon the administration in an effort to force the Neutrality Act into effect.⁶³

On September 14, 1937, Secretary Hull instructed Ambassador Joseph Grew to inform the authorities in Tokyo that the United States Government could not accept the contention of the Japanese Government that it was not to be held responsible for damages sustained by nationals of third parties. The United States would continue to look to Japan for compensation whenever damage or loss was experienced by Americans in China.⁶⁴ On that same day, however, the President announced that merchant vessels owned by the United States Government were no longer permitted to carry

⁶¹Foreign Relations: Japan, 1931-1941, I, 490.

⁶²Ibid., p. 492.

⁶³The planes aboard the Wichita were subsequently ordered unloaded at San Diego, California. They finally found their way to China via Europe.

⁶⁴Foreign Relations: Japan, 1931-1941, I, 497.

any sort of war materials to either Japan or China. Any private American vessel carrying articles of war to either belligerent would henceforth proceed at its own risk.⁶⁵

Since American shippers could engage in carrying war materials to Japan at virtually no risk, the President's declaration did not bear equally upon both warring powers. But by partially invoking one provision of the Neutrality Act, Roosevelt was able to take the edge off the sharp protests that had been coming from the isolationist camp throughout August and most of September, 1937. The demands to invoke the neutrality statute were never again as strong as they had been in those first two months of the undeclared Sino-Japanese war.⁶⁶

President Roosevelt had successfully withstood the intense pressure which the isolationists had thus far brought to bear upon him. He had persistently refused to abandon American citizens and their interests in China to the tender mercies of the Japanese. But the office of the chief executive is such that he must always seem to follow public opinion, or at least not go too far out in front of it. On October 5, 1937, however, Roosevelt violated this unwritten law in his memorable Quarantine Speech at Chicago, the isolationist capital of America. It evoked such an uproar from the noninterventionist camp that the administration was forced to make a hasty retreat.⁶⁷

⁶⁵Bisson, American Policy in the Far East, p. 62.

⁶⁶Ibid.

⁶⁷Bailey, p. 4.

The President's Quarantine Speech was a powerful address which contained the strongest threat of coercive action against Japan that had thus far been made by the United States.⁶⁸ In his address, Roosevelt referred to war as a "contagion" and observed that a "quarantine" was the community's usual method of checking an epidemic. He spoke of the need for "positive efforts" to preserve the peace of the world.⁶⁹ His suggestion that those nations infected with the epidemic of international lawlessness should be put in quarantine smacked sharply of some sort of embargo, and its timing hinted that the President had Japan in mind. This was followed the next day by a press release from the Department of State which concurred with the League's decision that Japan had violated both the Nine-Power Treaty and the Kellogg-Briand Pact by its unwarranted attack upon China.⁷⁰

The President's forceful attitude at Chicago came as a surprise to the American public. His harsh tone created alarm among a large segment of his fellow countrymen, and most Americans rejected his "quarantine" suggestion. The proposal had come too abruptly; it was too radical a departure from the President's past comments on foreign affairs. A few groups rushed to his support, but the rest of the nation and most of the members of Congress were opposed. Psychologically, the country was not

⁶⁸Taylor, Foreign Policy Reports, XIII (February 15, 1938), 280.

⁶⁹Quigley, p. 212.

⁷⁰Foreign Relations: Japan, 1931-1941, I, 397.

prepared for such a statement and was unwilling for the United States to adopt a more vigorous role in international politics. Americans were still convinced that the "epidemic" could not reach them. "They preferred to isolate themselves, rather than join in an uncertain effort to wipe out the disease."⁷¹

President Roosevelt immediately realized that he had gone too far, too fast. At a press conference held on the day following his Chicago speech, the President refused to amplify his remarks of the previous day, frustrating the best efforts of newsmen to draw him out on the subject. When the Japanese Ambassador, Hiroshi Saito, asked Secretary Hull on October 7 whether the United States Government had anything specific in mind, Hull stated that no action was contemplated for the time being.⁷²

This admission by the American Secretary of State, followed shortly by assurances from Great Britain that no disciplinary action against Japan was being contemplated in that quarter, prompted the Japanese to give notice that they would not attend the Nine-Power Conference which had been summoned to meet at Brussels on October 30, 1937. The announced purpose of this meeting was to find a peaceful solution of the crisis in China. France and Great Britain, preoccupied with worsening conditions in Europe, had informed the United States in advance that Washington would have to take the lead in effecting any such "quarantines"

⁷¹Feis, p. 12.

⁷²Drummond, p. 62.

in the Far East as the President envisioned.⁷³ The obvious unreadiness of the American public for coercive steps on the one hand and the government's unwillingness to reward Japan's aggression in China on the other completely hamstrung the American delegation.⁷⁴

The conference, under these circumstances, proved futile. Japan, one of the parties to the dispute, was absent from the proceedings. France and Great Britain would not take the lead against Japan. The United States could not. It ended after three weeks with the democratic states reiterating their concern for the territorial integrity of China, but nothing was done to instill a similar sentiment in Japan. The total failure of the conference was underscored by Tokyo's defiant announcement that it would brook no interference by third parties with its policy in China.⁷⁵

On December 12, 1937, the most serious incident since the outbreak of the Sino-Japanese war occurred when Japanese aviators bombed and sank the United States gunboat Panay. The Panay had been escorting three Standard Oil Company tankers down the Yangtze River when the attack occurred some twenty miles up-river from Nanking. The circumstances surrounding the attack suggested deliberate provocation, since the nationality of all the vessels was clearly designated by means of large ensigns and painted

⁷³Griswold, pp. 459-60.

⁷⁴Taylor, Foreign Policy Reports, XIII (February 15, 1938), 286.

⁷⁵John Morton Blum, From the Morgenthau Diaries: Years of Crisis, 1928-1938, I (Boston: Houghton Mifflin Co., 1959), p. 482.

flags. The survivors of the initial attack were machine-gunned as they escaped from the sinking ships, and the Panay had been momentarily boarded by Japanese personnel from army motorboats. As a result of repeated air attack, three Americans were killed and many others wounded.⁷⁶

In the United States, there was only a momentary outburst of indignation, and demands for the withdrawal of all Americans from China actually increased rather than diminished.⁷⁷ On Capitol Hill, Congressmen impressed upon the public the necessity of remaining calm so that the forces of peaceful arbitration would have an opportunity to work out a quick and satisfactory settlement.⁷⁸

The day following the bombing, Senator William H. Smathers of New Jersey sent a letter to Secretary Hull favoring the removal of all American citizens and vessels from the area affected by the conflict. In his reply of December 18, Hull reminded the Senator that for several generations, Americans had gone to China and had established themselves there in various occupations and activities. He pointed out that, along with other governments, the United States had accepted various rights and incurred various obligations. As filled with danger as the present situation might be, many Americans could not suddenly cut themselves off from the interests of a life-time, nor could the

⁷⁶Ibid., I, 485.

⁷⁷Osgood, p. 404.

⁷⁸U. S., Congressional Record, 75th Cong., 2nd Sess., 1937, LXXII, Part 2, 1968.

American Government suddenly abandon its obligations and responsibilities.⁷⁹

This prosaic reiteration of the United States' moral duty to uphold international agreements gave no indication of the discord which had been produced among administrative officers by the Panay crisis. There had been considerable debate within Roosevelt's cabinet concerning the steps to be taken if diplomacy failed to solve the crisis. Both the President and the Secretary of State believed that the attack had been deliberate, simply another indication of Japan's desire to force all Westerners from China.⁸⁰ Vice-President Garner thought that only a show of force would have any effect upon the Japanese. Roosevelt, however, was confident that economic sanctions could bring Japan to terms without war.⁸¹ Admiral William Leahy, Chief of Naval Operations, urged that the fleet be prepared for action at sea, a move supported by the President's adviser, Norman H. Davis, and by Assistant Secretary of State, R. Walton Moore. The President and other members of his staff, however, resisted any such provocative action.⁸² Secretary of the Treasury, Henry Morgenthau, consistently the advocate of more forceful measures against Japan, was

⁷⁹Hull, I, 565.

⁸⁰Harold L. Ickes, The Secret Diary of Harold L. Ickes, Vol. II (New York: Simon & Schuster, 1954), p. 275.

⁸¹Blum, I, 489.

⁸²Neumann, p. 151.

quite willing to go to war over the Panay issue. He stressed his apprehension that if Japan were allowed to continue unopposed, there would be no end to its advances in the Pacific. His assistant, Wayne Taylor, replied that it would be "cockeyed" to risk war over such an issue.⁸³ Such was the degree of division within the administration.

There was, happily enough, no occasion for action. The Japanese Government hastened to make the most effusive of apologies, promised to pay the indemnities asked for by the United States, gave renewed assurances of respect for American rights and interests in China, and indicated that the military officers responsible for the wholly unauthorized attack would be punished. On December 23, the United States Government officially accepted the Japanese apology, and by Christmas Day, 1937, the matter was considered closed.⁸⁴

Apprehension among American officials continued even after the Panay incident had been satisfactorily resolved. The Japanese military, which had done much to provoke the war in China, had revealed a brazen disregard for American interests. The civil authorities in Tokyo, moreover, had failed to make the military admit its part in the attack. The threats which this dangerous situation posed for the future were recognized by Ambassador Grew. On December 26, 1937, he wrote:

⁸³Blum, I, 487-88.

⁸⁴Ibid., p. 492.

War between Japan and the United States will not come through mere interference or even destruction of our tangible interests in China, or yet from the breach of treaty rights, or the breaking down of principles for which we stand, but war may very easily come from some further act in derogation of American sovereignty. . . . Therein lies the danger and it is a real danger which no one with knowledge of the irresponsibility of the Japanese military as distinguished from the Japanese Government can eliminate from the future picture.⁸⁵

The anomaly of undeclared though unlimited warfare provided a legal basis for diplomatic efforts by foreign governments to protect the lives and properties of their nationals within the war zones of China.⁸⁶ Great Britain, with its extensive economic investments in China, was keenly interested in promoting joint action among the Western powers in defense of treaty rights. The American Government, however, was not receptive to any suggestion of a multilateral undertaking anywhere in the world. The United States preferred to retain its ability to act independently and without reference to any foreign ally.⁸⁷

Japan was careful to do nothing which would diminish America's aversion for collective measures. Every effort was made to prevent the United States from becoming irritated to the point where it would seek to make common cause with Great Britain against the ambitions of Japan in East Asia.⁸⁸ In the interest of preventing Anglo-American

⁸⁵Joseph C. Grew, Ten Years in Japan (New York: Simon & Schuster, 1944), p. 240.

⁸⁶Quigley, p. 213.

⁸⁷Taylor, Foreign Policy Reports, XIII (February 15, 1938), 284.

⁸⁸Grew, p. 244.

cooperation in the Far East, Japanese authorities in the occupied areas of China were consistently more solicitous of American than British rights.⁸⁹

A most striking manifestation of this element in Japanese diplomacy occurred at the time of the Panay crisis. Tokyo had rushed to meet the demands of the Department of State in an effort to settle the matter before popular antagonism could build up in the United States. At the conclusion of the crisis, the Japanese Minister of Foreign Affairs presented a note to American representatives in Tokyo outlining the steps that had been taken to prevent a recurrence of such an "accident." The note cited naval orders which had been issued instructing that the greatest caution be exercised in areas where American warships or other vessels were located, "even at the sacrifice of a strategic advantage." In addition, "rigid orders" had been issued to military, naval, and Foreign Office authorities to give greater attention to the instructions which had been "repeatedly given" against interference with the rights and interests of the United States. Steps had already been taken, the Japanese Foreign Office concluded, to more fully ascertain the location of American nationals and their interests in China.⁹⁰

Throughout 1937 and 1938, the western powers made

⁸⁹Taylor, Foreign Policy Reports, XIII (February 15, 1938), 285.

⁹⁰Foreign Relations: Japan, 1931-1941, I, 550.

only parallel representations against violations of treaty rights by the armed forces and administrative agents of Imperial Japan. No real cooperative effort involving joint action by the governments of Great Britain, France, and the United States would occur until mid-1939.⁹¹

Throughout 1938, the Department of State dispatched a series of diplomatic notes to the authorities in Tokyo protesting against Japanese maltreatment of American citizens in China, the seizure of their properties, and the freezing out of American business by the establishment of Japanese monopolies.⁹² Joseph Grew, the American Ambassador to Japan, was the recipient of a constant flood of protests from Americans who had suffered injury as a result of the Sino-Japanese war. Such violations of American rights were the constant subject of his conversations with the Minister of Foreign Affairs.⁹³

In the last six months of 1938, the subject of American rights in China was discussed with increasing frequency by American and Japanese officials. The month of July was marked by the untiring efforts of Ambassador Grew to obtain Japan's respect for the diverse American interests which existed in China. On July 4, Grew passed nearly three hours in conference with the Minister of Foreign Affairs, exploring the entire field of American interests

⁹¹Bisson, American Policy in the Far East, pp. 88-89.

⁹²Hull, I, 569.

⁹³Grew, p. 266.

in China. The Japanese Government assured the United States that American treaty rights would not be curtailed.⁹⁴

In early October, Ambassador Grew presented to the Japanese Foreign Office a bill of particulars which had been drawn up at President Roosevelt's request. In this statement, the President pointed out that despite repeated assurances by the Japanese Government, violations of American rights and interests in China had persisted. The United States now asked that the assurances so frequently given in the past be implemented. Specifically, the President requested that prompt and effective measures be taken to (1) end the discriminatory currency exchange control which had been imposed upon areas of China under Japan's control; (2) suspend any monopolistic practices which served to deprive American nationals of their legitimate share of the trade and industry in China; (3) discontinue interference by Japanese authorities with American property and other rights, including restrictions upon American trade and shipping. The acting Minister of Foreign Affairs, Prince Fumimaro Konoye, replied by once again giving full assurances that the Open Door in China would be "steadfastly maintained."⁹⁵

On November 21, a long conversation occurred between the American Ambassador and the newly designated Foreign Affairs Minister, Hachiro Arita. Grew asked that immediate

⁹⁴Grew, pp. 251-52.

⁹⁵Foreign Relations: Japan, 1931-1941, I, 781-85.

steps be taken to halt the air attacks which were destroying American commercial and missionary properties, located in areas often far removed from the scene of military operations. These unwarranted attacks were taking place constantly as "daily reports" pouring into the Embassy clearly showed. He rejected the Japanese explanation that these outrages were accidental because of the "volume and constancy of these depredations." He also asked that the lower stretches of the Yangtze River be made accessible to American trade and shipping, since Japanese merchantmen were openly engaged in commerce both up and down the river. The American Government urged that this discrimination be ended without further delay.⁹⁶

With regard to the future of American commerce in China, Ambassador Grew asked the Foreign Minister if there was any element of truth in the allegation that American trade with China would, in areas under Japanese control, be tolerated only if conducted through Japanese middlemen. In response to this inquiry, Arita authorized the American Ambassador to give Secretary Hull a "categorical denial." Japan desired and intended to assure for itself certain raw materials, the Japanese Minister confided, but "there would be a very large and probably increasing field for American trade and other enterprise."⁹⁷

Such artifice and dissimulation, however, could no

⁹⁶Grew, p. 257.

⁹⁷Foreign Relations: Japan, 1931-1941, I, 807.

longer conceal Japan's ambition to eliminate all foreign commerce from the China mainland. Only three days before Arita's conversation with Grew, the Japanese Government had announced that it intended to make the observance of the principle of equality of opportunity in China conditional upon the acceptance by the United States and the other powers of a "new order" in East Asia.⁹⁸

As 1938 drew to a close, Tokyo continued to give assurances concerning the future of the Open Door, but these assurances were increasingly surrounded by such qualifications as to make them virtually meaningless.⁹⁹ On December 30, Ambassador Grew handed the Japanese Government the last diplomatic note of the year. In this message, Grew reiterated the American Government's position that the principle of commercial opportunity in China was not subject to nullification by unilateral action on the part of Japan. The United States, the message concluded, would not acknowledge or consent to any impairment of its treaty rights.¹⁰⁰

The Open Door, however, could not be held wide by mere words. The representations made by American diplomats on behalf of American commercial interests in China did little more than amass claims against the Japanese Government. Grew believed that interference with American treaty rights would end only when the Japanese were given

⁹⁸Ibid., p. 800.

⁹⁹Ibid., pp. 814-16.

¹⁰⁰Ibid., pp. 820-26.

reason to believe that the United States might do something more than talk.¹⁰¹ Subsequent events were to prove him right in this judgement. Only the grimmer days of 1939 and beyond lay ahead.

¹⁰¹Grew, p. 252.

CHAPTER IV

THE IMPACT OF AMERICAN COMMERCIAL INTERESTS ON UNITED STATES POLICY: AN ASSESSMENT

Commercial Interests in Relation to Major Political Factors

When Japan invaded the Asian mainland in 1937, American businessmen in China insisted that the United States Government provide the fullest protection for themselves and for their investments. This demand was based squarely upon the guarantees embodied within the doctrine of the Open Door, an avowed policy of the United States Government since the first days of the twentieth century. With the promulgation of the Open Door in 1900, equality of commercial opportunity within China and the territorial integrity of China had become official objectives of American policy in the Far East. It was only logical, then, that American citizens with a financial stake in China expected their government to defend the principles of the Open Door in the face of Japanese imperialism.

The subsequent efforts of the United States Government to maintain the treaty rights of its nationals in China must not, however, be taken as an indication of the success which the business community enjoyed in its

attempts to prod Washington toward a more spirited defense of American interests. Before the role which American business interests played in formulating United States policy can be accurately assessed, the factors which motivated the government's decision to uphold American treaty rights in China must be thoroughly explored. Such an investigation must begin with an analysis of the policies and attitudes which have been of significance in Sino-American relations.

The Open Door Policy as it found expression in China has always occupied a rather ambiguous position within the general framework of United States foreign policy. This ambiguity was matched by the ambivalence rather than consistency and singleness of purpose which has characterized American thought about the role of the United States in Asia.¹

The basic principles of American foreign policy have been "few, simple, and enduring." In the public mind, the substance of United States policy abroad has been embodied in two fundamental concepts: nonentanglement and the Monroe Doctrine. From the days when the Monroe Doctrine was placed in effect to the eruption of World War II, no two ideas have enjoyed such consistent support among the American people. This firm adherence at the grass roots level of American society can largely be attributed to the fact that both policies were conceived of as being intimately associated with homeland security.²

¹Neumann, p. 133.

²Bailey, p. 239.

Until 1900, the Open Door was in full consonance with the prevailing tone of United States foreign policy; equality of commercial opportunity everywhere in the world was merely an expression of that basic American notion of fair play. At the time of the Boxer Rebellion in China, however, Secretary of State John Hay had extended the open door to include, not only commercial equality within the Chinese Empire, but also respect for China's territorial integrity as well. By this pronouncement, Hay placed the United States under obligation to prevent the dismemberment of China by foreign powers. Freedom from serious involvement in the political entanglements of Eastern Asia would henceforth be virtually impossible.³

With the official promulgation of the Open Door Doctrine in 1900, the traditional American principle of noninvolvement in the affairs of distant lands had been violated. The United States had become the theoretical guardian of Chinese sovereignty, an obligation far beyond American shores. It was, in fact, an obligation which the American Government apparently had no intention of fulfilling. If the United States had entertained any serious notion of enforcing commercial equality in China or of preserving China's territorial integrity in accordance with the provisions of the Open Door, it would need assistance. It would have to negotiate alliances, understandings, or other arrangements of mutual advantage which would either

³Griswold, p. 7.

supplement its own limited power or construct a trustworthy political substitute. Such provisions, however, were never forthcoming. Widespread public indifference to matters beyond American shores precluded the possibility that any steps would be taken which would serve to bring national power into balance with this new turn in national policy. Having so abruptly acquired a political stake in the distant western Pacific, the American people quickly exerted their privilege to ignore it.⁴

The Open Door has from the beginning, then, struck a rather hollow note in United States foreign policy. The Far East was too remote from the experience of most Americans to generate any active concern for American interests in China.⁵ United States officials, moreover, never exhibited any deep concern for the independence and integrity of China because they fully realized that their fellow countrymen would not fight to uphold the Open Door in an area half-way around the world from them.⁶ Whenever the Open Door was challenged, the United States Government limited its response to the simple declaration that it would refuse to recognize any agreement or understanding which would impair the treaty rights of American citizens in China, or which would violate the administrative or territorial integrity of the Chinese nation.⁷ This

⁴Osgood, p. 79.

⁵Neumann, p. 134.

⁶Bemis, American Foreign Policy and Diplomacy, p. 457.

⁷Bisson, American Foreign Policy in the Far East, p. 12.

technique had been employed by Secretary of State William Jennings Bryan at the time of the notorious Twenty-One Demands in 1915. It was to be used again by Secretary of State Henry L. Stimson when Japanese armies overran Manchuria in 1931-1932.

Beyond such diplomatic reproaches, however, the United States officials were never willing to go. At the time of the Washington Naval Conference (1921-1922), Secretary of State Charles Evans Hughes told the American delegation that the United States "'would never go to war over any aggression on the part of Japan in China.'" Ten years later, Elihu Root, who had served as Secretary of State under Theodore Roosevelt (1905-1909), could still write that it had "'never entered the head'" of any American President or Secretary of State to send forces to China in defense of the Open Door.⁸

In short, the Open Door was expendable. It had never expressed any vital interest of the American people or of their government. As an economic document concerned with commercial opportunity in a distant land, it represented a hope rather than a reality, an ideal rather than a policy. When threatened by the depredations of some foreign power or combination of powers, the United States had given verbal support to the dual principles of equality of commercial opportunity and the territorial integrity of

⁸Neumann, p. 147

China, but there had never been any question of using armed force in defense of the Open Door.

When Japan indicated its contempt for the Open Door in 1931 and again in 1937, the United States Government attached no great importance to the maintenance of the treaty structure per se. American statesmen had been faced with violations of the Open Door before and had never considered it important enough to warrant more than an official protest or a statement giving notice that no abridgement of existing treaty rights would be recognized. But Japan's military activities on the Asian continent might signal more than an infringement upon America's commercial opportunities, something even beyond the violation of China's territorial integrity. Japan's assault upon China in 1937, following only five years after the aggression in Manchuria, was increasingly interpreted by American officials as but the beginning of a general imperialistic drive across the face of Asia. Such ambitions would ultimately endanger the security of America's Pacific possessions and disrupt the balance of power which the Washington Treaties had attempted to establish in East Asia.⁹

The concern of the United States Government thus transcended any immediate regard for either China's territorial integrity or the commercial interests of Americans in China. With Japan threatening to dominate the whole of East Asia, it would have been impossibly narrow for

⁹Osgood, pp. 351-52.

American statesmen to gear the policy of the United States to such limited objectives as the preservation of commercial equality in China or the administrative integrity of China, per se.

The primary objective of United States diplomacy from the time of the Manchurian incident throughout the remainder of the decade was to offer some measure of resistance to Japan's imperialistic adventures in the western Pacific without at the same time embroiling the United States in war. Although minds were ransacked in a search for effective ways of causing Japan to desist while keeping the nation uninvolved, none could be found.¹⁰ Faced with this dilemma, the United States Government concluded that it could resist Japan only by insisting upon a strict observance of the internationally recognized principles contained within the doctrine of the Open Door. American officials were under no delusions concerning the grave limitations of such a purely moralistic policy, but under existing circumstances, it was the only means at the government's disposal.¹¹ By defending the rights of American nationals in China, the United States hoped to sustain orderly processes in the sphere of international relations.¹² In its desire to hinder Japan's efforts at territorial acquisition, the American Government was often led to

¹⁰Feis, p. 10.

¹¹Stimson, p. 234.

¹²David H. Popper, "The Western Powers and the Sino-Japanese Conflict," Foreign Policy Reports, XIV (August 1, 1938), 120.

display far more concern over China's eroding sovereignty than it did interference with American economic privileges in China.¹³

The Open Door, therefore, provided the United States with the means by which it hoped to deter Japanese expansionism on the Asian continent. If commercial interests were protected and sustained in the meantime, if China's administrative and territorial integrity were preserved along the way, so much the better; but the first objective of American statesmen was to offer some measure of resistance to the predatory instincts of Japan. This hierarchy of interests must be appreciated if the role played by American commercial interests in China during the critical years before World War II is to be properly understood.

When Japanese armies invaded China in 1937, the American Government had wanted to assist China in resisting Tokyo's efforts to extend the Empire. The powerful isolationist sentiment at home, however, had made any form of assistance, political or economic, virtually impossible. Stimson, in 1931, had found the American people in no mood to depart from the nonentanglement tradition; he had wanted to take forceful measures against the Japanese, but discovered that "the policy of imposing sanctions by force . . . had been rejected by America in its rejection of the League of Nations."¹⁴

¹³Taylor, Foreign Policy Reports, XIII (February 15, 1938), 278.

¹⁴Stimson, p. 244.

If this was true at the time of the Manchurian crisis, it was even more true when Japan launched its military offensive against China five years later. By the mid-'thirties, most Americans had firmly resolved never again to take part in the quarrels between foreign countries. This determination to avoid foreign entanglements found eloquent expression in the neutrality legislation of the years 1935-1937, passed in response to overwhelming public pressure.¹⁵ The peak of isolationist strength was probably reached in early January, 1938, when the full force of administrative opposition was barely sufficient to defeat the much-debated Ludlow war-referendum amendment.¹⁶

Behind this grim determination to isolate America from the virus of foreign wars lay the feeling of disillusionment which had swept over the country following the First World War. The nation had reacted strongly against the Wilsonian policy of extensive commitments in the world at large. Both the period of immense prosperity which rolled across the nation during the 1920's and the terrible economic depression which followed it served to concentrate American attention upon domestic rather than foreign matters. Those who conducted the foreign affairs of the United States during the interwar period, while often

¹⁵William L. Langer and S. Everett Gleason, The Challenge to Isolationism, 1937-1940 (New York: Harper & Bros., 1952), p. 14.

¹⁶Walter Millis, Arms and the State (New York: The Twentieth Century Fund, 1958), p. 17.

far ahead of public opinion in the breadth of their vision and in their sense of the larger role which the nation ought to play, had to take account of this prevailing mood which had grasped the public mind.¹⁷

Thus a line came into being which American statesmen feared to cross. They could deplore the acts of international banditry which were taking place in the world around them. They could speak up in support of traditional national interests. But with the people of the United States so zealously desiring peace, no American official felt free to take any action that might possibly carry the nation toward or into war.¹⁸ Perhaps the culminating expression of the utopian idealism which characterized the state of the public mind after World War I came about with the signing of the Pact of Paris in late August, 1928. This pact--which was celebrated across the length and breadth of the land--had sought to end war by the fatuous device of making it illegal.¹⁹

The renewal of the Sino-Japanese conflict in 1937 had put the pacifist elements into full cry. Isolationists in Congress and throughout the country demanded the evacuation of American civilians and American armed forces from China.²⁰ Senator J. Hamilton Lewis of Illinois

¹⁷Perkins, pp. 284-85.

¹⁸Feis, pp. 6-8.

¹⁹Osgood, pp. 346-47.

²⁰Raymond L. Buell, Isolated America (New York: Alfred A. Knopf, 1940), p. 107.

expressed a common feeling when he observed that

so long as the United States continues to maintain a regiment of soldiers [in China] the prospect of collision between those soldiers [and the Japanese] is very evident. . . . The time has come when our Government should withdraw that regiment from China and bring it home. . . .²¹

In the House of Representatives, Hamilton Fish, one of the leading isolationists, echoed this sentiment when he urged that "now is the time . . . to withdraw our armed forces, [our] gunboats, and to give up voluntarily our extraterritorial rights."²²

The administration was forced to accede to this clamor for withdrawal to the extent of declaring that all Americans who chose to remain in China after repeated warnings to leave did so at their own risk. Moreover, on September 14, 1937, President Roosevelt announced that henceforth no government-owned vessel would be permitted to carry munitions to China or Japan and that any private vessels did so at their own risk.²³ On the whole, however, the government persisted in its policy of firm but cautious insistence of American rights and interests in China.²⁴

Even the sinking of the American gunboat Panay by the Japanese on December 12, 1937, did not lead to any popular outcry for war. Instead there were even more

²¹U. S., Congressional Record, 75th Cong., 1st Sess., 1937, LXXXI, Part 7, 8178.

²²Ibid., p. 8157.

²³Buell, p. 107.

²⁴Taylor, Foreign Policy Reports, XIII (February 15, 1938), 283.

caustic demands that the United States get its citizens and its naval craft out of the theater of war.²⁵ One Congressman expressed this attitude quite succinctly when he remarked that "if the American gunboat Panay had been at home, it would not have been bombed."²⁶

The possibility that the United States might become involved in a war with Japan over the destruction of American commercial interests in China was repugnant to innumerable Congressmen. The fact that the gunboat Panay had been escorting three Standard Oil vessels at the time of the attack did not escape notice. It was beyond contempt that "for a little trade and a few dollars in profits," American officials were willing to risk war.²⁷ The protection of American commercial interests in China was not "worth involving this nation of 130,000,000 souls in a war they will be called upon to fight and pay for."²⁸ Senator Robert R. Reynolds of North Carolina spoke for many of his colleagues when he resolved that "we are not going to follow the American dollar around the world to protect it."²⁹

²⁵Charles W. Smith, Public Opinion in a Democracy (New York: Prentice Hall, Inc., 1942), p. 518.

²⁶U. S., Congressional Record, 75th Cong., 3rd Sess., 1938, LXXXIII, Part 9, 92.

²⁷Ibid., p. 113.

²⁸U. S., Congressional Record, 75th Cong., 2nd Sess., 1937, LXXXII, Part 3, 611.

²⁹U. S., Congressional Record, 75th Cong., 3rd Sess., 1938, LXXXIII, Part 1, 90.

Efforts were renewed and intensified after the Panay incident to compel the Administration to withdraw American nationals, and the troops and ships protecting them, from the war zones in China. There was a plethora of warnings that if the United States failed to get its marines and its gunboats out of Chinese territory, further incidents would surely occur. No one could guarantee that American gunboats would not be "blown up by the Chinese in an effort to incite us against the Japanese, or vice versa."³⁰ This fear was accompanied by the suspicion which some Congressmen entertained that "our British brothers across the seas" were "doing their best to involve us over in China" so that the United States would become involved in protecting Great Britain's extensive investments in Asia.³¹ The United States, it was cautioned, must not again become the "cat's paw of Great Britain" in the Far East as it had been on the occasion of the official promulgation of the Open Door.³² For whatever variety of reasons, the vast majority of Congressmen, together with their fellow citizens, reached the same conclusion: Americans must be evacuated from China and for all those

³⁰U. S., Congressional Record, 75th Cong., 3rd Sess., 1938, LXXXIII, Part 1, 863.

³¹U. S., Congressional Record, 75th Cong., 2nd Sess., 1937, LXXXII, Part 2, 1357.

³²U. S., Congressional Record, 75th Cong., 3rd Sess., 1938, LXXXIII, Part 3, 2477.

who remain, official protection must be withdrawn.³³

The administration, nonetheless, continued to uphold the treaty rights of American citizens in China in the face of a hostile public at home and an intemperate antagonist abroad. The Department of State, however, remained "acutely conscious" of the pressures from the American people for withdrawal of all Americans from China, and could do little more than file official protests with the Japanese Government against a future reckoning.³⁴

The Open Door with its guarantee of equal commercial opportunity in China provided the United States Government with the only means by which it could hope to obstruct Japan's territorial ambitions. At the same time, however, there was the constant danger that some incident involving the lives and properties of Americans might occur which would draw the nation into war. This precarious situation was the source of considerable apprehension within the administration. American statesmen recognized with profound misgiving that to pursue an objective in foreign policy, the United States Government was being compelled to sustain insignificant financial interests under the most hazardous circumstances.

Had there not existed the larger objective of deterring Japan, there is ample reason to believe that the government would have been inclined to follow the

³³Masland, The Pacific Historical Review, XI (September, 1942), 283.

³⁴Blum, I, 485.

suggestion that all Americans be removed from China--a nation in which, after all, a full-scale war was being waged. The American Government had no intrinsic interest in the fortunes of business enterprises operated by United States citizens in China. The opposition within Roosevelt's Cabinet to the notion of risking war to protect Sino-American commerce was quite clear. It was strongly felt by several high administrative officials that the presence of a few Americans with vested interests in China were subjecting the entire nation to an unreasonable degree of risk. Vice President Garner was of this opinion. He objected strenuously to the idea of risking war in the Far East for the sake of business, and he did not believe that contingents of United States troops were justified in China.³⁵ Of like mind was Secretary of the Interior Harold L. Ickes. Ickes remarked that there was "no compulsion to invest money in foreign enterprises" and that those who did so could not expect the American Government "to sacrifice thousands of lives . . . and millions of treasure in an attempt to protect their investments."³⁶

It seems clear, then, that the activities of the American commercial interests in China were not successful in working any transformation upon the sentiments of the American public or upon the course of American policy toward Japan. The isolationist impulse among the people of the United States not only remained strong after Japan's

³⁵Blum, p. 481.

³⁶Ickes, p. 209.

assault upon China, but actually intensified after the Panay incident in December, 1937. Within high administrative circles in Washington there was grave concern over the possibility that some incident might occur from which there could be no retreat because of the presence of vested American financial interests in China. Only on the broad grounds of curbing Japanese expansionism was the necessity granted of upholding the complex system of treaty rights which surrounded Americans and their properties in China.

Commercial Interests in Relation to Major Economic Factors

American trade and investments in China never approached the proportions which had been predicted at the beginning of the twentieth century.³⁷ The failure of American investments in China to grow cannot be attributed to the lack of official protection and encouragement on the part of United States Government officials. Rather it resulted in large part from the political and economic backwardness of China which made the nation unattractive to American capital.³⁸ Moreover, the American businessman was very skeptical of China's potentialities. As long as it remained impossible for the impoverished Chinese to absorb much in the way of imports from the United States, few commercial groups foresaw the development of the Sino-American

³⁷Masland, The Pacific Historical Review, XI (September, 1942), 282.

³⁸Lockwood, Far Eastern Survey, V (August 12, 1936), 183.

trade.³⁹

Commercial intercourse with Japan, however, had grown steadily over the years. At the turn of the century, Japan's trade with the United States already exceeded that with China. By 1920 the value of American sales to Japan was nearly five times that of sales to China. In contrast to the political and economic chaos which haunted China, the Japanese islands were the model of civil tranquility, and the adaptation of western industrial technology had transformed the old Hermit Kingdom into a modern nation.⁴⁰ American businessmen were usually well pleased with their contacts with Japan. The Japanese were prompt in meeting their financial obligations to American exporters and the goods imported from Japan kept up to quality standards. A general feeling of good will and mutual respect had grown up between the commercial groups in both countries.⁴¹

By the mid-'thirties, Japan was of far greater economic importance to the United States than was China.⁴² In 1936, China's share of America's foreign trade was only 2.5 per cent, while Japan's was 7.7 per cent. At the same time, American business investments in Japan (\$218,000,000) were considerably more extensive than those in China

³⁹Masland, The Pacific Historical Review, XI (September, 1942), 293.

⁴⁰Neumann, p. 136.

⁴¹Masland, The Pacific Historical Review, XI (September, 1942), 293.

⁴²Farley, Far Eastern Survey, V (July 29, 1936), 170.

(\$132,000,000).⁴³ Suffice it to say that among a large proportion of American exporting and importing firms doing business with all or several of the East Asian countries, Japan was both the best customer and the chief source of supply. Such was Japan's commanding role in America's economic relations with the Far East.⁴⁴

When the Sino-Japanese war erupted in 1937, the facts of the East Asian trade did not work to the advantage of the American commercial community in China. In the first place, the economic stake of the United States in the whole of Asia was small. In the years immediately prior to 1937, exports from the United States to both China and Japan amounted to little more than 10 per cent of total American export trade, which in turn accounted for considerably less than 10 per cent of total American output. If commercial relations with either or both belligerents collapsed as a consequence of the hostilities, it was clear that no acute problem of economic instability would be created for the United States.⁴⁵ In the second place, Japan was more valuable to the commerce of the United States than was China. In 1936, American sales to Japan were in excess of \$204,000,000, while only \$46,800,000 in American commodities were marketed in China.⁴⁶ In terms of specific

⁴³Taylor, Foreign Policy Reports, XIII (February 15, 1938), 278.

⁴⁴Masland, The Pacific Historical Review, XI (September, 1942), 283-84.

⁴⁵William W. Lockwood, Jr., "American Neutrality and the Far East," Far Eastern Survey, VI (September 15, 1937), 213.

⁴⁶Ibid.

items, China's consumption of refined oil products in 1936 was only one-fourth that amount absorbed by Japan.⁴⁷ After 1935, moreover, the China trade in American cotton goods, the commodity that gave the United States its largest trading stake in East Asia, had virtually disappeared, while Japan had become the market for one-fourth of all the South's exported cotton.⁴⁸ Generously approximated, China represented slightly more than 1 per cent of the United States' foreign trade. From any angle, China's place in the American economy was small.⁴⁹

Thus the economic realities of Asian-American commercial relations failed to give added weight to the demands of the American businessman in China for a more forceful United States policy against Japan. Not only was he robbed of the argument that his trade was an important link in America's economic chain, but he was also confronted with other commercial groups which considered trade with Japan of far greater importance to their own and to the nation's welfare. As might be expected, these groups were anxious to maintain and expand their economic relations with Japan, and looked with disfavor upon any action

⁴⁷Walter A. Radius, "The Play of Petroleum Forces in the Far East," Far Eastern Survey, VII (September 7, 1938), 208.

⁴⁸William W. Lockwood, Jr., "North China and the United States Cotton Trade," Far Eastern Survey, VII (May 18, 1938), 115.

⁴⁹"What's Our Stake in China?", Business Week, August 7, 1937, p. 15.

which might impair this trade.⁵⁰ Already faced with a body of opinion in the United States which was hostile to the possibility of becoming involved in a foreign war "for a little trade and a few dollars," the American business community in China was confronted with a financial balance sheet that made one point inescapably clear: the China trade was of no vital importance to the United States.

Aside from the insignificance of the China trade to the economy of the United States as a whole, American investments in China were marked by several special features which served to diminish the importance of Sino-American economic relations still further. The bulk of American holdings in China were the subsidiaries of large corporations located in the United States. The revenues which these companies derived from their business in China constituted only a small fraction of their total incomes. The petroleum industry, for example, the industrial group with the largest stake in the Far East, exported no more than about 2 per cent of domestic production in refined products to the whole of East Asia.⁵¹ Similarly, the Shanghai Telephone Company, mentioned elsewhere as one of the most valuable American investments in China, supplied only about 3.9 per cent of the total operating revenues of International Telephone and Telegraph, the parent organization. In brief, none of the larger American companies with investments in China was in a position to suffer more

⁵⁰Masland, The Pacific Historical Review, XI (September, 1942), 285.

⁵¹Farley, Far Eastern Survey, V (July 29, 1936), 167.

than minor loss of income as a result of the Sino-Japanese conflict. In addition, property damage in almost every case was covered by insurance. While distressed to see their China trade curtailed, the immense size of these corporations allowed them to absorb this loss without any threat to their over-all financial position.⁵²

The outbreak of war in China was also the occasion for the American businessman to demonstrate the remarkable degree of resilience of which he has always been capable. The petroleum industry, gradually eliminated from the refining and marketing phases of the industry in Japanese-dominated areas of China, quickly recovered by shifting its emphasis to the field of crude oil which it sold in great quantities to the Japanese. At the same time, American oil companies began to participate more extensively in the exploitation, development, and distribution of petroleum products in the Netherlands Indies, British Malaya, the Philippines, and elsewhere.⁵³

The American tobacco industry, too, displayed this same realistic approach to the unfavorable conditions which war had brought to one of its best markets. Forced out of China by the disruptions which all wars bring to commerce, the industry announced that the "tremendous Chinese market" was ruined "for the duration of the war." The tobacco

⁵²"Little Threat to U. S. Investments in China," The Financial World, LXVIII (September 1, 1937), 8.

⁵³Radius, Far Eastern Survey, VII (September 7, 1938), 206-11.

exporters, however, gave notice that they had turned to Central and South America where they planned to retrieve some of the losses suffered elsewhere.⁵⁴

The impulse for peace which was so strong among the American people during the mid-'thirties penetrated the thinking of commercial circles as well. The editor of a leading export journal remarked that he was "constantly amazed to hear export executives say that they would rather see their trade stopped than to risk war."⁵⁵ "American 'isolationism,'" said the Commercial and Financial Chronicle, "is a policy whose wisdom is enforced by the obvious facts of the world situation."⁵⁶ On another occasion, this same journal editorialized that "no more now than in 1919 do the people of this country want to see the United States mixed up in any way with the League or entangled at any point with the politics of Europe or Asia."⁵⁷ These opinions were to persist among the members of the business community throughout the decade which preceded World War II. A survey conducted as late as 1940 revealed that three out of four business executives in the United

⁵⁴"World Unrest," United States Tobacco Journal, CXXIX (March 26, 1938), p. 4.

⁵⁵"The Editor Thinks Out Loud," American Exporter, CXX (February, 1937), p. 32

⁵⁶"Concerning American 'Isolationism,'" Commercial and Financial Chronicle, CVL (October 16, 1937), p. 2451.

⁵⁷"Itching to Take a Hand," Commercial and Financial Chronicle, CXLVI (June 11, 1938), p. 3718.

States still favored either appeasement of the Japanese or letting nature take its course.⁵⁸

The apparent failure of the American businessman in China to win the sympathy and support of the commercial groups within the United States undoubtedly contributed to his lack of success in influencing American policy toward Japan. The motives which prompted financial interests in China to demand firmer measures against the Japanese were not compatible with the attitudes generally held by the commercial community at home. While few American businessmen anywhere sanctioned Japan's militaristic policies, the urge to carry on "business as usual" predisposed the majority to look with disfavor upon any suggestion of strong action which might provoke war between the United States and Japan. This view was held by the business community at large.⁵⁹

In the final analysis, a combination of both economic and political factors prevented the American commercial community in China from exerting any appreciable degree of influence over United States policy toward Japan. It was not because of successful agitation by commercial groups with vested interests in China that American diplomacy came to the defense of the Open Door. American statesmen were not concerned with the fate of a trade relationship which had never developed beyond the embryonic stage.

⁵⁸Fortune, XXII (September, 1940), p. 73.

⁵⁹Masland, The Pacific Historical Review, XI (September, 1942), 285.

They were concerned, however, with thwarting Japanese imperialism which threatened the balance of power in the Pacific. If Japan should go unhindered in its head-long rush for empire, the security of American possessions in the Far East would ultimately be threatened. It was to deter Japan that the United States supported the Open Door, and not because of any intrinsic regard for American commercial interests in China.

CHAPTER V

SUMMARY AND CONCLUSION

The history of American commercial relations with China is a long and complex one, dating from the earliest days of the American Republic. The interest of the United States Government in the China trade reached its zenith with the promulgation of the Open Door Policy by Secretary of State John Hay in 1900. With Hay's famous series of diplomatic notes, the concept of commercial equality within China became a "positive interest" of the United States.¹ Accompanying this declaration had come the additional pronouncement that respect for China's territorial and administrative integrity was also now an official part of American foreign policy. This marked the entrance of the United States into the political entanglements of East Asia.²

Such an abrupt departure from America's traditional concern for only hemispheric politics was not followed by any realistic appraisal of what must be done if national power was to be brought into balance with this new ingredient in national policy. In the years which followed, the United States Government made no effort to provide for the

¹Quigley, p. 35.

²Griswold, p. 7.

adequate defense of the Open Door.³ The doctrine of the Open Door was, then, a virtual dead letter from its inception.

The American people evinced no greater enthusiasm for the Open Door in China than did their government. An area so far removed from the United States and seemingly so little related to domestic security was incapable of arousing any sustained interest.⁴ This same lack of enthusiasm was reflected by the indifferent attitude which the majority of American businessmen displayed toward periodic efforts by government officials to interest them in direct investments in China.⁵ As a consequence, America's economic stake in China remained insignificant down through the years.

Japan's conquest of Manchuria in 1931-1932 and its even more alarming assault upon China proper in 1937 sharply challenged the two fundamental principles of the Open Door. The question of engaging in war with the Japanese Empire in order to safeguard American commercial privileges in China, or to preserve the territorial integrity of the Chinese Republic, was never seriously entertained by the United States Government. No administration had ever believed that the Open Door was worth a war, and this judgement had been sustained by American public

³Osgood, p. 79.

⁴Bailey, p. 289.

⁵Quigley, p. 36.

opinion.⁶

In 1937, however, American statesmen sensed that something more was involved than the mere violation of a doctrine that had never been considered of intrinsic value to either the political or economic well-being of the United States. Japanese imperialism was on the march in Asia. If allowed to proceed unhindered, Japan might destroy the delicate balance of power in the Pacific. The American Government came to realize that its policy toward events in China must be integrated with a foreign policy toward the world as a whole in the interest of preventing world-wide aggression.⁷

It had been with this larger objective in mind that Secretary of State Cordell Hull wrote to Vice-President Garner in 1937 that the interest of the United States in the Sino-Japanese conflict "far transcends in importance the value of American trade with China or American investments in China; it transcends even the . . . welfare of American citizens in China."⁸ A scuttling departure from the Asian mainland in the face of danger could only signify to the Japanese a complete retreat by the United States from the Pacific.⁹ Such encouragement must not be

⁶Osgood, p. 62. See also Neumann, p. 148, and Griswold, p. 469.

⁷Chou I-kua, "The American Policy in China, 1929-1939" (unpublished Ph. D. dissertation, Fletcher School of Law and Diplomacy, Tufts University, 1949), p. 3.

⁸Hull, I, 567.

⁹Blum, I, 480.

given to those who showed open disdain for "orderly processes in international relationships."¹⁰

The decision had thus been reached that Japan's ambitions in East Asia must be thwarted. Conditions peculiar to the moment made the question of method particularly difficult. American citizens with an economic stake in China noisily demanded that the United States take strong measures to stop the Japanese. The disposition of their fellow countrymen half a world away, however, was quite different. The years after World War I had brought a deep sense of disillusionment to the American homeland. President Wilson's League of Nations had been rejected by his own people, and the participation of the United States in the Great War itself had come to be profoundly regretted. An intense revulsion against war had elicited from the citizens of the United States a firm resolve never again to become involved in the quarrels of foreign powers. The isolationist sentiment, never too far beneath the surface of the American mind, had been excited to new heights in the early and mid-'thirties.

This national determination to avoid foreign wars imposed severe limitations upon those who were entrusted with conducting the foreign affairs of the United States at the time of Japan's invasion of China. Any action which might jeopardize the peace and tranquility of the nation would not be tolerated by the American people. After much

¹⁰Hull, I, 567.

searching of minds, United States officials had been forced to conclude that the only visible means of restraining Japan seemed to rest in a vigorous defense of American rights and interests in China. Yet even this feeble gesture was subject to strong criticism in the United States. Throughout 1937 and 1938, there were continuous demands to recall all Americans from China and to withdraw official protection from those who chose to remain. The Roosevelt Administration, however, persistently refused to surrender this one means at its disposal by which it hoped to restrain Japan.

The decision to invoke the principles of the Open Door had not resulted from any desire to support the material interests of American commercial groups in China. The motives of the government had been strictly political, not economic. There was nothing new in this use of American business interests in China as an instrument of national policy. The occasion for the formal announcement of the Open Door in 1900 had been the impending dismemberment of China, an event which Secretary of State John Hay had hoped to prevent. In so far as Hay thought of economic considerations at all, he had trade in mind, but his main objective was to secure a political result.¹¹ In the years between 1900 and World War I, Secretaries Knox and Lansing had both sought to interest American businessmen in various financial schemes in China for the political purpose of

¹¹Remer, p. 257.

counterbalancing Russian and Japanese influence in Manchuria and China.¹² Thus when the United States Government used the Open Door as a political weapon against the Japanese in 1937, it was only following a long historic precedent.

A study of United States policy as it evolved during 1937 and 1938 clearly refutes the claim that American commercial interests in China exerted any appreciable influence upon foreign relations. To the contrary, it is apparent that the United States Government used the presence of business interests within China for the political purpose of obstructing Japan's efforts to create a "co-prosperity" sphere in the Far East. The Department of State, moreover, frequently took steps to discourage economic activities which might benefit Japanese imperialism. When certain Japanese industrial interests attempted to secure \$50,000,000 in credits from private American sources early in 1938, Washington quickly let it be known that it did not approve any such credits, and the matter was immediately dropped.¹³ On another occasion, several Japanese sources hinted that there would be many opportunities for indirect Western investments in the subjugated areas of North China. Again the United States Government indicated that it would look with disfavor upon the

¹²Griswold, pp. 469-70.

¹³"Sino-Japanese War," Commercial and Financial Chronicle, CXLVIII (January 22, 1938), 483.

provision of American capital for purposes of exploiting a conquered territory.¹⁴ The State Department was also successful in halting the shipment of American aircraft and aerial bombs to Japan. In July, 1938, Secretary of State Hull reminded all American manufacturers of aeronautical equipment that the United States Government was strongly opposed to the sale of airplanes and equipment to nations which bombed civilian populations. Although Japan was not mentioned by name, Washington noted with satisfaction that by November, 1938, applications for export licenses of aircraft and aerial bombs to Japan had disappeared.¹⁵

Commercial groups in the United States often complained against such limitations upon their activities, but they nevertheless were willing to accept the judgement of their government without any serious resistance.¹⁶

While United States policy toward Japan was never tailored to fit the desires of American business interests in China, there is a sense in which these commercial groups did influence the subsequent course of Japanese-American relations. As the war in China dragged on, resentment against Japan mounted in the United States. Japanese aircraft continued to bomb crowded Chinese cities, killing thousands. The war which Japan had begun demolished

¹⁴Stewart, Far Eastern Survey, VII (October 12, 1938), 235.

¹⁵"Sino-Japanese War," Commercial and Financial Chronicle, CXLVIII (January 14, 1939), 164-65.

¹⁶Masland, The Pacific Historical Review, XI (September, 1942), 289.

American churches and schools, ruined American businesses, and destroyed American lives. The brutality and disregard for American interests which the Japanese exhibited gradually angered the people of the United States.¹⁷

Growing popular indignation made possible an increasingly strong stand against Japan. By the end of 1938, the United States was no longer concerned with scrupulously maintaining the outward appearance of neutrality. On December 15, the United States Export-Import Bank placed \$25,000,000 in credits at the disposal of Nationalist China. This enabled China to make vital purchases of essential war materials. In addition, the American treasury extended the Chinese-American monetary agreement of July 9, 1937, by which China was able to obtain dollar exchange against its gold reserves in New York. These were the first positive aids to the Nationalist Government since the Japanese invasion.¹⁸

This material assistance to China was followed in the summer of the following year by the announcement that the United States was abrogating its 1911 commercial treaty with Japan. Formal notice that the treaty would be terminated in six month's time was given to the Japanese on July 26, 1939. In the judgement of the State Department, Tokyo's hostility to American interests in China did not

¹⁷Feis, p. 18.

¹⁸"U. S. Counters Japan's New Order in Asia," Foreign Policy Bulletin, XVIII (December 30, 1938), 1.

merit the continuance of a special commercial arrangement between the United States and Japan.¹⁹ This was a step that President Roosevelt and Secretary Hull had been contemplating for some time.²⁰ It was a measure that would have been out of the question two years before, but which now became possible in large part because of the changing climate in American public opinion.

Thus, while the initial protests of American businessmen in China did not influence the formation of the United States' response to Japan's challenge, the repeated destruction of American interests in China by a callous aggressor did succeed in working a change upon the mind of the American public. And as the attitude of Americans toward Japan stiffened, the government in Washington was given increased latitude in its efforts to deter Japanese imperialism in East Asia. Interference with American rights in China by the Japanese did, then, have an ultimate effect upon American policy, not as a prime mover, but as one among a growing number of grievances which the United States came to harbor against Japan.

¹⁹Hull, I, 636-37.

²⁰Ibid., 636.

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