FINANCIAL RELATIONS BETWEEN THE UNITED STATES AND CHINA:¹ CHINESE REQUESTS FOR FINANCIAL ASSISTANCE; REPRESENTATIONS REGARDING FIXING OF AN EQUITABLE RATE OF EXCHANGE FOR EXPENDITURES BY AMERICAN ARMED FORCES AND DIPLOMATIC ESTABLISHMENT IN CHINA; INTEREST OF THE UNITED STATES IN CHINESE MEASURES TO PROTECT ITS ECONOMY FROM A VIOLENTLY INFLATIONARY SITUATION

863.515/1-347: Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, January 3, 1947—7 p.m.

13. From State and Treasury for Ambassador and Adler.² Navy states its supply of no-rate yuan³ exhausted. If obliged to procure yuan at official rates, will be forced to curtail drastically its program in China. Appropriations inadequate to finance existing program at official rate, and believed impracticable to seek deficiency appropriation. War position similar. Navy and War propose that Chinese Govt be advised informally of foregoing facts, either by Emb or by War and Navy representatives, and notified that unless arrangements can be completed by Jan 16 for procuring yuan through official channels at rate approx open market rate for US dollar currency, or unless Chinese Govt signifies preference for curtailment of War and Navy programs, War and Navy will on Jan 16 begin sale of US dollar currency at best obtainable market rate to meet yuan requirements. This would be considered an interim emergency measure, pending working out of permanent arrangements such as special exchange rate through Central Bank or Chinese Govt for US Army and Navy purchases of yuan with US currency or US dollar credits to Chinese account in US, such rate to approximate open market rate for US currency on date of purchase, or rate based on Central Bank selling price to public for gold.

Any other arrangements Chinese Govt may propose which will permit carrying out of War and Navy programs in China at reasonable US dollar cost will be sympathetically considered.

State and Treasury request your comments urgently. [State and Treasury.]

BYRNES

² Solomon Adler, Treasury representative in China.
³ Chinese national currency advanced by China at no fixed rate of exchange for the use of U. S. military forces in that country.
NANKING, January 7, 1947—11 a. m.  
[Received January 7—2:30 a. m.]

32. It is agreed by Embassy that it is desirable that Chinese Government be advised informally that appropriations are inadequate to finance existing Army and Navy programs at official rate and that deficiency appropriations impracticable. Embassy is opposed to injecting question of curtailment of War and Navy programs into such a discussion. From incomplete information available here it would appear that appropriations involved amount to $1½ million a quarter. It would therefore be most unwise to allow major policy considerations to be affected by any such sum of money. General Marshall has expressed his concurrence with above. (Reference your telegram No. 13 of January 3.)

Further it would not be advisable to advise Chinese Government informally that unless arrangements can be completed by January 16 for War and Navy to procure yuan through official channels at rate approximating open market rate, War and Navy will begin sale of U. S. currency at open market rate as interim measure, as this would probably result in Chinese Government's adopting a measure it has been contemplating for some time, viz., the imposition of complete ban on open market for U. S. currency, and thus do harm and no good.

It is proposed as an alternative that Embassy, possibly in conjunction with Army and Navy, put immediate pressure on Chinese Government either to grant special exchange rate for War and Navy purchases of CN $ dollars approximating open market rate as of date of purchase or based on selling price of gold, or to sell gold for our account. Many questions arising from discrepancy between official and open market rates continually being brought up by Embassy with Chinese Government. Embassy therefore believes that it will be most difficult for Chinese Government to resist such pressure for long, especially as United States Government can defer for instance making available the $30 million cash to be earmarked for shipping and other expenses under surplus property agreement of August 30 to the Chinese Government. (Embassy in any case wishes to be consulted before favor-

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* Chinese national currency.
* Signed at Shanghai, August 30, 1946; Department of State, Report to Congress on Foreign Surplus Disposal, October 1946, p. 40. For correspondence preceding the signing of this agreement, see Foreign Relations, 1946, vol. x, pp. 1033 ff. For correspondence on surplus property matters in 1947, see post, pp. 1242 ff.
able action on this $30 million is taken.) Furthermore, Chinese wish to receive favorable consideration on relief allocation for 1947 and on pending Export-Import Bank specific loan projects. Adler, who is in full accord with above, requests copy be passed to Treasury.

STUART

893.515/1-747: Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, January 15, 1947—7 p.m.

65. From State and Treasury for Ambassador and Adler. Recommend immediate official request to Chinese for special rate for War and Navy purchases of CN dollars approximating open market rate for US dollar currency on date of purchase or based on selling price of gold (Embtl 32, Jan 7). Suggest stressing inadequacy of available appropriations to finance existing programs at official rate, and difficulty of explaining to Congress request for deficiency appropriations to cover abnormal costs due to overvaluation of yuan. Recommend Emb continue to press for special rate arrangements even in event official rate is adjusted (Embtl 48, Jan 10) since War and Navy have agreed to postpone sale of dollars in open market only on basis of assurance from Dept that Emb would press for permanent arrangements insuring availability of yuan to US Army and Navy at reasonable cost at all times.

Re last paragraph Embtl 32, Jan 7, Emb should not discuss Eximbank loan or post-UNRRA grant in connection these negotiations. Status these matters does not permit encouraging Chinese expectations. Refer Deptl 54 Jan 14, re status $30 million transfer under Aug 30 surplus property agreement. [State and Treasury.]

BYRNES

102.1/1-2247: Telegram

The Consul General at Shanghai (Davis) to the Secretary of State

SHANGHAI, January 22, 1947—11 a.m.
[Received January 22—4:45 a.m.]

174. From Adler to Secretary of Treasury. Consul General Davis, Casaday and I saw Pei on Jan 15 (reurtel unnumbered of Jan.

7 Not printed; it indicated an adjustment in the official exchange rate was being considered (102.1/1-1047).
8 Export-Import Bank of Washington.
9 United Nations Relief and Rehabilitation Administration.
10 For correspondence on post-UNRRA grants to China, see pp. 1293 ff.
11 Not printed.
12 John W. Snyder.
13 Lauren W. Casaday, Assistant Treasury Representative in China.
14 Pei Tsu-yee, Governor of the Central Bank of China.
on a number of problems connected with exchange. I again raised problem of equitable arrangement for Army and Navy expenditures. Pei proposed to make temporary advances to Army and Navy for unspecified but limited period, implication being that settlement for such advances would be made immediately after adjustment had been made on the official rate at the new official rate. Though I had not yet received your unnumbered telegram of Jan. 15 I indicated his proposal was not feasible. Saw T. V. Soong Jan. 17 and he promised me an answer over the weekend. Returned to Nanking Jan. 18 to confer with Embassy, coming back to Shanghai Jan. 20.

Consul General Davis and I saw Soong and Pei again this morning (see Shanghai serial to Embassy 115 of Jan. 21). They agreed in principle to a special arrangement for Army and Navy expenditures, Soong insisting that matter be kept secret. Soong designated Pei to negotiate details. Casaday and I are seeing Pei Jan. 23.

Sent Dept 174; repeated Nanking 120. [Adler.]

Davies

The Ambassador in China (Stuart) to the Secretary of State

No. 443


[Received February 5.]

SIR: I have the honor to refer to the Department’s telegram no. 1098, November 29, 3 p.m. (1946), giving the reactions of the Export-Import Bank of Washington to a Chinese approach for a new line of credit to finance rehabilitation of the Canton-Kowloon-Hankow Railroad and for certain Yellow River bridge projects, discussed in detail in the enclosures to the memorandum of November 26, 1946, addressed to General Marshall by Colonel M. S. Carter, General Marshall’s representative in the Department. These enclosures include a copy of a letter dated October 29, 1946, sent to the Chairman of the Eximbank by Mr. Clayton, Under Secretary for Economic Affairs; a copy of a letter dated November 9 [8], 1946, addressed to Mr. Clayton by the Acting Chairman of the Eximbank; and a copy of an inter-office memorandum from Mr. Vincent dated November 25, 1946.

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25 Telegram No. 65, supra.
26 President of the Chinese Executive Yuan.
27 Not found in Department files.
29 Memorandum and enclosures not printed.
30 William McChesney Martin, Jr.
31 Herbert E. Gaston.
32 John Carter Vincent, Director of the Office of Far Eastern Affairs (FE).
In connection with the Chinese approach for a line of credit to finance the rehabilitation of the Canton–Hankow Railroad there is now enclosed a copy of a memorandum on that subject dated January 4, 1947, addressed to General Marshall by the Embassy. This memorandum contains an appraisal of the financial, economic, and general policy considerations involved in the granting of a loan for this purpose.

There is also enclosed a copy of a letter dated October 21, 1946, addressed to the Ambassador by Dr. T. V. Soong, President of the Executive Yuan, conveying the request of the Chinese Government for a new cotton loan. The Embassy's comments on this Chinese request are contained in the enclosed copy of a memorandum of December 31, 1946.

The relative merits of the Chinese requests for the railroad and cotton loans are discussed in the enclosed copy of a memorandum of January 6, 1947, prepared by the Embassy on that subject.

No comments were made by the Embassy in regard to the Chinese approach for a line of credit to finance reconstruction of certain Yellow River bridges, owing to the continued threat of hostilities in the area where the bridges would be built and their possible early destruction by Chinese Communist and/or Chinese National Government forces.

The Embassy has no additional comments to make at this time in regard to the Chinese requests for the railroad and cotton loans, since the means of implementation of our policy in China will be discussed by General Marshall on his arrival in Washington.

Respectfully yours,

For the Ambassador:

W. WALTON BUTTERWORTH
Minister-Counselor of Embassy

[Enclosure 1]

Memorandum by the Minister-Counselor of Embassy in China (Butterworth) to General George C. Marshall


The Export-Import Bank’s response in its letter of November 8 to the State Department to the proposal for a loan vital to the rehabilitation of an area in which there is little or no likelihood of disruption of communications by hostilities raises the whole question of our future policy, political as well as economic, towards China.

\(^{23}\) *Foreign Relations, 1946*, vol. x, p. 1014.

\(^{24}\) *Not printed.*
I. Financial and Economic Considerations.

1. From a financial point of view China’s long-term balance of payments position is so unfavorable as to raise serious and justifiable doubts as to her ability to meet any long-term commitments she incurs except most intermittently and partially. If the Export-Import Bank were to place a pedantically strict construction on the policy quoted in its letter of November 8 to the Department to the effect that “the loans of the Bank should, in the judgment of the Board of Directors, offer reasonable assurance of repayment”, there would be little chance that long-term rehabilitation loans to China would satisfy this criterion. But the fact that the Bank authorized a credit for railway and bridge repair materials and equipment to China last February, not to mention a number of substantial credits to other countries which would not meet this criterion, if rigorously interpreted, provides clear indication that the Bank need not act in this wise.

It should be noted with reference to paragraph 1, page 2, of the Export-Import Bank’s letter 25 that China submitted a detailed statement of its foreign exchange assets and a forecast of its balance of payments to the Embassy on December 20 in connection with the question of relief allocations in 1947.*

2. Economically the case for loans for restoration of communications is stronger than for most other loans. The rehabilitation of the Canton–Hankow Railroad is a long-term project not connected with current hostilities. Presumably such hostilities will cease some day, and the economic recovery from years of war and civil war would be greatly facilitated if a start had already been made in the restoration of previously existing communication facilities. China cannot be expected to make rapid progress in its recuperation even after the final termination of internal hostilities, if it has to begin from scratch. In fact, it would have to begin from worse than scratch if no rehabilitation projects are initiated in the near future, as there will be all the destruction of the civil war to make good.

The present state of communications is one of the major obstacles to internal economic recovery, and the restoration of the Canton–Hankow Railroad would undoubtedly make a significant contribution to the economic rehabilitation of South China. In the past this area made considerable exports of wood oil, tungsten, antimony, tin and agricul-

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25. This paragraph indicated that it “was the practice of the Export-Import Bank to require from prospective borrowing governments a statement of their foreign exchange assets and obligations, and a forecast of their balance-of-payments position” and that China had not supplied such a statement (Marshall Mission Files, Lot 54–D270).

*See Embassy’s telegrams to Department Nos. 2148, December 21, 12 noon, and 2149, December 21, 1 p. m., both 1946. [Footnote in the original; neither telegram printed.]

386–748—72—66
tural products. The restoration of the railroad alone would of course not suffice by itself to bring about the revival of these exports. In present conditions, and probably even with the railroad in efficient operation, many potential exports could not compete on the world market without subsidies or their equivalent. In any case, the prospects for substantially increasing China's exports and for improving her exchange position without drastic action in the fiscal sphere cannot be considered bright. 

3. The case for the Canton-Hankow Railroad is strengthened by the following considerations:

a) It runs through an area in which there are no hostilities at present.

b) Its rehabilitation is a long-term project which will make little if any contribution to the National Government in its conduct of current military operations, and adequate provisions could be made in a loan agreement to prevent abuses of the loan such as diversion of railroad equipment to railroads running through disturbed areas.

c) As American air bombing, particularly in 1944, wrought great havoc to the Canton-Hankow Railroad, it would be fitting if the first specific railroad rehabilitation project should be carried out on this line with the aid of American funds.

None of the above considerations, except (c), apply to the Yellow River bridge project. It would appear to be expedient, therefore, if you decide to recommend the Canton-Hankow Railroad loan, to allow the question of Yellow River bridge project to be shelved for the time being.

II. General Policy Considerations.

Since any long-term U. S. Government loan to China would appear to be excluded on strictly financial and economic considerations, the question arises as to whether we should discriminate between limited loans for specific long-term projects, which would undoubtedly contribute to the improvement of China's internal and external position, and loans which would serve primarily to relieve the immediate pressure on her foreign exchange resources. The case for the latter would appear to be more questionable than the case for the former. As for the former,

a) The decision to make no such loans would have major political implications and consequences and would not appear to be in line with the President's statement of December 15 [18], 1946. The Embassy sees no reason for recommending any such drastic reversal in the President's statement of policy as would be involved in a decision to make no loans of any kind to China.

b) The decision to preserve an open mind on limited loans for specific projects and to make such loans from time to time would both give us greater freedom of maneuver in our China policy and be consistent with the President’s statement.

c) It would not impose long-term political commitments on us and would leave policy open for revision if and when desirable. Moreover, timing of such assistance could be of some value in implementing general policy.

d) As the proposed loan for the rehabilitation of the Canton-Hankow Railroad would appear to belong to the category of limited loans for specific projects, therefore the main question to be decided is whether now is the right time for this loan.

[Enclosure 2]

Memorandum by the Minister-Counselor of Embassy in China (Butterworth) to General George C. Marshall

[NANKING,] December 31, 1946.

I. With reference to your memorandum to me of November 5, 1946, regarding Dr. Soong’s letter of October 21, 1946, to the Ambassador, the Embassy has received the following estimates and information:

1. Chinese Cotton Supply—August 1, 1946 to December 31, 1947
   a. Cotton carryover on August 1, 1946 (including cotton on order but undelivered) 750,000 bales
   b. Anticipated UNRRA arrivals 200,000
   c. Expected receipts from 1946 domestic crop 550,000

   Total supply 1946-47 2,050,000

2. Chinese Mill Consumption Requirements 1946-47
   a. August 1, 1946 to December 31, 1946 500,000 bales
   b. January 1, 1947 to December 31, 1947 1,537,000

   Total August 1, 1946 to December 31, 1947 2,037,000

The above figures are based on the assumptions of:
   a. An estimated equivalent of full-time operation (20 hours per day, 6 days per week) of 2.4 million spindles in the last five months of 1946 and of 3,075,000 spindles in the calendar year 1947; this estimate is lower than Dr. Soong’s, even though it allows for the arrival of new machinery.

   b. An estimated consumption of 250 pounds, or 1/2 a bale, of cotton per spindle per month. Dr. Soong’s estimate of cotton consumption per spindle per month is 312 pounds, which in the opinion of our Com-

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28 Ibid., p. 1014.
mercial and Agricultural Attachés is much too high, given the current and expected levels of efficiency of operation.

3. Carryover on January 1, 1948

It will be noted that estimated mill consumption requirements for the period from August 1, 1946 to December 31, 1947 are approximately equal to the estimated cotton supply for the same period. However, the industry needs a carryover equivalent to 3 or 4 months’ supply for its normal operations. Moreover, the expected receipts from the 1947 domestic cotton crop, which certainly should not be lower than those from the 1946 crop, will only begin to become available from October 1947 on. Even so, according to our estimates, there will be approximately 350,000 bales available at the end of the third quarter of 1947 apart from the domestic cotton crop. Our Commercial and Agricultural Attachés nevertheless estimate a safe carryover for January 1, 1948 to be a little over 500,000 bales, or the equivalent of mill requirements for 4 months.

4. It follows that Chinese import requirements for the period ending December 31, 1947 total 500,000 bales, which should have a landed cost of between US$80 and US$85 million. This estimate is about half Dr. Soong’s, even though Dr. Soong’s estimate refers to requirements for the period ending July 31, 1947.

II. Policy Considerations

1. From a financial point of view China’s long-term foreign exchange and balance of payments position is so unfavorable as to raise serious and justifiable doubts as to her ability to meet commitments beyond 1947 except most intermittently and partially. According to estimates submitted by Dr. Soong to the Embassy on December 20, Chinese official foreign exchange resources will probably be exhausted by the end of 1947; at the same time it must be remembered that there are still very substantial foreign exchange assets in the hands of Chinese private citizens and corporations but in view of the inadequacy of Government controls and of the disturbed internal situation it is doubtful to what extent the Chinese Government can succeed in mobilizing them.

2. Economically the case for a loan to facilitate the maintenance of China’s major industry, an industry moreover which is functioning relatively well, would appear to be stronger than for any other loan for which application has recently been made. While domestic cotton needs are still acute, in spite of the unrealistic exchange rate and high labor costs, China could export some of her cotton production to Southeast Asia because of the sustained heavy demand in former

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29 A. Bland Calder and Owen L. Dawson, respectively.
Japanese markets. In fact, it would be advisable to suggest to the Chinese that they should allocate part of their cotton production to sales abroad and use the proceeds to contribute to servicing and repaying such loan as we may see fit to make. At the same time, it is most unlikely that such proceeds would suffice to repay either a 5-year or a 2-year loan.

3. Politically the issue of a substantial cotton loan raises the whole question of our future policy, political as well as economically, towards China. It is not easy to justify such a loan on strictly financial and economic grounds, even though probably a better case can be made on these grounds than for almost any other loan. A decision to make no such loans would have major political implications and consequences which it would appear premature to provoke. On the other hand, a decision to preserve an open mind on limited loans for specific projects and to make such loans from time to time would give us greater freedom of maneuver in our China policy. It would not impose long-term political commitments on us and would leave our policy open for revision if and when desirable. Moreover, the timing of such assistance would be of great value in implementing general policy.

III. Recommendations

1. The cotton loan would appear to be in a category of loans for limited and specific purposes for which a reasonably good case can be made. At the same time the Chinese application (US$150 million) is for an amount approximately double their requirements, and even a loan to cover our estimate of China’s requirements (US$80–85 million) would appear to be too large to be made in one installment. It is therefore suggested that you recommend an Export-Import Bank Loan of US$33 million (i.e., the same amount as the previous Eximbank cotton loans39). It would be advisable to inform the Export-Import Bank that a loan of this amount would not be sufficient to meet China’s requirements for 1947 and that it would be in order to give consideration to another loan or loans to cover the deficiency in the light of relevant facts say at the end of the first quarter of 1947.

2. Credits granted by the Export-Import Bank for the purchase of cotton are invariably short-term. The existing 2-year US$33 million Eximbank cotton loan to China is longer than any other cotton loan it has made. As it is therefore hardly likely to agree to more than a 2-year term for any further cotton loan, there would be little point in recommending a 5-year term in accordance with the Chinese request.

3. In accordance with II.2. above, the Export-Import Bank should be advised that among other conditions it will stipulate—presumably

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these would be more or less identical with those of the existing cotton loan—it should require the Chinese to earmark part of their cotton production for export and to allocate the proceeds of such exports to contribute to the servicing and repayment of the loan.

[Enclosure 3]

Memorandum by the Minister-Counselor of Embassy in China (Butterworth) to General George C. Marshall

[Nanking,] January 6, 1947.

The two attached memoranda state the cases for the railroad and cotton loans. The pros and cons of these loans are summarized below:

1. Arguments for Canton-Hankow Railroad loan.
   a) It is a long-term rehabilitation project vital for the restoration of Chinese communications and for the revival of the Chinese economy after the cessation of current hostilities.
   b) Because it is a long-term project, it is not open to the objection that it is a political loan of assistance to the National Government in the civil war, and is therefore readily defensible in terms of the President’s statement of December 15 [18]. It should also be possible to impose conditions preventing abuse or misuse of equipment purchased with the loan.
   c) The railroad runs through an area in which there are no hostilities and little likelihood thereof. It is therefore unlikely that the investment in equipment and installations will be dissipated.

2. Arguments against Canton-Hankow Railroad loan.
   a) The railroad has already been abused by the Military, and it may be difficult to prevent the recurrence of such abuses or the diversion of equipment intended for its rehabilitation to other railroads in areas of hostilities.
   b) The record of Chinese utilization of UNRRA railroad equipment is not impressive.
   c) The prospects for the repayment of the loan cannot be considered too bright.

3. Arguments for cotton loan.
   a) The cotton textile industry is China’s major industry, which moreover is functioning with relative efficiency. Its continued large-scale operation is vital to the prevention of further economic (and political) deterioration in Shanghai and in Nationalist China generally.
b) The functioning of the cotton industry is not immediately related to the civil war.

c) China can export some of her cotton manufactures and allocate the proceeds to the servicing and partial repayment of the loan.

4. Arguments against cotton loan.

a) While a cotton loan would provide immediate relief, it would not contribute to any basic long-term improvement in the Chinese economy.

b) Precisely because the cotton loan would provide immediate economic relief and improve the Government's immediate financial position (the Government anticipates receiving CN$400 billion from the profits of the China Textile Development Corporation), it would be of assistance to the Government in waging civil war.

c) While the foreign exchange proceeds of cotton textile exports could contribute to the servicing and partial repayment of the loan, it is improbable that they would be on a scale sufficient to ensure its full repayment.

102.1/1-2547: Telegram

The Consul General at Shanghai (Davis) to the Secretary of State

SHANGHAI, January 25, 1947—noon.
[Received January 25—8:14 a.m.]

196. From Adler and Casaday to Treasury.

1. In an interview with Pei yesterday he made following offer with respect to Army and Navy expenditures (reference your 54, January 14 to Nanking and our telegram 174, January 22, repeated Nanking 120). Central Bank willing to make no-rate CN dollar advances to Army and Navy, settlement to be made at special rate to be determined on basis of cross-rate between Hong Kong open market rate for CN dollar and Hong Kong open market rate for US dollar as of date on which advance is made. Pei said in defense of this proposal that Central Bank could not very well transact business at Shanghai open market rate for US currency, a rate he added it had declared illegal and for private transactions in which arrests are intermittently made.

2. As you know, Pei and Rogers recently visited Hong Kong in order to persuade Hong Kong authorities to curb smuggling into China and restrict open market currency operations. While degree of success attained by Pei and Rogers in their negotiations with Hong Kong authorities not yet known, Adler nevertheless asked Pei whether his offer would include the provision “for the time being” in order to

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21 Not printed.
22 Cyril Rogers, British adviser to the Central Bank of China.
safeguard us against any sharp break in Hong Kong open market. Pei readily agreed. We would, of course, be kept posted daily of Hong Kong open market rates to ensure scheme's working economically. Adler proposes to visit Hong Kong for a few days in next 2 weeks if possible to study situation at first hand.

3. Pei was notified that his offer would be transmitted to Treasury. We recommend acceptance of this offer, as (a) remedial action most urgently required, (b) in light of course of negotiations Chinese unlikely to improve on this offer, at this time, (c) market in Hong Kong does not appear to be thin, and (d) above cross-rate fluctuates in range of 10 percent below the Shanghai open market. Analysis reveals that the range is usually less than 10 percent, though when Shanghai open market rate takes a sudden upward spurt, Hong Kong open market cross-rate may lag behind at between 10 and 15 percent less than Shanghai rate for a day or two, generally not longer.

4. For your information Chinese authorities have made offer for similar basis of settlement with respect to United States Government acquisitions of and improvements to real estate under FLC\textsuperscript{33} agreement of August 30\textsuperscript{34} which Embassy finds acceptable, Adler concurring.

5. Your urgent flash reply addressed to Shanghai would be appreciated, as both Army and Navy are short of CN dollar funds. Army in any case anxious to procure no-rate advance immediately on basis of Soong's agreement in principle reported in our telegram 174 of January 22. Adler will be in Shanghai for a few more days until matters connected with exchange arrangements for Army and Navy expenditures and real estate acquisitions under FLC agreement are cleared up.

Sent Department 196; repeated Nanking 133. [Adler and Casaday.]

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102.1/1-2547: Telegram

The Secretary of State to the Consul General at Shanghai (Davis)

WASHINGTON, January 28, 1947—1 p.m.

143. From State, War, Navy and Treasury to Adler and Casaday. In preference [reference] Pei proposal (Para 1 your 196, Jan 25) War and Navy desire to purchase yuan outright at rate based on Hong Kong cross rate 3 days or some other short fixed period prior to date of purchase. War and Navy desire to avoid any form of yuan advances, since disbursing officer could not in any event utilize yuan until purchase rate had been determined. However, if Pei feels strongly on this point, War and Navy approve acceptance his original

\textsuperscript{33} Office of the Foreign Liquidation Commissioner.

\textsuperscript{34} See footnote 6, p. 1031.
proposal and will issue appropriate instructions to accounting officers.
Assume no interest would be involved. Agree that phrase "for time
being" should be included in any agreement.
We congratulate you on success of your negotiations.
Sent Shanghai, repeated to Nanking.\textsuperscript{55} [State, War, Navy, and
Treasury.]

\textbf{MARSHALL}

893.51/1-2847

\textit{The Chinese Ambassador (Koo) to the Secretary of State}

\textbf{WASHINGTON, January 28, 1947.}

\textbf{Sir:} With reference to the Agreement dated February 4, 1941,\textsuperscript{56}
as amended, relative to a loan of $50,000,000.00 to the Central Bank
of China, between the National Government of the Republic of China,
the Central Bank of China and the National Resources Comission,
an agency of the National Government of the Republic of China, on
the one part, and the Export-Import Bank of Washington on the
other, I have the honor to inform you that my government has author-
ized a further extension of this Agreement to June 30, 1947.

I am instructed to inform you that the following persons have been
authorized by my government to execute any and all necessary docu-
ments in connection with this extension: namely, Mr. Dakuin Keetao
Lieu, Commercial Counselor of the Embassy, for the Government
of the Republic of China; Mr. Hsi Te-mou, Representative of the Cen-
tral Bank of China in the United States, for the Central Bank of
China; and Mr. Po-wen Huang, Director of the New York Agency
of the Foreign Trade Office of the National Resources Commission
of China, for the National Resources Commission.

I should be grateful if you would be so good as to transmit this
information to the Export-Import Bank of Washington.

Accept [etc.]

\textbf{V. K. WELLINGTON KOO}

102.1/1-3147: Telegram

\textit{The Ambassador in China (Stuart) to the Secretary of State}

\textbf{NANKING, January 31, 1947—8 p. m.}

[Received February 1—8:15 a.m.]

179. From Adler to Secretary of Treasury. ReEmbtel 48 of Jan-
uary 10, 1 p. m.\textsuperscript{57} Returned Nanking Jan 30.

\textsuperscript{55} Repeated to Nanking as telegram No. 104.
\textsuperscript{56} Further details of this agreement are found in a note of January 6, 1941,
from the Chinese Ambassador to the Secretary of State, \textit{Foreign Relations}, 1941,
v. v. p. 593.
\textsuperscript{57} See footnote 7, p. 1032.
1. Was informed by T. V. Soong yesterday evening that after protracted discussions he had decided to maintain official rate of exchange for time being but to introduce (a) export subsidy of 50 percent of official rate, (b) import surcharge duty of 35 percent on all goods except those on schedule 1 (capital goods), raw cotton, foodstuffs, and fertilizers, (c) a bonus of approximately CN dollars 3,000 per US $1 for inward remittances.

He said he had discussed the scheme with the Generalissimo 38 and that it was to go before the Supreme National Defense Council on February 3 for approval. If approval is granted, his plan is to introduce (a) and (b) immediately—probably around February 5—and (c) a little later. He asked me to give you advance notice of this scheme.

2. As you know, Soong’s original intention was to make sharp adjustment in official rate of exchange and his instincts still lean in that direction. I have distinct impression that Rogers influenced Pei and Soong to reject exchange adjustment in favor of new piecemeal plan, which is admittedly a stop gap. Arguments in favor of new plan rest largely on: (a) fear of further immediate rapid mark-up and upswing in prices with exchange adjustment, (b) fear that further adjustments in exchange rate will have to be made at increasingly shorter intervals, (c) fear of rapid undermining of what little confidence (such as it is) there is left in CN currency in event of (a) and (b), (d) Micawber 39-like hope that something will turn up.

3. In my opinion Soong’s original intention sounder than plan to be adopted for following reasons: (a) exchange adjustment has been expected for some time and has therefore to some extent been discounted by traders and merchants, (b) in so far as it is effective it will also have an inflationary impact, (c) it will give at most a purely temporary fillip if any to exports, (d) it will add administrative complications to an administratively already overburdened and creaking setup, (e) it merely defers the evil day.

In general, new plan, which is partly postulated on continued heavy sales of gold in Shanghai, shows to my mind an excessive preoccupation with the nuances of Shanghai market psychology, which in present critical balance of payments situation would appear to be a luxury Chinese can ill afford to indulge in. [Adler.]

STUART

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38 Generalissimo Chiang Kai-shek, President of the National Government of the Republic of China.
39 Character in novel “David Copperfield” by Charles Dickens.
The Ambassador in China (Stuart) to the Secretary of State

No. 466

NANKING, January 31, 1947.
[Received February 12.]

Sir: I have the honor to report recent conversations with President Chiang Kai-shek and Dr. T. V. Soong.

Dr. Soong had just returned from two harrowing weeks in Shanghai when I saw him on the evening of January 27. He was more discouraged than I had ever found him before. He felt so keenly the need for emergency aid that he was thinking of sending Mr. John Blandford \(^{49}\) to Washington to press for the proposed Canton-Hankow Railway loan and the $100,000,000 cotton credit. He also wanted Mr. Blandford to arrange for civil advisers, to gain first-hand impressions of U. N.\(^{44}\) and American trends, and to have a rest or change of scene.

Messrs. Blandford, Butterworth and I have also been in constant conference over these and related matters. We are all aware of the gravity of the situation but agree that it would be inexpedient for Mr. Blandford to leave China at present.

Dr. Soong called on me the morning of January 31. I explained why we felt as we did about Mr. Blandford’s possible trip and he accepted our judgment without hesitation. But he requested me to inquire as to the possibility of the Canton-Hankow Railway loan and the cotton credit.

President Chiang has expressed the desire that as many of the Executive Headquarters personnel as possible be absorbed into the Army Advisory Group as a further strengthening of military reorganization.

Both President Chiang and Dr. Soong are prepared to establish the State Council and to give it real authority as in effect an ad interim government. The Communist Party seats will be kept vacant, the minority parties urged to come in. These latter are apparently hesitating because of various uncertainties. The intention is to have the State Council composed of the most representative and competent persons available.

Respectfully yours,

J. LEIGHTON STUART

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895.50/2-447 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, February 4, 1947—10 p. m.
[Received February 4—10:16 a. m.]

204. Interview with Dr. T. V. Soong. As set forth in despatch No. 466 of January 31, Dr. Soong has expressed himself as having become

\(^{49}\) American financial adviser to the Chinese Government.

\(^{44}\) United Nations.
very anxious about the economic and financial situation, and he sent Blandford to discuss with Butterworth and me the position and to represent the need for helpful action. He also asked Butterworth to lunch alone with him and presented his views.

Dr. Soong maintained that he had refrained from burdening you and the Generalissimo during your political negotiations with his economic and financial preoccupations, but that since your departure the situation had abruptly deteriorated. China being an agricultural country, he had felt that foreigners attached exaggerated importance to the happenings in large coastal cities, but since the Chinese New Year prices had risen so precipitously, particularly in provincial areas, as to cause him genuine alarm. He summarized the position somewhat as follows:

1. that the economic-financial situation was very precarious and the recent rise in prices showed that the Government’s ability to hold the situation in check was waning and might at any time slip away;
2. that there was obviously no chance of obtaining Communist participation in a coalition government;
3. that it was America’s right to determine whether or not its policy and its money would be directed towards preserving the authority and influence of the Government of China;
4. that if adequate aid were withheld, it would not be Democratic League or the Social Democrats who would take power but the organized Communists who had armed forces to back them;
5. that if, however, the U. S. proposed in its own and China’s interests to extend the need of aid to the Government, it was desirable that it should be forthcoming before the situation got out of hand and be employed in an ordered and considered fashion;
6. that, furthermore, aid by the U. S. was the only means of upsetting the Communists’ calculations of bringing about economic chaos and making them more conciliatory; and
7. that in any case it was his considered opinion that time was growing very, very short—that the situation was fast reaching the point where it could not be held by domestic improvisations.

Soong thereupon raised directly, as he had raised indirectly through Blandford, the question of the latter’s going to the U. S. to discuss Chinese situation and need for financial help. Pressed for an opinion, Butterworth pointed out that, although there had been abrupt rise in interior prices since you had left, no new or decisive element had been injected into the situation and, in fact, in the political field the inactivity had been all too apparent; that if there were facts or new information which you should have, Embassy would gladly transmit them.

This led Soong into a lengthy castigation of the futility and ineptness of the third party groups whom he accused of fluctuating in their attitudes with economic, military and international develop-
ments. He suggested, by way of constructive proposal, immediate constitution of State Council of Progressive Kmt,\textsuperscript{42} eminent independent and other party representatives, leaving seats for Communists, that the Council be given very substantial power which would permit it to organize into subcommittees which would specialize on and assume policy responsibility for various aspects of the Government, each subcommittee having an American technical adviser. He also vouchsafed that he would favor a coalition Executive Yuan. Soong emphasized that this action in State Council and Executive Yuan in his own opinion should be taken whether or not American assistance were forthcoming to which Butterworth agreed, and in turn emphasized that since subcommittees of State Council even if immediately organized would have only 8 or 9 months to run, it was obviously impossible for new American advisers to be selected, brought to China and become effective before advent of new constitution, though it was highly desirable that public undertaking to organize State Council and coalition Executive Yuan be implemented.

The conversation reverted to the former theme with Soong reiterating in extremely strong terms his considered opinion that time was fast running out and that it was most unlikely that the position would be able to be held within reasonable bounds in the fairly near or intermediate future. This appeal was directed personally to Butterworth who was inclined to think the matter over and consult with Soong again.

Embassy will forward you a detailed analysis of economic-financial situation in due course.\textsuperscript{43} In brief, it is characterized by: (a) acute inflation which has not yet run its course. The rate of deterioration is thus bound to be cumulative, but there is no immediate evidence that it has reached catastrophic stage; (b) increasing pressure on official foreign exchange resources which Chinese authorities have been far from wisely husbanding.

The main danger in China, in our opinion, is not one of dramatic economic collapse—as in U. S. at beginning of 1933—but of insidious economic and political disintegration. This process has already set in, and political, military, economic deterioration mutually reinforce each other in accentuating it. As this process continues \textit{de facto} authority of Central Govt and its ability to maintain its armies and and minimal apparatus of govt can be expected to become weaker. In these circumstances, the revival of regionalism and warlordism with decided increase of Communist activities, perhaps less in the direction of taking over the whole country than of spreading their

\textsuperscript{42} Kuomintang.
\textsuperscript{43} See telegram No. 264, February 12, 7 p. m., p. 1059.
influence and power from the areas in which they are strongly based and heightening the unsettlement in the Central Govt area can be anticipated.

Embassy is inclined to regard Soong’s action in part as a facing up to the reality of your being in Washington which leaves him uncomfortably little room for maneuver. Both the Generalissimo and Soong seem unsure as to what the next move should be or at any rate would purport to be, though the latter, of course, has the additional problem of demonstrating the efficacy of his American connections at a time when the Government is being increasingly criticized both from within and without as its situation worsens appreciably.

Stuart

893.51/2-547: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, February 5, 1947—10 p.m.
[Received February 6—1:48 p.m.]

206. In conversation with Butterworth, Adler and me on February 4, Blandford again raised the issues discussed by Soong in his conversation with Butterworth reported in Embtel 204, February 4, 10 p.m. Blandford expressed genuine alarm at the rapid deterioration in the economic situation. He stated his belief that China represented the last lifeline of the western democracies in the Far East, that the position of Britain, France and The Netherlands in the Far East was slipping, and that if the Central Government fell as a result of economic collapse, there would be nothing left. Blandford was also asked what new elements had emerged in the situation since your departure. He did not say explicitly that the purpose of his projected visit to Washington was to assist China in obtaining loan and to sound out attitude to China in official and other quarters in Washington, but such would obviously be the case. He explained it in terms of: (a) his own personal position, his responsibility to report to the President on the progress of his mission and his desire to clarify the question of whether another American adviser and/or group of advisers is to come out to China; and (b) the need for clarifying the procedures to be pursued by China with respect to possible Export-Import Bank and International Bank loans. But he was obviously skating on thin ice.

Upon reference to imminence of Moscow Conference,44 Blandford said the Moscow Conference might last 3 or 4 months, and by the time of its conclusion the position of the Central Government might be

44 Council of Foreign Ministers; for correspondence, see pp. 609 ff.
beyond remedy if no clarification of the loan situation had previously occurred. In this connection he emphasized the discouragement and damage done by seemingly inspired articles from Washington as to nonavailability of Export-Import Bank 500 million loan (see Embassy's 186[A], February 24). The reorganization of the Government and progress along democratic lines were jeopardized as long as the Central Government's prospects were so clouded. Groups and individuals were afraid to be associated with it unless it had some evidence of American backing. In his opinion Soong, whom he spoke of as a man of outstanding ability, could not carry on his fight with both the CC group and the militarists without American support.

Blandford indicated that in its present weakened position with dwindling foreign exchange resources, it was impossible for Government to plan reasonable course of economic and financial action until more knowledge of American willingness to make commitments and its minimal requirements for such commitments. This is the most pertinent and valid point in the Chinese case and is worthy of attention.

Butterworth indicated that although developments in China were of great importance to us, they must be considered in the framework of the general world situation, and now [not] particularly in the light of the forthcoming Moscow Conference.

Blandford read a personal written appraisal of the present Chinese scene which will be transmitted in a separate telegram.

I indicated my feeling that Blandford's trip to Washington was premature at this time. It was true that the Government had handled its last peace offer to the Communists quite smoothly, that it was regrettable it had not handled its previous offer as effectively, and that the prospect of American assistance to the Central Government would increase the chances of the Communists entering into peace negotiations. I emphasized that from the Government's point of view the best thing it could do was to press forward with the organization of the State Council on a broad basis with room left open for the Communists and with reorganization of the Executive Yuan. These should go forward in any case. I would do my best to be of service in this connection.

There was also some discussion of Chinese foreign exchange policy in which Butterworth and Adler expressed grave doubts as to the wisdom of the Chinese Government's policy of domestic sale of substantial amounts of gold and its refusal to adjust exchange rates; it

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44 Not printed; it quoted a United Press story that "there was 'absolutely no chance' that China would ever receive all the $500 million loan from the Export-Import Bank." (893.51/2-247)
45 Group in the Kuomintang led by the brothers Chen Li-fu and Chen Kuo-fu.
46 See telegram No. 215, February 6, 8 p. m., from the Ambassador in China, p. 1056.
was indicated that the measures China is proposing to adopt as a substitute for such adjustment were both ineffectual and not in accord with our world trade program. Butterworth suggested to Blandford that he draw up a statement on Chinese economic-financial situation which will be transmitted with documents when received.

Chinese pressure for a loan can be expected to continue with increasing force. Soong is in a desperate mood, and he and his entourage are showing all the symptoms of incipient and partly self-engendered panic. This is not to minimize current acute difficulties and eventual gravity of situation, which will be summarized in a later message.49

STUART

102.1/2-647: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, February 6, 1947—noon. [Received February 6—7:20 a.m.]

207. From Adler to Secretary of Treasury. ReEmbtl 179 of January 31, 8 p.m. Was asked by Soong to attend a conference at his house at 11 p.m. February 4. Pei and Rogers had just arrived from Shanghai. Blandford, the Secretary [General] of Executive Yuan, and C. T. Chu of Soong's staff were also present. Pei stated that in view of the rise in the price of gold to around CN dollars 470,000 per oz. and of U. S. currency to 8,500-9,000 in Shanghai in anticipation by the market of an adjustment in official rate, the contemplated introduction of an export subsidy of 50 percent and import surcharge of 35 percent were not out of date. The alternatives were (a) to make a drastic adjustment in official rate, (b) a more moderate adjustment in official rate to 5,000 or 6,000 plus a moderate export subsidy and import surcharge, or (c) substantial export subsidy and import surcharge of the order of 100 percent and 50 percent respectively. It was obvious that the consensus of the meeting, including Soong, was in favor of (c). When Soong asked me for my opinion, I replied that I could only give an informal and unofficial one and that it appeared to me personally that the events of the last few days gave further evidence that (c) was at best a stopgap and that as adjustment was inevitable it was best to get it over with. I was in a minority of one.

48 See Embassy's telegram No. 213, February 6, 4 p.m., p. 1053.
49 See Embassy's telegram No. 264, February 12, 7 p.m., p. 1059.
50 Chiang Mon-lin.
51 Deputy Secretary-General of the Executive Yuan.
(Incidentally I would appreciate your advice and instructions on how to respond to Chinese invitation for expression of my opinion on immediately current technical policy questions, when there is no time for consultation with Treasury. I take great pains to emphasize informality and unofficial character of such opinion and refer all matters of high policy to Embassy, of course, keeping Embassy fully informed. Situation is delicate, as on one hand Chinese would like to implicate us, however remotely, in technical policy decisions, which it is desirable for us to avoid, especially as they sometimes run counter as in this case to our declared international economic policy, and on other hand it is in accord with American policy towards China to help with constructive advice when it is possible to do so without embarrassment. In my opinion it is best to pursue a cautious middle ground, avoiding either completely negative response or vague identification with Chinese decisions, and I propose, with Embassy’s approval, to continue on this course unless you instruct me to the contrary.)

The final decision was to introduce an export subsidy of 100 percent and import surcharge of 50 percent in next 24 hours and a bonus of 100 percent on inward remittances in near future. The Chinese are nervous of the inflationary impact of an exchange adjustment in the present tense situation, and they emphasized the dangers of rapid upward movement of prices with further pressure on budgetary disequilibrium. They are also sensitive to reaction of Shanghai where rise in cost of living index was 25 percent in January and shows no sign of abating.

There was also considerable discussion of gold sales policy. Soong and Pei have decided not to continue sales on same scale as in past, and yet they are fearful of too drastic a cut in sales. Rogers claimed that gold sales were govt’s main instrument in holding Shanghai economic situation together, and that their cessation might precipitate collapse. General atmosphere was one of deep pessimism. Thus it was stated that Chinese foreign exchange assets would last only 6 months or so and that anything could happen then. I ventured to express the opinion that the root of China’s economic financial problem, which of course is immediately tied up with her military-political problems, was her inability to control expenditure and function within the limits of a planned budget, that the general inflationary upsurge would render nugatory and swallow up any temporary palliatives and that the careful husbanding of foreign exchange assets whether in the shape of gold or foreign balances was wisest policy to pursue in these circumstances. Chinese and their advisers insisted on need for buying
time even if it meant nothing more than deferring evil day when bottom of barrel was empty.

Soong informed me privately after meeting that major factor in his decision not to make exchange adjustment was inevitability of military demand for increased appropriations in case of general mark-up of prices. It is to be feared that such a demand will ensue in any case.

[Adler.]

STUART

600.939/2-647: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, February 6, 1947.

[Received February 6—6:55 a.m.]

210. Following is text of article issued February 5 by official Central News Agency, Nanking, regarding creation of board for development of export trade:

“Dr. T. V. Soong, President of the Executive Yuan, announced today the establishment of a board for the development of the export trade. The board, which has been set up under the Supreme Economic Council, is to encourage the production and movement overseas of China’s export produce. During the long years of war much of this export production has been neglected. Purposeful action is therefore necessary to bring these ‘distressed areas’ into renewed production. The disruption of communications now means longer and more devious journeys which, at the prevailing very high cost of moving goods to the ports, adds greatly to their sale price. These longer journeys entail correspondingly longer periods of financing and, with market rates of interest at their present penal level, leads in a matter of months to a doubling of the delivered costs of export goods. Attention must also be given to improving qualities and to establishing recognized and acceptable standards for export produce. To the removal of these obstacles, to the production and shipment of China’s export produce the new board will devote its energies.

It is the belief of the Government that the long run interest of the export trade will be best fostered through mobilizing the resources and experience of individual producers and merchants. In setting up the new board, the Government has no intention of creating a monopoly. With this in view, the new board is inviting a number of experienced Chinese and foreign merchants to assist it in an advisory capacity. The board will not be conducting business operations.

The Government confidently expects that action along the above lines will materially reduce export costs. However, in order to give an immediate stimulus to the export trade, the Government announces the grant of a bonus of 100 percent of the f. o. b. value which will be paid through the appointed banks at the time export exchange is delivered. This bonus will apply to all cargo moving from China ex-
cepting those originating from Manchuria and Taiwan where the internal currency values are already favorable to exports.

To provide the necessary funds an ad valorem surcharge of 50 percent is being imposed as from February 6, 1947, on selected categories of imports. Exemption from this surcharge is given to all the 'capital goods' in schedule I of the revised temporary foreign trade regulations of November 17, 1946, and to the following prime necessities in schedule II: rice, wheat and wheat flour, coal and coke, raw cotton, fertilizers and sulphate of ammonia. The goods so exempted amount to 60 percent of the total volume of imports.

Imports which have arrived on or before February 5, 1947 are exempted from this surcharge."

Please repeat to Commerce, Treasury and Agriculture. Sent Dept as 210; repeated Shanghai as 116.

STUART

S03.51/2-647: Telegram

_The Ambassador in China (Stuart) to the Secretary of State_  

NANKING, February 6, 1947—4 p. m.  
[Received 9:45 p. m.]

213. Dr. Soong sent for me late last night and handed me the memo to which reference was made in Embassy’s telegram 204, February 4, 10 p. m. and 206, February 5, 10 p. m. At same time he gave me an aide-mémoire of an oral statement which reads as follows:

"I am not trying to be an alarmist. Last summer when people were freely predicting that economic collapse would come in a matter of weeks, I told General Marshall and yourself that it would be a question of many months before the eventuality had to be faced.

Even as General Marshall was leaving I expressed the hope that [although?] the economic situation in China is particularly difficult to predict; while 1947 will be a year of terrific difficulties, it might be possible to hold through because there was then visible signs of improvement particularly in efforts and in prospects of increased agricultural production. The rapid turn for the worse during the last few weeks as evidenced by the figures I have given you have radically altered the picture.

We had all hoped that we would not have to approach the United States Government for financial assistance until the State Council and the Executive Yuan have been reorganized. The economic situation, however, has forced our hands.

In fact, the economic situation has led the minor parties to sit on the fence, as they would naturally not like to be identified with a Government that might collapse. Moreover, this situation has un-

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52 For a summary of these regulations, see telegram No. 1910, November 19, 1946, 4 p. m., from the Ambassador in China, _Foreign Relations, 1946_, vol. x, p. 1024.
doubtedly stimulated the Communists to greater efforts to weaken the Government and refuse to be in a conciliatory mood.

I am convinced that only one thing will steady the economic situation and improve the political outlook and that is some concrete form of American assistance and support. Perhaps the simplest, most helpful form of assistance would be an immediate credit of $150 million for cotton or cotton and wheat for a term of 10 years as it would immediately favorably affect our balance of payments, secure the withdrawal of fapi as the products are sold, assure the people of concrete American assistance. Politically it will encourage the wavering elements in the minor parties to join the Government, and it would encourage the progressive members of the Government to press forward for a speedy reorganization. A smaller sum than the figure mentioned will not have the effect necessary in this emergency.

On the other hand the nature of this credit goes as far as possible from any charge of direct aid for military use.

In addition if someone like Mr. Blandford, in whom the Chinese Government had confidence and had given access to all economic information could visit the United States immediately before General Marshall leaves for Moscow, he would be able to explore what further American financial and advisory assistance might be given and under what circumstances this aid might come.

I consider this particularly important as it would mean continuing aid with a definite program of action for both China and the United States."

The memo is as follows:

"The economic and financial situation has entered upon a most critical phase which gives cause for grave concern.

Without any allowance for future price inflation it has been determined that minimum budgetary requirements will call for expenditures of almost $10,000 billion in 1947. Against this revenues on the most optimistic estimate will probably not reach $7,000 billion after including large allowances for the sale of properties which will not materialize substantially until the second half of 1947.

The Government is forced into this spiral of increasing monthly deficits and increasing monthly note issues especially in the first half of 1947, at a time when all economic factors point to a serious bad turn in the trend of steady deterioration.

For example, during 1946, despite a drive for increasing revenues including large sales of capital assets, expenditures continued to increase at a faster pace with the result that the average monthly deficits for the four quarters were as follows in billions of dollars: 197—247—278—473. This mounting monthly deficit trend continues in 1947 with a January deficit of $680 billion.

These increasing deficits are reflected in the rapidly rising note issue which at the end of January was 4,510 billion, i. e. 4 times that

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52 Chinese National currency notes.
12 months previous. During 1946 the average of the monthly increases was approximately 12 percent. In January this year the increase has accelerated to 21 percent.

The inseparable inter-relation of note issue and prices is reflected in the Shanghai wholesale index (January–June 1937–100) which shows the following movements: 1946—June to September monthly percent increase (average) 12 percent; October and November—no percent; December—13 percent; January 1947—30 percent.

In the first 4 days of February, there has been a further increase of 10 percent.

Prices in the interior, which in the past have lagged behind Shanghai, are now being dragged upward at an increasing rate. The wholesale index in Chungking at the end of June 1946 was 40 percent of that in Shanghai. At the end of January 1947, the Chungking index stood at 55 percent of the Shanghai index and during January alone had risen by as much as 60 percent.

The flight from the currency of which the above disturbing price movements are a manifestation is most clearly seen in the following rise in the open market price of gold and U. S. dollar notes. 1946 June—gold (per oz.)—198,000—U. S. notes 2,650; October—227,000—U. S. notes 4,300; November—gold 272,000 U. S. notes 4,950; December—gold 348,000 U. S. notes 6,500; January 31, 1947—gold 406,000 U. S. notes 7,900; February 1—gold 408,000 U. S. notes 7,700; February 2—gold 436,000 U. S. notes 7,800; February 3—gold 476,000 U. S. notes 8,800.

These increasing prices have taken place despite official sales of gold undertaken with the object of retarding the impact on prices which habitually move in a path with the price of gold in the open market. Sales of gold are an important deflationary measure in that they result in a contraction of currency approximately equal to three times that from the sale of an equivalent amount of foreign exchange. The inflationary pressure of money flowing into Shanghai from the interior in an ever growing flood has led to the following inroad on the Central Bank’s holding: 1946 March 4—5,800,000 oz.; 1947 January 31—2,400,000 oz.; total 11 months sales 3,400,000 oz.

Of these sales, approximately one-half were made during the last 3 months.

Along with these declining gold holdings, the Chinese Government faces exhaustion of her other foreign exchange resources during the current year. Allowing for a minimum program of essential imports, China shows a deficit of at least $380 millions in her estimated balance of payments for 1947 (submitted to Washington with reference to the possibility of post-UNRRA relief allocations). This figure has to be seen in relation to China’s exchange resources of U. S. dollars 282 millions on January 31, 1947 (including 48 million ounces in silver).

The prospects for expending exports are steadily improving but the results would not come quickly enough to affect the current year’s balance of payments.”

STUART
The Ambassador in China (Stuart) to the Secretary of State

Nanking, February 6, 1947—6 p.m.
[Received February 7—3:04 a.m.]

215. Reference Embassy's 206, February 5, 10 p.m. Following are the questions which in Blandford's opinion require clarification and the subsequent statement is his personal draft for confidential use reflecting Executive Yuan attitude:

"Questions as to U. S. policy.

1. Is the prior participation of the Communist Party in the Government a condition of further assistance?
2. When the Government has established the State Council and reorganized the Executive Yuan, will substantial economic assistance and technical guidance immediately become available?
3. Assuming sound projects, is there any limitation as to the rate at which the proposed $500 million credit will be made available, or as to the term over which the funds may be utilized once they are committed?
4. Specifically what considerations will enter into the review of a project or in other terms what kinds of projects will be considered eligible for credit? In the interest of expediting the review of projects and of speeding China's recovery, could the U. S. Government arrange for such review by representatives stationed in China?
5. To what extent can the U. S. Government aid in obtaining from the International Bank assistance for reconstruction and currency stabilization?
6. China desires immediate technical assistance and guidance for the initiation of constitutional government: Military reorganization, civil government reform, financial stabilization, reconstruction, agricultural adjustment, industrial development and foreign trade promotion. To what extent is the cooperation of the U. S. Government immediately available?

"Appraisal of the current scene.

1. The Government intends to maintain a standing offer of reasonable terms for the participation of the Communist Party. However, it is unlikely that the Communists will participate in the near future except under terms which would mean the permanent economic and political disunity of China. The Communists are apparently finally set on a policy of reliance upon economic collapse of the Government or upon some form of international intervention which would include Russia. Any weakness in the Government's position confirms them in this policy. Contrariwise, a progressive government, firmly established and supported, is probably the sole factor which would cause them to change their policy.

2. The Government is pressing vigorously for the immediate participation of other parties in the Government. Specifically it has in mind the establishment of a State Council composed of China's outstanding citizens and fully representative of all possible parties—this
Council to be clothed with full power of policy during the current year of emergency and of preparation for constitutional government. It is also intended that there shall be, during this period, wider party participation in the execution of national policy through the Executive Yuan.

In the achievement of these objectives the Government is encountering a degree of delay because of a feeling of uncertainty. It is firmly believed that progress would be rapid if there were firm commitments as to the availability of substantial economic assistance and neutral technical guidance and reporting immediately upon the assumption of responsibility by the new State Council.

3. With the widest possible consultation the Government is waging a desperate battle on the economic front. Note issues are rapidly increasing due to large military and civilian expenditures for maintaining and restoring China’s arteries of commerce and productive capacity at rapidly inflating prices. Meanwhile, revenues recover slowly and [surplus] property and foreign exchange assets are being exhausted. The Government has determined its minimum needs for essential imports but there is no chance of achieving them without the help of foreign credit. Generally the Government is being forced into measures of control which are overtaxing its administrative capacity and which are contrary to its concept of the right role of government in business and foreign trade. The year 1947 is the critical year. The first few months of 1947 constitute the period of decision."

STUART

102.1/2-747 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, February 7, 1947—3 p.m.
[Received February 7—9:22 a.m.]

228. From Adler to Secretary of Treasury. Re Emelts 179 of January 31 and 207 of February 6 and at Butterworth’s request to appropriate officials of Dept of State. Herewith my further comments on Chinese Govt announcement of export subsidy and import surcharge program transmitted in Emelts 210 and 211 of February 6.

1. Manner in which program announced characterized by gross ineptitude. In my discussions with Soong and his advisers, main argument used to justify this program as alternative to exchange adjustment was that its announcement would contain or be accompanied by statement that no change in exchange rate would be made or was contemplated, and that such a statement would tend

*44 Latter not printed; it gave the text of the announcement of the functions and composition of the Board for the Development of Export Trade (600.989/2-647).
to reassure public and thus relieve pressure on price of gold, U. S. currency open market rate and prices in general. Announcement of program on afternoon of February 5 was in fact made without any reference to exchange situation and thus "psychological" case for it fell to ground.

Shanghai open market rate for U. S. currency closed at 9300 on February 5 and at about the same on February 6, the rise can be ascribed to: (a) interpretation by market, which would be natural in absence of further clarification that program was prelude to exchange adjustment; or (b) insiders exploiting expectation that open market rate would fall soon afterwards with the absence of announcement of exchange adjustment; or (c) both.

In any case manner in which announcement was handled open to strong criticism. Blandford informs me he did not see announcement before it was made and does not know who drafted it.

2. Program has obviously undesirable implications from point of view of our international economic policy. Granted emergency character of Chinese economic-financial situation which can presumably be used to justify deviations from canons of long-term international economic policy, its inefficacy in achieving intended effects renders it doubly questionable. [Adler.]

STUART

893.515/2-1247: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, February 12, 1947—2 p.m.
[Received February 12—8:53 a.m.]

262. 1. Dr. T. V. Soong asked Butterworth, Adler and me to call upon him last evening. He began by referring to the break in prices of gold and U. S. currency in Shanghai and said as regards the general situation "this is it". The price of wheat had risen precipitously in North China and it was only the Govt's selling of its stocks in Shanghai which was preventing the price of rice from getting out of bounds there. Nevertheless, Soong seemed intent, despite pressure from some of his colleagues, on refraining from selling gold on significant scale in the Shanghai market and to harbor his foreign exchange assets for China's essential import requirement. He emphasized that further drastic measures would have to be taken both qualitatively and quantitatively to curtail imports and wherever feasible, such [as in] allocation of newsprint, rationing would be under-
taken. He expressed the hope that the U. S. Govt and American exporters would recognize the necessity for these unwelcome measures.

Soong reiterated that there was very real danger of a complete loss of confidence in China’s currency and that their main hope of preventing such loss of confidence was financial aid from the U. S. on the lines requested since such aid would also induce confidence in the Govt.

2. This morning Soong invited Butterworth and Adler to call upon him. Also present were Govt representatives [Governor Pei] of Central Bank, Kan Li 55 and C. T. Chu, his Chinese advisers, and Blandford and Rogers, his foreign advisers. There was a long and disjointed discussion of the immediate situation and of the action that the Govt should take with respect to exchange and gold sales policy.

While Soong himself avowed awareness that financial and economic blizzard has only begun, his advisers, both foreign and Chinese, seem inclined to dissipate China’s existing gold assets in a futile attempt to arrest it. It is to be feared that their influence will prevail for the moment but that an inadequate adjustment will be made in the exchange rate, and that gold sales will be continued. There were obvious signs of panic in Soong’s entourage, and the only salvation he and they could see is American assistance. There was considerable talk of complete collapse of confidence in currency and of consequent collapse of Central Govt, partly inspired by genuine fear but also by desire for financial assistance. They have not yet faced up to the fact that such assistance would be a temporary palliative which would not change underlying situation and would not restore basic lack of confidence in currency.

Recommendation follows.56

Stuart

893.50/2–1247 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

Nanking, February 12, 1947—7 p. m.

[Received February 12—8:32 a. m.]

264. Herewith Embassy recommendations on Soong memorandum on economic situation and plea for immediate economic aid (reEmtels 204, February 4, 10 p. m.; 206, February 5, 10 p. m.; 213, February

55 Director of the Import Quota Allocation Department of the Board for the Temporary Regulation of Imports.
56 See telegram No. 264, February 12, 7 p. m., infra.
6, 4 p.m.; 215, February 6, 6 p.m.; 259, February 12, 10 a.m.; 67 and 263, February 12.\(^2\)

Section I. 1. There is financial and economic crisis in China, and gravity of internal, financial and balance of payments position must not be underestimated. Real crisis only just begun, and the worst is yet to come. This is not the time for basic remedial measures and Govt has no real alternative but to sweat it out. Unquestionably a loan—not a necessarily large one—would be of immediate psychological and political assistance. Unless deputy director\(^6\) UNRRA’s recommendations\(^7\) transmitted as 259 February 12, [are accepted?] in whole or in part, Embassy would recommend for your consideration EximBank 40–50 million dollar cotton loan.\(^9\) Action by UNRRA would, of course, hold definite advantages for us and Embassy suggests Dept’s active attention. Embassy believes that balance of payments situation not so desperate that in absence of UNRRA action loan cannot be deferred if over-all international policy considerations so require. Embassy assumes that timing of loan would be in light of Moscow Conference as well as Chinese economic and political situation. (Chinese ignore ramifications of Moscow Conference and are urgently pressing for loan of 150 million before conference.) Embassy also believes that Chinese should give further evidence of genuine cooperation in implementing article 6 (b) 2 of FLC agreement of August 30, 1946, prior to receiving any loan.

2. Disadvantages of a cotton loan stated in Embassy’s memo to you \(^6\) also contained in despatch 443, January 23, but, in view of general political situation, these disadvantages inescapable.

3. Blandford has already indicated that while China asked for a 10-year loan she would be content with a 5-year loan. Question arises as to whether ExImBank would care to make so long-term a commodity loan. It would probably prefer not to make a loan of more than 3 years maturity on cotton. Embassy would see no basic objection to such a reduction in period of loan. End Section I.\(^9\)  

\(^6\) Telegram No. 259 not printed.
\(^7\) Telegram No. 263 not printed; it reported a precipitate rise in prices of commodities and gold, particularly after the announcement of the Chinese Government’s export bonus scheme on February 7 (803.515/2-1247).
\(^8\) Comdr. R. G. A. Jackson, Senior Deputy Director General of UNRRA.
\(^9\) An informal Department of State–UNRRA discussion as to whether UNRRA’s program might be modified to meet China’s request for cotton and wheat.
\(^10\) In telegram No. 211, February 20, 6 p.m., the Department informed the Embassy that it saw no immediate prospect for an Export-Import Bank cotton loan to China and that the UNRRA Central Committee had deferred action on the request to modify UNRRA’s program at its meeting on February 20 (840.50 UNRRA/2-2047).
\(^11\) Dated January 6, p. 1040.
\(^12\) Message continued in telegram No. 265, infra.
The Ambassador in China (Stuart) to the Secretary of State

NANKING, February 12, 1947—8 p. m.
[Received February 12—11 a. m.]

265. Section II.64 Herewith Embassy’s comments on Soong’s memorandum of Chinese economic situation.

A. Data in Soong’s memorandum are substantially correct as to facts but are presented as part of thesis that China is on verge of economic collapse. Undoubtedly, financial and economic crisis and process of economic and political disintegration have already set in and will gather pace with continuation of hyperinflation. Most spectacular manifestations will be in large cities, particularly Shanghai—witness events of last few days. But the gravest political aspect of the situation will remain not financial and economic crisis in cities, serious as it is, but the attrition of power of Central Government which will find it increasingly difficult to command allegiance of generals, troops and Government personnel. As responsibility for economic crisis is not divided, Communists are bound to gain in strength, both through their increasing activities and through Government loss of popular support. Some Government leaders—not, Embassy believes, the Generalissimo—are already showing signs of panic, and Embassy is being besieged with appeals for financial aid.

B. It should also be noted that:

1. Budgetary situation is actually worse than indicated in first three paragraphs of Soong memorandum, owing to fact that Chinese budgetary estimates are generally exercises in wishful thinking and not based on systematic and realistic planning. On basis of previous experience, 1947 expenditures are likely to be several times the official estimates of 9.3 trillion with revenues yielding only a small fraction of expenditures. NB: Foreign exchange assistance will not make a significant dent on budgetary gap or expansion in note issue in absence of effective budgetary controls, which are impossible with continuance of civil war. In this connection, experience with 1942 half-billion dollar loan65 and with assistance in various forms since V-J Day conclusive.

2. Cumulative nature and inflationary process renders economic situation, especially in cities, more precarious with each advance on inflationary incline even in absence of sharp increases in rate of increase in prices.

64 Section I printed supra.
65 For correspondence regarding this subject, see Foreign Relations, 1942, China, pp. 419 ff.
3. Last paragraph of Soong memorandum strikes a note of forced optimism. Visible signs of expanding exports are not yet to be seen. Nor are the prospects bright for increasing Chinese self-dependence in such commodities as cotton and tobacco, heavy post-war imports of which have taxed and are taxing her foreign exchange resources.

C. With respect to China's gold and foreign exchange assets and policy:

1. Desperate nature of China's long-term balance of payments, position and prospects have been apparent for some time. (Embassy suggests that Department check with Treasury as to data on China's foreign exchange assets referred to in Embtel 2149, December 22, 1946.\textsuperscript{65}) She has been living off assets received during the war (1942 half-billion dollar loan and US dollar receipts for yuan advances to US armed forces), and now that it is clear that they may well be exhausted by if not before end of year, she is appealing to US to bail her out. This balance of payments position is a long as well as a short-term problem, and therefore continued further appeals to U. S. to bail her out are to be expected.

2. It is significant that Soong in his request for immediate assistance asked not for reconstruction and rehabilitation loans which it is understood half-billion dollar ExImBank would primarily consist of but for loan to relieve immediate pressure on Chinese foreign exchange assets and to meet current import needs. Blandford also indicated that Soong is not very interested in Canton-Hankow railroad loan now but is desirous of immediate relief rather than long-term reconstruction loans.

3. The immediate short-term balance of payments problem is partly a product of China's past errors, and her refusal to cut her suit to the size of her cloth. She simply could not and cannot afford both to import goods and to sell gold domestically on the scale she has done and is doing. The heavy sale of gold was and is an inexcusable luxury, a fact which was pointed out to China both by State and Treasury as long ago as May 1945;\textsuperscript{67} the main argument for such sales, namely, their anti-inflationary effect, is invalid in view of the general inflationary upsurge and of China's critical balance of payments position. China's management of her official foreign exchange assets and her inability to mobilize sizable private foreign exchange assets stand in pathetic contrast, for example, to record of England where an austerity program has been effectively pursued since 1939 and in a country with much higher living standards than China's.

\textsuperscript{65} Not printed.
\textsuperscript{67} See memorandum of May 8, 1945, by the Secretary of the Treasury to the Chinese Minister for Foreign Affairs. Foreign Relations, 1945, vol. vii, p. 1081.
4. Errors of Chinese economic-financial policy and execution of policy as well as over-all situation make it doubtful that even large-scale assistance would in the first place be effectively utilized and in the second be more than a temporary palliative while hyperinflation is running its course.

5. When all of this has been said, it must also be added that the Communists have it in their power by continuing guerrilla warfare to produce through disruption of communications and excessive expenditure on military insoluble economic situation for Government whose authority in these circumstances will continue to decline.

STUART

893.00/2–1447: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, February 14, 1947—1 p.m.

[Received February 14—8 a.m.]

284. From Butterworth. In the early stages of the financial crisis the Gimo 68 did not take a hand. Dr. Soong and his advisers began by trying to extract from us a panicky recommendation to you and then became genuinely panicky themselves, though refusing to face up to the necessity for strong and really drastic measures. Beside the reported loan requests, there was much loose talk of the impossibility of introducing democratization measures in the present situation unless American material assistance makes it possible. On all occasions we have reinforced Dr. Stuart’s advice to them to keep calm, to generate confidence and to get on with the political reorganization arrangements.

The Gimo has now stepped in and overruled Soong’s advice; it is clear that he is taking advice from sources other than Soong. His instructions given yesterday to Soong are to work out a scheme within the following framework: (1) To stop the sale of gold; (2) to announce an adjustment of the exchange rate; (3) to peg Shanghai wages at the January level and to institute a rigorous system of price control for rice, cotton and fuel for the factory workers, Government employees and teachers and students of Shanghai and Nanking. In Shanghai this scheme, if effectively carried out, would take care of one-seventh of total population.

Soong was instructed to have the scheme ready for presentation to Supreme National Defense Council on Sunday so that it could be announced Sunday night; it will probably be coupled with political

68 Generalissimo Chiang Kai-shek.
announcement. There is no doubt that the third party groups are now most reluctant to join the Government and share responsibility in crisis circumstances, but our belief is that Gimo can exert sufficient pressure on Youth and Social Democratic Party leaders to bring them in.

Soong’s advisers did not like the Gimo’s economic program and even talked of resignation, but when Soong stated their objections to the Gimo yesterday evening, the latter brushed them aside and told him to go ahead on the above lines. The Gimo said, “we are now paying for the mistakes of policy—such as selling gold—of the last few months, and we have to bear the consequences”. Soong is accepting the Gimo’s directive at present but his advisers may sap his will.

As I see it, the weakness of Dr. Soong and his technical advisers in this situation is that they are Shanghai-minded and see only difficulties and failures ahead; they fear the worst and do not know how to avert it. The Gimo’s strength is that he is China-minded and here his stubbornness is an unqualified asset. He has grasped the crux of the emergency as it will develop, which is to preserve as much as possible the Government’s power to govern by ensuring the maintenance of food supply to essential groups, if necessary on a barter basis, more clearly than Soong and his technicians. He may not appreciate the complicated means for carrying out correct policy, but at the moment this weakness is more than counterbalanced by his strength in facing up to the situation. [Butterworth.]

STUART

893.24/2-1447

The Director of the Office of Far Eastern Affairs (Vincent) to the Secretary of State

[WASHINGTON,] February 14, 1947.

There is attached a memorandum in regard to a final Lend-Lease settlement for China.

I have discussed this matter with Mr. Clayton,69 who concurs in my recommendation that we proceed with the negotiations. Public knowledge that we are proceeding with these negotiations, which will result in the cancellation of the 1942 1½ billion dollar credit and of the 1½ billion of Lend-Lease will, I believe, have a psychological effect beneficial to us in pursuing China policy. The public will be made graphically aware of the assistance we have given China and those elements which advocate the release to China of the ½ billion dollar Export-Import Bank credit may be given pause for thought

69 William L. Clayton, Under Secretary of State for Economic Affairs.
when they inquire into the utilization made of the 1942 ½ billion dollar credit.\textsuperscript{70}

\text{J[ohn] C[arter] V[incent]}

\textbf{[Annex]}

\textit{Memorandum by the Chief of the Division of Chinese Affairs (Ringwalt) to the Director of the Office of Far Eastern Affairs (Vincent)}

\textbf{[Washington,] February 14, 1947.}

1. In its telegram no. 963 of October 30, 1946,\textsuperscript{71} the Department informed the Embassy at Nanking that consideration was being given to the matter of opening negotiations in Washington for final Lend-Lease settlement for China, but that pending the receipt of an indication of General Marshall's and the Embassy's views as to timing of these negotiations no notification would be made to the Chinese Embassy.

2. In its reply (telegram no. 1817 of November 6, 1946)\textsuperscript{72} the Embassy stated that General Marshall and the Embassy were in agreement that it would be preferable to delay negotiations on the final Lend-Lease settlement.

3. It is suggested that consideration might now be given as to the desirability of entering into negotiations in the near future for a final settlement of Lend-Lease problems with China.

4. For your ready reference, there are listed below the various items which would be included in a final settlement:

a. Cancellation of:

(1) $500,000,000 1942 political loan, and

(2) Estimated $1,500,000,000 military Lend-Lease assistance through June 30, 1946.

b. Funding of:

(1) Civilian Lend-Lease inventory in China as of V–J Day of an estimated maximum of $20,000,000;

(2) Inventory of surviving commercial type aircraft of an estimated maximum of $10,000,000;

(3) Air training program in the United States\textsuperscript{73} for the pe-

\textsuperscript{70} Marginal notation by the Under Secretary of State (Acheson): "I concur. D. A." The Secretary of State's approval of proceeding with these negotiations was set forth in an undated note sent to Mr. Vincent by Brig. Gen. Marshall S. Carter, Special Assistant to the Secretary of State (893.24/2-1447).

\textsuperscript{71} Foreign Relations, 1946, vol. x, page 1016.

\textsuperscript{72} Ibid., p. 1019.

\textsuperscript{73} For correspondence on this subject, see ibid., pp. 707 ff.
period beginning December 1945 and ending June 1946 (estimated at $12,500,000); and
(4) Outstanding claims of a miscellaneous character which
tend to balance each other off.

c. Collection from China of $5,000,000 advance deposit against
program for Chinese occupation of Japan.

d. Payment by China for services and supplies provided after June
30, 1946 for reoccupation program of a maximum of $25,000,000.
e. Collection of costs of military training programs supplied under
June 28, 1946 agreement* estimated at $15,000,000.

ARTHUR R. RINGWALT

893.50/2-1747

Memorandum of Conversation, by the Secretary of State

[WASHINGTON,] February 17, 1947.

Participants: Dr. V. K. Wellington Koo, Chinese Ambassador
Secretary Marshall
Mr. Vincent, FE

Ambassador Koo called at his request at 11:30.

The Ambassador referred to Generalissimo Chiang Kai-shek’s
statement of yesterday** in regard to the economic situation in China
and went into some detail in explaining what Chiang had in mind
and in describing the seriousness of the situation. I told him that we
realized that the situation was serious and that, while a review of
the past would not contribute towards a solution, it was well to
remember that I had foreseen many months ago a development of
this kind unless steps, well known to the Ambassador, were taken
promptly. I also mentioned T. V. Soong’s program for conserving
gold and foreign exchange resources for the government and said
that this program seemed to act to discourage Chinese expenditures
because they could not make a profit.

The Ambassador said that China was badly in need of cotton and
wheat and suggested the possibility of getting cotton from UNRRA
and of getting a cotton-wheat credit from the Export-Import Bank.
I told him that the diversion of UNRRA funds from relief and
rehabilitation purposes to purchases of cotton and wheat would raise
a number of difficulties, but that if these difficulties could be over-

* Agreement on mutual aid signed at Washington; Department of State
Treaties and Other International Acts Series 1746, or 61 Stat. (pt. 4) 3895.
** Memorandum drafted by the Director of the Office of Far Eastern Affairs
(Vincent).
*** See United States Relations With China, p. 704.
come I felt it might be desirable to carry out the suggestion. With regard to an Export-Import Bank credit for these purposes, I told him that as I saw it the possibilities of getting such a credit were limited. I also reminded him that conditions and developments in China would have a bearing on our attitude.

At this point Mr. Vincent said that he had been informed by Mr. Clayton recently that there was no surplus cotton in the United States and it would be very difficult to fulfill any commitment to ship large quantities of cotton to China. Mr. Vincent also referred to reports that there were approximately 1 million bales of cotton at Shanghai. The Ambassador said that it was true that there were approximately 1 million bales of cotton at Shanghai six months ago but that this figure had been greatly reduced and that China required 2 million bales of imported cotton annually. With regard to wheat, Mr. Vincent also pointed out that it was a commodity also in very short supply. The Ambassador said that he understood that in view of the reduction in the needs for occupied areas, there might be wheat available for China. He said China would like to have 200,000 tons of wheat, of which 50,000 tons should be made available in the very near future.

I told him that I would have Mr. Clayton’s office look into the matter of available supplies of cotton and wheat to determine exactly what was the situation.

Ambassador Koo again reverted to credits and said that there were certain projects such as the coal mines at Pehpiao and Fushin for development of which Export-Import credits might be made. I mentioned also the coal mines at Pinghsiang in central China.

I told him that I had last autumn recommended credits for the Canton–Hankow Railway and for the Yellow River Bridge but that my suggestions had not been acted upon by the Export-Import Bank.

The Ambassador said that China required credits now not only for material assistance but for the psychological effect that the issuance of such credits would have in China. He mentioned this phase of the matter several times during the conversation.

Changing the subject, the Ambassador asked whether I had in mind issuing any new policy statement on China. I told him that the issuance of such a statement was a possibility but I had nothing definite in mind. I reminded him that the course of events in China would of course have a bearing on whether such a statement would be in order. The Ambassador said that an encouraging statement with regard to China now might prove very helpful and asked whether

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77 See telegram No. 1548, September 27, 1946, 9 a.m., from the Ambassador in China, Foreign Relations, 1946, vol. x, p. 1009.
I might not make one before I went to Moscow. I repeated what I had said and told him I did not care to make a prediction.

The Ambassador brought up the question of the Military Advisory Group and asked whether we intended to have such a group in China. I told him we already had a group there under the President’s War Emergency power and that we were considering legislation of a general character to authorize the stationing of American military and naval missions abroad. We preferred, I said, general legislation to specific legislation for China. In this connection I expressed my disappointment that the Advisory Group in China had not been utilized by the government to bring about administrative reorganization of the Chinese Army in areas south of the Yangtze River. Ambassador Koo said that he would inform the Chinese Government of my comment.  

Ambassador Koo referred, as he had previously in a conversation with Mr. Acheson and in a note to this Government, to the question of whether China and the Far East were to be discussed at Moscow. He said that the Chinese Government would wish to be informed in advance if there were to be such discussions. I told him that I had no present intention of discussing Far Eastern matters at Moscow; that my hands would be pretty full discussing the matters on the agenda; and that discussion of the Far East there would be “jumping from the frying pan into the fire”. Ambassador Koo agreed, and Mr. Vincent reminded the Ambassador that in our reply to his note we had said that we would bear the Chinese Government’s request in mind in the unlikely event that the Far East were to be discussed at Moscow.

The Ambassador again mentioned reparations and expressed the hope that we could move rapidly in getting out a directive on advance withdrawals. I told him that we hoped matters would move quickly in the FEC and that if they did not we were prepared to issue an interim directive. The Ambassador mentioned the matter of shipping out of Japan for advance withdrawal of reparations and expressed the hope that we might find some way of making an exception for China from the rule that recipients would have to assume charge of cargo at shipside in Japan. I mentioned the 159 ship purchase program as a possible solution for China’s shipping difficulties in this respect but the Ambassador said that there was still some technical difficulty standing in the way of completing this project.

The interview began at 11:45 and terminated at 12:40.

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78 For correspondence on this subject, see pp. 785 ff.
79 Dated January 15, not printed.
80 Dated February 5, not printed.
81 Far Eastern Commission.
82 For correspondence on this subject, see pp. 942 ff.
Memorandum by the Chairman of the Chinese Supply Commission (Wang) to the Secretary of State

WASHINGTON, February 17, 1947.

The present economic situation in China is not beyond recovery if effective action is taken now showing confidence and constructive steps by the United States. The following action is recommended.

1. An emergency commodity credit of $200,000,000 would permit China to import essential cotton, wheat, fertilizers and other raw materials needed to control the inflation in commodity prices and revive domestic production. This credit might be granted out of the $500,000,000 now earmarked for China by the Export-Import Bank.

2. Also from the earmarked funds action should be taken at full speed to help restore the basic facilities and services necessary to a functioning economy, particularly transportation.

   (a) Projects such as rehabilitation of railways, harbors, public utilities and coal mines prepared by competent American engineering firms after surveys on the spot should be considered favorably by the bank now.

   (b) In clearing these projects the spirit of flexibility and cooperation now being extended to France should be accorded to China. The French simply buy useful things within certain broad categories and send the bill to the Bank for reimbursement.

   (c) Projects for the full available amount of the credit should be approved before June 30, 1947, the present date when the Bank has informally indicated it intends to take this money from China and use it elsewhere.

3. Favorable action should be taken on the Chinese request of May 27, 1946, to purchase from the Maritime Commission the vessels necessary for China’s domestic and foreign commerce. China has $5,500,000 on deposit with the Maritime Commission which would entitle it under the Ship Sales Act 43 to purchase more than forty ships, but none has been made available in spite of repeated approvals by the National Advisory Council and you. In the meantime, substantial numbers of ships have been sold to France, Argentina and Italy.

4. There are many other problems in Washington affecting China’s economy, such as reparations, Sino-Japanese economic matters, and Pacific surplus, 44 expedition of which will aid China with no further burden to the United States. Many operational problems can be expedited if they receive broadminded review and frequent attention by some designated assistant on your staff.

5. Early announcement of a positive policy should halt panic and recover the ground recently lost by China. The Chinese Government can then reinstate effective control of the prices of textiles, rice, and

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43 Approved March 8, 1946, 60 Stat. 41.
44 For correspondence on the problems of implementing the Surplus Property Agreement of August 30, 1946, see pp. 1242 ff.
utility services. Importation of commodities will prevent impending civil service and industrial disorganization and unemployment. Stabilization of industrial wages can be attempted, and export trade stimulated.

In answer to the pessimistic view that nothing can be done so long as there is civil strife, it should be pointed out that a huge region of China is not affected by civil strife. Support and improvement of the economy of this unaffected region is the only alternative to taking the risk of abandoning China to the fate of a state disorganized through economic or monetary collapse in its large cities.

Memorandum of Conversation, by the Secretary of State

[WASHINGTON,] February 17, 1947.

Participants: Dr. S. C. Wang and Mr. William Youngman of the Chinese Supply Commission
Secretary Marshall
Mr. Ringwalt, CA

Dr. Wang handed me the attached "Memorandum for Secretary of State Marshall" dated February 17, 1947 and in the conversation which followed he made an impassioned and somewhat disjointed appeal for early economic assistance to China. He asked for quick action for emergency cotton and food credits. He stated that China had only enough cotton to last until summer and that in view of the very substantial allocations of wheat for Europe we might spare at least 50,000 tons of wheat as a first installment for China. He expressed particular concern over the slowness with which the various approved programs for assistance to China were moving and made special reference to the $500,000,000 Export-Import Bank fund tentatively earmarked for China last spring. He asked that China be given a certain flexibility in connection with loan operations similar to that currently enjoyed by the French. I informed Dr. Wang that whereas I had exerted my every effort to expedite action by the Export-Import Bank last spring the Chinese themselves must accept responsibility for their failure to agree to the terms offered them at that time, that as he was well aware I had continued to press for certain project loans, but that I obviously could not control the activi-

\[85\] Arthur R. Ringwalt, Chief of the Division of Chinese Affairs.
\[86\] Supra.
\[87\] The Board of Directors of the Export-Import Bank formally approved the fund, April 9, 1946.
ties of the Bank. I then pointedly told Dr. Wang that notwithstanding my continued and patient efforts throughout the period of my mission in China the intransigent clique surrounding the Generalissimo was still in authority and had been able to defeat my every recommendation. I indicated that so long as this clique remained in power it would be very difficult to arrange for American assistance to China in the amount and along the lines suggested in Dr. Wang's memorandum.

The interview began at 2:30 p.m. and lasted until 3:15 p.m.

893.515/2-1747: Telegram

The Ambassador in China (Stuart) to the Secretary of State

Nanking, February 17, 1947.
[Received February 18—1:50 a.m.]

299. The following economic emergency measures were announced February 16: (ReEmbttl 298, Feb. 17 88 and previous 89).

1. Measures concerning the balancing of the national budget.

(a) Those budget appropriations of this fiscal year, made for various Government organizations and not considered of pressing necessity, shall be deferred. The Executive Yuan, together with the Comptroller General's office, shall draft regulations to effect this provision.

(b) The collection of taxes shall be rigidly enforced. Particular attention shall be paid to the collection of direct taxes and the increase of sources of tax revenue. The Ministry of Finance shall immediately draft measures for the implementation of these provisions.

(c) The sale of enemy and puppet properties and surplus commodities, under the control of Government, shall be expedited by different Government organizations concerned, and reports of the results shall be made every 10 days.

(d) Government operated enterprises, with the exception of heavy industries and those enterprises necessarily requiring Government operations, shall be sold publicly by issuance of stock shares or directly to private individuals and corporations.

2. Measures for the control of speculation in order to stabilize the currency.

88 Not printed; it quoted a statement issued by the Chinese Ministry of Information on February 16 regarding regulations for the tightening of control over financial institutions (893.51/2-1747).

89 An unnumbered telegram of February 16 quoted a statement issued by the Ministry of Information regarding measures to check speculation in and buying and selling of gold, prohibit the circulation of foreign currency notes, and govern foreign exchange deposits held abroad by Chinese nationals (883.515/2-1047).
(a) Immediate prohibition of the purchase and sale of gold.
(b) Immediate prohibition of the circulation of foreign currencies in the country.
(c) Strengthening of the regulation for currency transactions in order to control credit, thus harmonizing the Government's economic policy and stabilizing the currency market.

3. Measures concerning the expansion of trade:
(a) In order to maintain equilibrium of international payments and remedy the national depression, the foreign exchange rate shall be readjusted. This rate shall be fixed by the Central Bank of China from this day forth at CN $12,000 to one U. S. dollar. The export bonus and import surcharge measures, promulgated on February 6, 1947, shall be abrogated.
(b) In addition to the readjustment of the foreign exchange rate, concrete measures for the improvement of production techniques, standardization of products, reduction of production costs and the exploitation of new markets shall be drafted and implemented by the export promotion committee.
(c) According to the revised import and export regulations, raw materials and machinery, which are to be imported this year to meet the urgent needs of Chinese industry, have an estimated cost of $472,500,000 U. S. dollars, or its exchange equivalent. The quotas for the majority of the commodities under this allotment have already been fixed by the temporary Import Control Committee. This committee shall announce the established quotas from January to June. The Central Bank shall be prepared to pay the necessary foreign exchange for these imports, amounting to 200,000,000 U. S. dollars.
(d) In the temporary provision for the control of foreign exchange by the Central Bank, as now enforced, the part concerning the purchase and sale of gold and foreign exchange shall be revised.

4. Measures concerning adjustment of commodity prices and wages:
(a) The Executive Yuan shall designate certain localities for strict control of commodity prices. And the local governments and other organizations concerned of said localities shall mobilize the full strength of their areas to effect this control.
(b) The prices of daily necessities in those designated localities shall be fixed by consultations in accordance with the present regulations provided for that purpose.
(c) Salaries and wages in those designated localities, fixed according to the cost-of-living index, shall not be raised higher than the index of January 1947, nor shall basic salaries be increased in any way. But the factories shall ration food, clothing and fuel to their employees, who shall pay for these necessities at January 1947 prices.
The factories shall purchase the food, clothing and fuel needed through the Government and shall be absolutely forbidden from buying freely in the market, and thus breed suspicion of hoarding.

(d) The regulations regarding the control of agriculture, mining, industry and commerce during the emergency period, promulgated by the National Government in 1938, shall be vigorously enforced. The enterprises and commodities covered by those regulations shall be placed under effective control. The following are the principles of control:

(1) The treatment of labor and the profit from sales should be determined.
(2) During the period of enforcement of the present emergency measures, lockouts, strikes and sabotage are prohibited.
(3) Speculation, hoarding and other illegitimate activities are prohibited.
(4) Violators of the aforesaid regulations will be severely punished.

(e) Regulations prohibiting hoarding of daily necessities during emergency period shall be vigorously enforced. Violators will be severely punished according to these regulations and the regulations mentioned in the previous article, besides confiscation of the hoarded commodities.

(f) During the period of the enforcement of the present regulations, the local governments concerned are authorized to close certain financial markets in order to prevent speculation.

(g) The above measures will be enforced from the date of their promulgation.

5. Measures concerning provisions of daily necessities:

(a) The Government shall provide for the following daily necessities: rice, flour, cotton yarn, fuel, salt, sugar and food oils.

(b) Each month the Government shall provide the above-mentioned commodities to officials and teachers at fixed prices according to their legitimate needs. This measure shall first apply to the Shanghai and Nanking areas. The same commodities shall also be sold on the open market in order to stabilize prices.

(c) The Government can add to or reduce the kinds of commodities comprising article a, according to market and local conditions.

(d) The Government, besides handling directly the production, transportation and distribution of daily necessities, shall aid and encourage the citizens to engage in the same activities. A sufficient amount of rice and flour shall be imported from abroad by the Government.

(e) The Government shall gradually extend the provision of daily necessities to other important areas in addition to Shanghai and Nanking.
(f) The Supreme Economic Council shall be the supervisory body for directing provision of daily necessities; it will be responsible for deciding policy and auditing the operations.

(g) The Ministries of Economic Affairs, Finance and Food, and the National Resources Commission, under the direction of the Chairman of the Supreme Economic Council, shall be responsible for the provision of daily necessities according to their respective jurisdictions.

(h) Provincial and municipal governments shall supervise the merchants dealing in various daily necessities to ensure their compliance with the Government policy.

(i) The prices for daily necessities shall be decided and promulgated by the Government organizations concerned.

(j) Dealers in daily necessities shall not: (1) sell daily necessities at higher than fixed prices; (2) delay the sale of and hoard daily necessities. Violators of the above prohibitions will be severely punished as disturbers of the market.

(k) Detailed regulations shall be drawn up and enforced by various Government organizations under the guidance of the Supreme Economic Council.

(l) The present measures will be enforced from the date of promulgation.

Copies for Treasury, Commerce, and Agriculture.

STUART

893.50/2-1747: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, February 17, 1947—9 p.m.
[Received February 18—4:25 a.m.]

300. Generalissimo’s statement and measures adopted to cope with financial and economic crisis (re unnumbered Embassy’s telegrams of February 16, 8 p.m. and 9 p.m.) are a forthright and statesmanlike approach to present crisis and will probably have immediate if only temporary effect of restoring degree of public confidence in Govt’s ability to meet present problems. Castigation of Communists is much milder than in previous statements by Generalissimo, but familiar pattern of asserting Communist responsibility for major national ills is followed implying lack of any Government responsibility. Generalissimo again dedicates himself to solution of Communist problem by political means. Generalissimo’s promise of

*Neither printed.
Government changes "within a few days" gives hope of reorganization of Government with broader base. During past few weeks, however, there has been a notable reluctance on the part of non-Kuomintang groups to assume partial responsibility for Government in a situation of crisis.

The following points are worthy of attention:

1. Readjustment of the exchange rate at 12,000 is relatively realistic. It is interesting in this connection that the Generalissimo favored a rate of 15,000 which would have been preferable inasmuch as it would have given Central Bank a little more leeway, but the Generalissimo yielded to Soong and his advisers.

2. Only cessation of civil war would create conditions for fiscal and currency stabilization. Measures to check transactions in gold and for prohibition of circulation of foreign currency notes are not likely to be more than temporarily effective. Chinese currency is so weak that insofar as these measures are enforced, flight into goods, which is already assuming significant proportions, will be encouraged. Sooner or later active dealings in gold and foreign currency will be resumed in private transactions, perhaps in a "black" market than previously. Mobilization of Chinese private foreign exchange assets abroad unenforceable.

3. The decision to restrict price control to one or two areas and to specific commodities seems wise but there will still be serious problem of enforcement. In fact real test of Govt's ability to govern will be its success or failure in ensuring delivery of minimal essential supplies to key groups.

4. Point 5 of statement provides for application of "rough and ready justice" in the collection of revenues, notably income tax, but on basis of past performance there is reason to doubt that this "justice" will be applied with the necessary impartiality and vigor to affect persons in high Government positions or their families and associates.

5. Reference to self-sufficiency in cotton and tobacco by 1948 presupposes stability of conditions which will encourage farmers to engage in the production of cash crops rather than food crops; traditionally the Chinese peasant in troubled times has tended to forsake the former for the latter. In any event bumper cotton and tobacco crops in the fields can have little effect upon the over-all situation in the absence of adequate transportation facilities to move produce. In spite of the statement that railways in operation show "an increase by 50 percent" since the Government reoccupation of Japanese-controlled areas, it is an unfortunate fact that no major rail line north of the Yangtze River has been maintained in continuous operation during the past 6 months.

In this connection all present indications are to effect that conditions are worsening rather than improving due to continuous Communist harassment.

STUART
The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, February 19, 1947—noon.

203. For Adler from Treasury. Cable whether announced changes in monetary policy affect use of Hong Kong open market rate for Navy procurement of yuan. Also request info on any official measures taken to terminate use of US currency for troop pay. [Treasury.]

MARSHALL

Memorandum by Mr. Charles R. Bennett of the Office of Far Eastern Affairs, to the Director of the Office (Vincent)

[WASHINGTON,] February 20, 1947.

All close observers of the China situation agree that from both the economic and the political point of view one of the most fundamental needs is the restoration of trunk lines of transportation. Such restoration combined with the already augmented coastal and inland waterways shipping is necessary not only to the movement of exports and imports but also for the supply of consumption and manufacturing supplies to urban areas. The political situation, however, is such that for the time being the reconstruction and re-equipment of trunk lines should be confined as far as foreign funds are concerned to areas not in immediate contact with the Kuomintang-Communist struggle.

The Chinese have asked the Export-Import Bank for $108 million for six trunk lines and the Yellow River Bridge. It seems desirable however to avoid for political reasons financing rail lines in or leading into the Communist threatened areas. Three of the lines in the Chinese list might be considered [:] the Lung Hai which is the principal East-West line connecting West Central China with the sea, the Hankow-Canton-Kowloon line connecting the Yangtze River with the South Coast and the Hangchow-Shanghai-Nanking, traversing the rich provinces of Kiangsu and Chekiang and linking up with the war-dismantled line which connected with the Canton-Hankow near Changsha. For these three lines the Chinese ask for $64 million. Their estimate for the Hankow-Canton-Kowloon is $42,654,000. The total original cost of this line for bridge, track, signals, telephone and telegraph and rolling stock was roughly $20 million. Allowing for 50% destruction and deterioration and allowing for higher present day costs of materials and delivery $20 million would seem a liberal figure for rehabilitation especially as much of their rolling stock is adequate to Chinese needs. Using this analysis for judging the other
lines which have suffered more from deterioration than war destruction, consideration might be given to say:

<table>
<thead>
<tr>
<th>Railway Line</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hankow—Canton—Kowloon Ry.</td>
<td>$20 million</td>
</tr>
<tr>
<td>Lung Hai</td>
<td>6 &quot;</td>
</tr>
<tr>
<td>Hangchow—Shanghai—Nanking</td>
<td>5 &quot;</td>
</tr>
</tbody>
</table>

Total Railway Credits: $31 million

**Harbors**

The new Tungku Harbor project has been almost fifty percent completed—40% by the Japanese. It already permits the passage of coast steamers up to 3,000 tons. A great deal more work must be done to permit of safe anchorage of ocean going steamers within the breakwater protected harbor. Foreign estimates of costs of lighterage and demurrage for ships lying outside the Taku Bar are more than one and one-half million dollars per annum. This project seems highly practical and undoubtedly of great benefit to domestic and foreign trade. It is one of the few North China projects free of interference from civil war, though of course its full usefulness cannot be attained until the back country is stabilized. The amount asked for is $16,750,000. In the absence of supporting technical data the need for such an amount is open to question. To complete the project which includes two shipyards an estimate of three or four years is given. It might be well to consider a two years allowance of $8,000,000 with the expectation that completion can be accomplished out of revenue.

The Shanghai Harbor facilities were inadequate even before the war and a harbor development in the Woosung area was begun. That such development is economically desirable has not been questioned so far as I am aware and certainly if Shanghai is to handle the commerce that may conservatively be expected a great deal of improvement in its facilities must be achieved. However, a cautious attitude in initial credits is wise in the interests of promoting essential improvements first. Suggest the requested $5,000,000 to be cut to $3,000,000.

Much the same line of reasoning would indicate a cut in the Tsingtao Harbor request to $1,000,000. Unless this harbor was badly damaged during the war, the Japanese development and equipment must have left pretty fair facilities. However, harbor improvement like transportation is generally desirable.

**Coal Mines**

While the great need of China is a restoration and development of her export trade to pay for essential imports, transportation and power are prior necessities. Coal therefore is of urgent importance. Before the war China exported more coal than she imported. Now
she can't supply her domestic needs. For the restoration and modernization of accessible coal mines within areas controlled by the Central Government consideration might be given to a total credit of $10 million which is about the amount of the request for the Fuhsin and Peipiao and Chungshing Mines. The amount suggested might well, however, be allocated to a wider field than that of these three alone. For the immediate future a large increase in coal production is more important than the latest devices for future development. Modest equipment for more mines.

Formosa

The possibilities for Formosa to develop a large export trade have been commented on by various independent observers. One of the growing needs of Chinese agriculture (the backbone of the Chinese economy) is artificial fertilizer. No fertilizer industry of this type existed to a significant degree in China before the war. A great development is possible in the demand for such.

China's consumption of sugar is still relatively small but increasing and the sugar industry in China was assuming considerable importance before the Japanese attack. Formosan sugar would find a market however in foreign trade and in the domestic canning industry.

Sugar production requires fertilizer and sugar controls and fertilizer factories require power. Consideration might well be given to the three requests—Taiwan Electric Power Company $4,400,000, Taiwan Fertilizer Manufacturing Company $3,400,000 and Taiwan Sugar Industry $4,200,000. Specific amounts for industrial projects can only be determined after technical survey on the spot. However though the power plant suffered some from bombing recent reports indicate the damage much less than at first reported. In Formosa the Japanese promoted the use of artificial fertilizer and even in China the use of such is increasing and probably is essential to any extensive improvement in agriculture. In 1938 Formosa exported 700,000 tons of rice, 250,000 tons of bananas, 1,000,000 tons of sugar and 3,000,000 dozen canned pineapple. An early restoration and development of this trade will provide a large amount of foreign exchange. Suggest however a reduction of the total requested credit from $12 million to $8 million (Power $2,000,000, Sugar $3,000,000 and Fertilizer $3,000,000).

North China Industrial Restoration

The amount asked for is small but in view of the political situation there would seem no urgency for the projects listed with the possible exception of the Chi Pei Electric Power Company. Even this might better wait on more settled conditions.
### Summary

<table>
<thead>
<tr>
<th>Railway</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hankow—Canton—Kowloon Ry.</td>
<td>$20 millions</td>
</tr>
<tr>
<td>Lung Hai Ry.</td>
<td>6</td>
</tr>
<tr>
<td>Hangchow—Shanghai—Nanking Ry.</td>
<td>5</td>
</tr>
<tr>
<td>Railway Credits</td>
<td>$31</td>
</tr>
<tr>
<td>New Tangku Harbor</td>
<td>8</td>
</tr>
<tr>
<td>Shanghai Harbor</td>
<td>3</td>
</tr>
<tr>
<td>Tsingtao Harbor</td>
<td>1</td>
</tr>
<tr>
<td>Coal Mines</td>
<td>10</td>
</tr>
<tr>
<td>Taiwan Electric Power Co.</td>
<td>2</td>
</tr>
<tr>
<td>Taiwan Fertilizer Mfg.</td>
<td>3</td>
</tr>
<tr>
<td>Taiwan Sugar Industry</td>
<td>3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$61</strong></td>
</tr>
</tbody>
</table>

In addition to the above serious consideration should be given to the Chinese request for a short term loan of $150 million for 1,100,000 bales of raw cotton. However whereas Dr. Soong estimates requirements at 1,100,000 bales to July 1, 1947, the Embassy estimates on the basis of 1947 native production being at least as high as 1946, is only 500,000 bales for the whole of 1947 and this includes a probable carry over December 31, 1947 of 500,000 bales. For the present then it would seem that 250,000 bales would fill all China’s effective needs. Unofficial reports indicate very large stocks of raw cotton hoarded by private individuals as well as textile companies and raw cotton production prospects are excellent. This would add $40 million to the above figure making a grand total of $101,000,000.

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1021/2-2247: Telegram

**The Ambassador in China (Stuart) to the Secretary of State**

NANKING, February 22, 1947—5 p.m.

[Received 11:40 p.m.]

345. From Adler to Secretary Treasury and on Butterworth’s request for appropriate distribution in Department of State. Returned Nanking February 21.

(A) Saw Soong in Shanghai February 18. He informed me that impact of emergency regulations in Shanghai was successful and that he intended to enforce them vigorously—in an aside he said that secret service was acting under his personal instructions.

He then proceeded to raise the following problem. The Government had promulgated measures governing foreign exchange and deposits abroad on February 16 (cabled by Embassy on February 17 [16] [a1]) and was preparing supplementary regulations to enforce

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[a1] Unnumbered telegram not printed, but see footnote 89, p. 1071.
them. He wished to obtain Treasury's informal response to these supplementary regulations adding that without foreign cooperation they could not be enforced. I said, "Then you are asking for our cooperation?" To which he replied, "Not asking but begging."

Saw Soong again on the 19th when he informed me that his plan was first to require registration of all Chinese assets abroad, after which the Government could decide on steps to vest them. He repeated that without American and British cooperation, this measure could not amount to much and told me that he was asking for British cooperation also, particularly with respect to Hong Kong. The forms of cooperation he envisages are:

a. Receiving a list of Chinese depositors in the US and in the British Empire.

b. Reblocking of Chinese assets in the US and the sterling area.

He, of course, realizes that (b) is quite unlikely. On February 20 he sent me a draft of the proposed regulations which are transmitted in Section II.92

(B) Undoubtedly China's balance of payments position is such that there is a case for vesting Chinese private assets abroad. From our point of view this case is all the stronger, since it is inevitable that with the running down of her official foreign exchange holdings her requests for financial assistance from US and from the International Bank will become more frequent and pressing.

At the same time:

1. It would have been preferable for the Chinese authorities to begin by moving effectively against Chinese private foreign exchange assets in China—particularly gold and foreign currencies—before asking for our cooperation on the vesting of Chinese private foreign exchange assets abroad.

2. For the Treasury to give a list—if available—of Chinese private depositors in the U. S. to the Chinese Government would create an awkward precedent.

3. Reblocking of Chinese assets in the U. S. would constitute a flat reversal of the domestic policy to which we are committed—namely, the gradual relaxation and eventual abandonment of wartime economic and financial controls.

I accordingly recommend that the Treasury's reply to Soong's request for cooperation be sympathetic and friendly in tone but non-committal in substance and making reference to (B) 1 above.

(C) I understand that Soong will go ahead with the regulations, whether or not foreign cooperation is forthcoming, but that he may delay their announcement until he hears from you and from British Treasury. [Adler.]

Stuart

92 Received in the Department as telegram No. 344, February 22, 5 p. m.; not printed.
The Ambassador in China (Stuart) to the Secretary of State

NANKING, February 22, 1947—8 p. m.
[Received February 23—5:23 a. m.]

347. From Adler to Treasury. Was informed by Pei in Shanghai on 19th that with new regulations and new rate use of Hong Kong open market rates for settling Army and Navy expenditures was automatically terminated (ReEmbtel [Deptel] 203, February 19, noon) and that henceforth Army and Navy could procure CN dollars at 11,900.

Point 5 of “measures for prohibition of circulation of foreign currency notes” promulgated on February 16 and cabled [by] Embassy on February 17 [16] prohibits payment of salaries, allowances and stipends in foreign currency. But it is not clear whether Chinese authorities intend to include payment of foreign personnel of foreign government agencies in this regulation. Both Soong and Pei informally raised the question of troop pay with me. I was noncommittal in my comments pointing out that Army and Navy could not even consider making troop pay in CN dollars without a firm repurchase commitment from Central Bank. I have also advised Army and Navy to stall if they were officially approached to make troop pay in CN dollars. In the meantime Army and Navy are continuing to pay troops in U. S. currency, but have asked Central Bank to provide convenient facilities to enable troops to exchange US currency at 11,900 so as to reduce chance of their frequenting black market. [Adler.]

Stuart

The Ambassador in China (Stuart) to the Secretary of State

NANKING, February 25, 1947—3 p. m.
[Received February 25—9:10 a.m.]

369. From Adler to Secretary of Treasury. Saw Soong this morning. (ReEmbtels 344 and 345 of February 22.) In reply to a general question, he said the recent emergency measures had been politically successful but did not affect the underlying economic situation and, therefore, gave only temporary respite. He informed me that about US dollars one quarter million of currency were being turned in daily to Central Bank, chiefly in form of gold notes and notes of large denominations; he did not expect this inflow to continue for long. Exports and inward remittances had also picked up for the time being.

Unnumbered telegram not printed.
Telegram No. 344 not printed.
He then took up the subject of the mobilization of Chinese private assets abroad and asked how soon I expected to hear from the Treasury, to which I replied, “probably around the end of the week”. He showed me the final draft of the supplementary foreign exchange regulations reported in Embtel 345. The most important change was the inclusion of vesting in the regulations; this apparently had been added by O. K. Yui. The measure is to go before the Supreme National Defense Council tomorrow. [Adler.]

STUART

893.24/2-2647

The Secretary of State to the Chinese Ambassador (Koo)

The Secretary of State presents his compliments to His Excellency the Chinese Ambassador and has the honor to refer to this Government’s agreement with the Government of China on the Principles Applying to Mutual Aid, signed June 2, 1942, and to article 7.d. of the agreement of the two Governments for the Sale of Certain Surplus War Property, signed August 30, 1946, and proposes the initiation in Washington on or before April 15, 1947 of negotiations for the final settlement of war accounts outstanding between the two Governments, including obligations of both Governments under the Mutual Aid Agreement. It is proposed that the Chinese Government at its earliest convenience designate the persons who will represent it in these negotiations.

WASHINGTON, February 26, 1947.

893.61/2-1747

Memorandum by the Director of the Office of Far Eastern Affairs (Vincent) to the Secretary of State

[WASHINGTON,] February 28, 1947.

There is attached a memorandum in regard to possible future credits to China. You will note that the total comes to about $101,000,000. Over $60,000,000 is for transportation, mining, harbor improvement, and manufacturing, and $40,000,000 is for cotton. This latter figure represents what China hoped to get in the way of cotton from UNRRA. It now appears unlikely that UNRRA will be able to approve the request.

In having this memorandum prepared my thought is that we may

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* Chinese Minister of Finance.
* At Washington: Department of State Executive Agreement Series No. 251, or 56 Stat. (pt. 2) 1494.
* By Charles R. Bennett, of the Office of Far Eastern Affairs, February 20, p. 1076.
want or have to come forward at some not too distant future time with a definite recommendation with regard to credits for China. At that time I think we should be ready to say that we have examined the situation in so far as available facts will permit and, after discussion with the ExImBank, are prepared to support China's requests for certain definite projects. I believe that the psychological effect will be beneficial if we are prepared to say that the projects aggregated $100,000,000 and that therefore we recommend that this portion of the $500,000,000 loan be made available.

I do not, as I have indicated, know when this time will come, nor do I have any assurance that the ExImBank will be favorably inclined at that time, but our own position vis-à-vis China and vis-à-vis those in this country impatient to aid China would be strengthened if we were in a position to say something positive and definite.

102.1/2-2847: Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, February 28, 1947—7 p. m.

248. For Adler from State, Treasury, War and Navy. In absence of agreement not yet received here, not understood how Chinese can claim agreement automatically terminated. (Embtele 347, Feb 22.) Unless there was clear understanding on both sides at time of agreement that it would terminate under circumstances such as now exist, you are instructed to inform Pei and Soong that US Govt considers agreement still in effect. War and Navy are agreeable to use of official rate only so long as no more favorable rate for US dollar would appear on Hong Kong basis in accordance original understanding with Chinese Govt.

If, however, present Hong Kong rate is radically out of line with your appraisal of realistic purchasing power of yuan, you are authorized to hold up above communication and report fully to Washington.

Re last sentence your 347, steps taken by Army and Navy troop pay question are approved. [State, Treasury, War and Navy.]

MARSHALL

102.1/3-347: Telegram

The Consul General at Shanghai (Davis) to the Secretary of State


[Received March 4—10:44 a. m.]

522. For Treasury, State, Commerce from Casaday. Shanghai press Sunday and Monday announced acceptance by Generalissimo of
resignation of Tsu-ye Pei as Governor General of Central Bank. Resignation said to have been tendered last September. This morning’s China Press reported that Chang Kia-ngau, Assistant Governor General of Central Bank, is scheduled to assume the Governorship today. The same news article also contains the following statement:

“Meanwhile authoritative sources made public the fact that Chang will stabilize the currency and force down commodity prices and stabilize the erratic economy. They also scotched the rumor circulating in the economic circles that the National Government would reform its economic policy.

The central policy of a country will not be affected by a reshuffle in personnel, the same quarters pointed out. Furthermore, the emergency economic measures were approved by Generalissimo Chiang Kai-shek himself. Since the Generalissimo will temporarily act as President of the Executive Yuan, he will not effect any change in policy but endorse its enforcement, the same circles point out.”

Chang Kia-ngau is reported to have recently arrived in Nanking from Changchun where he held post of Chairman of the Economic Affairs Commission of the President’s Northeast Headquarters. Repeated Nanking 381. [Casaday.]

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102.1/3-447: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 4, 1947—10 a.m.
[Received March 4—3:06 a.m.]

436. From Adler to Secretary of Treasury: Text of exchange of letters between Pei and me and all background material transmitted as enclosure 2 of my letter No. 5 of February 4 to Jenkins. Reference your telegram 248 of February 28. In your telegram 104 of January 28 to me in Shanghai you agreed to use of phrase “for time being”. This phrase was vital to both parties as with obviously unstable situation Hong Kong cross rate might easily cease to be a reliable indicator. Since exchange adjustment of February 16 Hong Kong cross rate appears to have been lower than official rate in Shanghai, and we are at the moment better off using official rate than Hong Kong cross rate. There is therefore nothing to be gained by raising question of Hong Kong cross rate with Chinese Government now, though it can be used as a precedent later.

It should be pointed out that as period of increasing instability is to be expected, we must be prepared to adopt temporary expedients

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* Dr. Soong had resigned.
* David Jenkins, Division of Monetary Research, Department of the Treasury.
* See footnote 25, p. 1043.
and if there is no alternative to finance Government expenditures by sale of U.S. currency. The expedient of the Hong Kong cross rate saved the U.S. Government a considerable sum of money, as following quotation from cable from Navy Shanghai repeated to me underlines: “Rates obtained were above our fondest hope. Six billion of one three settled at eleven nine hundred. Seven five million of one four at ten seven hundred.” [Adler.]

STUART

893.51/3-447

Memorandum by the Secretary of State to the Director of the Office of Far Eastern Affairs (Vincent)

[WASHINGTON,] March 4, 1947.

Re: Chinese Loans

I have gone over your memorandum of February 28 on the above subject, and also Mr. Bennett’s memorandum to you of February 20.

I am in general agreement with your analysis of the requirements.

What I would like you to do is to press in my name Mr. Martin and the Export-Import Bank Directors for favorable consideration of the loans for the Hankow-Canton-Kowloon Railroad, for the new Tangku Harbor, and for an initial loan for the reconstruction of the coal industry. The other items are important but as a beginning I would like to have you press for the three items listed above.

I think the time has come when we must take some prompt action towards the rehabilitation of certain specific industries.

Please explain to Mr. Martin that I do not find the time to speak to him personally about the above but I am hopeful for favorable consideration.

G. C. MARSHALL

102.1/2-2247 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, March 7, 1947—6 p.m.

284. 1. Pls inform Chinese authorities (urteil 345, Feb 22) along following lines (For Emb and Adler from Dept and Treas).

"After most serious consideration this govt regrets that it is unable comply with Mr. Soong’s request to Mr. Adler on Feb 19, 1947, for the reblocking Chinese assets in US or for info available to this govt concerning assets in US owned by Chinese persons. Reimposition freezing controls over Chinese assets not only impracticable in view administrative difficulties but would also be completely contrary to commitments made to Congress to effect that our wartime controls will be eliminated as rapidly as possible. Info available to this govt
concerning assets in US of Chinese persons obtained by Treas thru its TFR-300 census as wartime measure to assist primarily in implementation its wartime freezing controls. Requests from other foreign govts for this type info have been refused."

2. Any comments Treas may have concerning draft foreign exchange regulations (urtel 344, Feb 22 3) will be transmitted separately. [Department and Treasury.]

ACHESON

102.1/3-447: Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, March 7, 1947—7 p.m.

287. For Adler from Treasury. As matter of construction [it] would not appear phrase "for the time being" necessarily provided termination agreement. Realize may be easier secure new agreement present officials than recognition Pei agreement.

Agree no advantage Hong Kong rate at present, but desire periodic reports Hong Kong market, and meanwhile request retention our position on Hong Kong arrangement if at all possible. (Reurtel 436, Mar 4). For reasons stated Ourtel 65, Jan 15, desire details of other possible temporary expedients to be used in event that serious deviation black market from Central Bank rate recurs. [Treasury.]

ACHESON

893.51/3-1147

The Secretary of State to the Ambassador in China (Stuart)

No. 279  

WASHINGTON, March 11, 1947.

The Secretary of State transmits herewith for the information of the Officer in Charge a copy of an amendatory agreement 3 signed by the Representatives of the Republic of China, the Central Bank of China, the National Resources Commission of China and the Export-Import Bank of Washington. The purpose of the amendment is to extend the availability of the credit of $50 million authorized on November 30, 1940 4 to the Central Bank of China to finance the purchase in the United States of agricultural machinery and industrial products. The credit expired on December 31, 1946 and with this amendatory agreement, the credit is extended to June 30, 1947. While

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3 Not printed.
4 See oral statement of the Department of State to the Chinese Embassy, December 4, 1940, Foreign Relations, 1940, vol. iv, p. 705.
the amendatory agreement has just recently been signed, it is made effective as of December 31, 1946 in order to conform with the necessary legal requirements.

893.50/3—1147

The Ambassador in China (Stuart) to the Secretary of State

No. 555 Nanking, March 11, 1947.

[Received March 21.]

The Ambassador has the honor to refer to the Embassy's plaintext telegram of February 16, 1947 (unnumbered), and nos. 298 and 299 of February 17, 1947, containing the text of the Economic Emergency Measures and related rulings decreed February 17, 1947 by the Chinese Government, and to the Embassy's telegram no. 300, February 17, 1947, giving brief comment on certain aspects of the Measures. Enclosed is a copy of the Regulations for the Enforcement of Measures Regarding the Provision of Daily Necessities, announced in Nanking on February 19, 1947, which are intended to implement one provision of the Economic Emergency Measures.

There appears below a discussion of the Economic Emergency Measures—in summary and then in detail—which evaluates them in relation to the history of similar measures in China and the degree of success which may be expected from them.

Summary

While some favorable results may materialize from the Economic Emergency Measures, they cannot, in the circumstances, achieve a lengthy stabilization. Some increase in revenues may be effected, the reduction in certain expenditures may be sizeable, and for a short time certain wages and prices may be stabilized. These, combined with the control over imports already introduced in the Revised Temporary Foreign Trade Regulations, are contributions toward a more stable economic and financial situation. But they are far from sufficient. The factors making for inflation in China today are sufficiently powerful to make it doubtful whether even the strictest, most conscientious, and thorough-going enforcement of the Economic Emergency Measures could succeed in controlling the situation. It is understood that henceforth the Government intends to employ large numbers of secret agents who shall apply whatever strong-arm meth-

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* See footnote 89, p. 1071.
* See footnote 88, p. 1071.
* Not printed.
ods they may deem necessary to bring about compliance with the regulations of the Government. But it is feared that rather than bringing compliance, such steps will lead to resentment among the populace and increase the likelihood of physical disturbances representing protests against the conditions under which people are forced by circumstances to live. The demands made on the economy today are simply far greater than it can meet.

Considering, therefore, the realities and difficulties to be faced in implementing the Measures as outlined below—the lack of adequate and trained administrators, the insufficient wage of public servants, the enormous and continuing military expenditures, the disruption of internal distribution, and the time required to reap the results from the positive steps which might be taken to meet the situation—it is difficult to imagine how more than a short period of stabilization can be achieved. This in itself is a laudable accomplishment, especially if otherwise the existence of the Government and the internal urban economy might have been threatened. But no one is deluded that the stabilization will remain in effect for long. The Government has established for itself a slight breathing spell—partly because of the institution of drastic requirements which surely no one wishes immediately to circumvent, and partly because the Measures have a certain psychological value. *End of Summary.*

[Here follows detailed discussion of economic emergency measures.]

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893.00/3-1447

*Memorandum by the Director of the Office of Far Eastern Affairs (Vincent) to the Secretary of State*

[WASHINGTON,] March 14, 1947.

In accordance with instructions contained in your memorandum of March 4° (copy attached for ready reference), I had lunch with Mr. Martin of the Eximbank and, after informing him of the contents of your memorandum, I went to some length in explaining our thinking at this time with regard to help and credits to China in relation to the developing political situation.

I told him that we were concerned over the situation in China and desirous of being helpful in a practicable way but without impairing our position that substantial or large scale support should not be forthcoming until there was some degree of real improvement in conditions in China. I emphasized specifically, of course, your desire

° *Ante*, p. 1085.
that the Bank give favorable consideration to credits for the Canton-Hankow Railroad and the Tangku Harbor Works. I suggested that the Bank might meet its problem of obtaining reasonable assurance of repayment by having terms which would provide for service on the credit as a first charge on revenues and by placing Americans in supervisory positions—chief accountants and possibly chief engineers.

Mr. Martin described the position and attitude of the Bank in terms that are already well-known to you. He pointed out that the two specific credits I had mentioned were for reconstruction and that theoretically the money should be obtained from the International Bank. He said that he would soon have to appear before the Congress in regard to legislation for the continuation of the Bank and that the granting of credits to China under present conditions might seriously embarrass him before the Congress.

Mr. Martin clearly indicated that he was sympathetic with what you were trying to achieve with regard to China; but he was not encouraging with regard to the Bank’s being helpful. He went on to say that nevertheless he would take up the matter of the two credits informally with the Directors of the Bank and let me know the outcome. He asked that I tell you this. I believe he would like to grant the credits but is certain the two Republican Directors would oppose and fears the consequence of such a division.

I have also talked with Mr. Gaston and Mr. Gauss, Directors of the Bank, about this matter. I explained your ideas and went on to say that we could not wait in giving help to China until the last shot was fired and Jeffersonian democracy burst forth in full bloom.

With regard to the two specific credits, I made the same suggestions as I made to Mr. Martin. I said that, if within the next few weeks the Chinese took sincere though limited steps to improve the Government, we should be prepared to meet this move with evidence of approval in the form of limited credits.

Both Mr. Gaston and Mr. Gauss expressed approval of what you were trying to achieve in China, but they both stated that credits under present conditions could be classed only as political and that they did not approve making political loans. They suggested that the Department might go directly to Congress to obtain financial assistance for China. However, in conclusion, they said that they would be willing to consider with an open mind any proposals for credits to China brought before the Directors of the Bank by the State Department member. Their attitude was not hostile but it was not, as you can see, encouraging. Mr. Gaston, I was surprised to find, was more unsympathetic than Mr. Gauss.
The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 15, 1947—10 a.m.
[Received March 17—6:33 a.m.]

565. For State and Treasury from Adler.

1. Informed Minister of Finance and Governor of Central Bank of your response to Soong’s request. (Reference your telegram 284 of March 7.) Finance Minister made no comment but Governor said he supposed Chinese Govt would have to rely for mobilization of Chinese private assets abroad on appeal to patriotic motives (an appeal from which in light of previous experience here too much cannot be expected).

2. Governor informed me with some pleasure that Central Bank had been buying foreign exchange at rate of US $1 million a day in last 10 days, chiefly in form of export bills and US currency.

3. One of Soong’s advisers informed me that of 5 major resolutions to be presented to imminent meeting of Kuomintang Central Executive Committee 1 will be concerned with economic recommendations and policy. [Adler.]

STUART

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 15, 1947—10 a.m.
[Received March 15—5:07 a.m.]

566. From Adler to Treasury.

1. Do not see how possible to obtain Chinese consent retention our opposition [position?] on Hong Kong cross rate while at same time abandoning its use for post February 16 and current transactions. (Reference your telegram 287 of March 7.) Therefore fully agree it will be much easier to secure new agreement present officials when black market for United States currency re-emerges and Hong Kong cross rate diverges in our favor from official rate than recognition of Pei agreement. In securing such new agreement previous use of Hong Kong arrangement under Pei agreement would serve as a strong precedent on our side.

2. Am continuing to receive daily reports on Hong Kong market. Hong Kong cross rate still well below official rate, hovering above 10,000.

3. Re temporary expedients, these would have to be improvised in
consultation with you with reference to future circumstances depending on degree of further economic deterioration, degree of efficacy of Chinese Government controls, and spread between different markets and rates. There will be a number of possible alternatives, among others (a) Hong Kong cross rate, (b) sale of United States currency or Treasury checks or drafts to Central Bank at current Shanghai open market rate for United States currency, (c) sale of United States currency in black market in Shanghai and elsewhere, (d) sale of gold, and (e) possibly even Macao cross rate should Hong Kong authorities move against open market for United States currency in Hong Kong. For reasons already stated impossible to make prior decision now on which of these temporary expedients will have to be resorted to. [Adler.]

STUART

993.51/3-1747

Memorandum by the Director of the Office of Far Eastern Affairs (Vincent) to the Under Secretary of State for Economic Affairs (Clayton)

[WASHINGTON,] March 17, 1947.

I am attaching a copy of a memorandum ¹⁰ which I sent to General Marshall last Friday together with a copy of his instruction ¹¹ which caused me to take the action reported in my memorandum.

The prospects of favorable action are clearly not encouraging, but knowing how earnestly the Secretary desires that something be done I think that we ought to leave no stone unturned here in trying to do something. Incidentally, he spent an hour with me the day before his departure talking over this matter.

I am also attaching a copy of my earlier memorandum ¹² and Bennett's memorandum ¹³ to which the General refers in his instruction to me. These memoranda grew out of an earlier conversation I had with him.

I should like to talk to you about this as soon as you can conveniently arrange the time. You will note that I have sent copies of my memorandum to the Secretary to Mr. Thorp ¹⁴ and Mr. Ness. ¹⁵ It will be helpful if they could be present at our meeting.

J[OHN] C[ARVER] V[INCENT]

¹⁰ Dated March 14, p. 1088.
¹¹ Memorandum of March 4, p. 1085.
¹² Dated February 23, p. 1082.
¹³ Dated February 20, p. 1076.
¹⁴ Willard L. Thorp, Assistant Secretary of State for Economic Affairs.
¹⁵ Norman T. Ness, Director of the Office of Financial and Development Policy.
**The Chairman of the Board of Directors of the Export-Import Bank of Washington (Martin) to the Director of the Office of Far Eastern Affairs (Vincent)**

*WASHINGTON, March 17, 1947.*

Dear John Carter: I discussed with the Board of the Bank the proposal of the Secretary with respect to the Canton Railroad, the Tangku Harbor and the rehabilitation of the coal industry. While they did not completely close their mind on the subject, the position I outlined to you at lunch is, in general, the position of the Board. I would suggest that this matter be postponed unless, of course, you or Mr. Thorp would like to raise it formally at a Board meeting.

Sincerely yours,

WM. McC. Martin, Jr.

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**Memorandum by the Director of the Office of Far Eastern Affairs (Vincent) to the Assistant Secretary of State for Economic Affairs (Thorp)**

*[WASHINGTON,] March 18, 1947.*

Dear Willard: With reference to the memorandum I sent you a day or so ago in regard to credits to China, I am sending you a copy of a letter to me from Bill Martin. I have also sent a copy to Mr. Clayton.

Am I right in guessing that your vote and that of Norman Ness is for postponement? I should like to see the matter raised with the Bank, provided no harm would come from doing so, even though favorable consideration would not be forthcoming. I have not found, as I said in my memo to the Secretary, that the Directors were antagonistic, but I will admit that they seem to be determined on a negative approach to this problem. What I should like to do is prepare the ground so that if there is some degree of real improvement in the Chinese Government during the next few weeks, we could give recognition to this improvement by having the Bank show a willingness to consider limited credits for selected projects. It seems to me that only in this way can we encourage the Chinese Government along the lines we want; that is, by pacing our assistance to steps the Chinese Government may take towards improvement.

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16 Addressed to Mr. Clayton, March 17, p. 1061.
17 Supra.
Memorandum by the Director of the Office of Far Eastern Affairs (Vincent) to the Secretary of State

[WASHINGTON,] March 27, 1947.

With reference to my memorandum of March 14, I am enclosing a copy of a note of March 17 from Mr. Martin of the Eximbank and a copy of my memorandum to Mr. Thorp. Yesterday Mr. Clayton went over this matter at some length with me. He is of the opinion that it would be impracticable and inopportune to bring formally before the Directors of the Bank any suggestions for credits to China for long-term construction projects. He was certain that, under present conditions, the response would be unfavorable. He did say, however, that it might be worth discussing with the Directors a short-term commodity credit for cotton of some $40,000,000 or $50,000,000, but he felt that it would be necessary for the Chinese to agree to set aside a certain portion of the manufactured product for export to markets where it would be possible to obtain US dollar exchange for the repayment of the credit. He will explore this matter. In this connection it is interesting to note that Shanghai Consulate General reported in a recent telegram that Chang (new head of the Central Bank of China) "would shortly be approaching US Government for at least moderate cotton loan" and that Central Bank would agree to partially servicing loan through increase of textile exports.

The prospects are brighter now than when you left for obtaining some cotton for China from UNRRA, but final decision has not yet been reached.

I have a personal letter from Chang Kai-ngau of the Central Bank in China in which he outlines his ideas for rebuilding the confidence of the people and asks for advice but not assistance. Because I have great respect for Chang’s ability, I should like, if it were possible, to strengthen him in his new position by some limited measure of financial assistance.

The SWNCC has requested the JCS to prepare a study of the military aspects of the China problem. The JCS have been informed that Colonels Caughey and Hutchin are ready to give background

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18 Ante, p. 1092.
19 Supra.
20 Telegram No. 744, March 25, not printed.
21 Not found in Department files.
22 State-War-Navy Coordinating Committee.
23 Joint Chiefs of Staff.
24 Col. J. Hart Caughey, former Executive Officer of General Marshall’s staff in China.
information on the problem. It is my opinion that we must exercise the utmost care and judgment in reaching a decision with regard to arms for the National Government. I do not think that the time has come for all-out military aid to Chiang, and I feel there is basis for hope that it will not come, although limited assistance of one sort or another may be advisable.26

Mr. Acheson, as you probably know, did a very good job of explaining to Congress how the Greece and China problems, in so far as method of approach is concerned, are not on all fours.27

J[ohn] C[arter] V[ince

102.1/8-2847: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 28, 1947—3 p. m.
[Received March 28—7:30 a. m.]

682. From Adler for State and Treasury.

1. Was informed by Minister of Finance and head of Ministry’s Bond Department 28 that two new Government issues will be:

(a) Three-year Treasury notes amounting to CN dollar equivalent of U. S. 300 million, paying 20 percent per annum and redeemable on basis of CN dollar-US dollar official exchange rate at time of redemption. Executive Yuan thought 20 percent interest rate too high but Legislative Yuan felt it was too low. (Black market interest rates are around 20 percent per month.) Backing for Treasury notes consists of alien property not yet disposed of and revenues of Government enterprises. One objective of flotation of Treasury notes is to render possible orderly liquidation of Government holdings of alien property. Most important stated objectives are fiscal and absorption of idle capital.

(b) US dollars 100 million of 10-year bonds, paying 6 percent per annum, to be purchased in gold, U. S. currency, and other foreign exchange instruments, and redeemable as to both principal and interest in foreign exchange. Backing for bond issue is Government’s foreign exchange resources. Objectives of bond issue to absorb private foreign exchange and conserve official foreign exchange.

First floatations of both issues will be on April 1 in denominations of U. S. dollars 5,000; 1,000; 500; 100; and dollars 50; the Treasury notes, of course, to be purchased with CN dollars. While these issues are receiving considerable amount of favorable publicity, difficult to see how they can achieve much success.

26 For correspondence on the subject of military aid, see pp. 785 ff.
27 See Assistance to Greece and Turkey: Hearings before the House Committee on Foreign Affairs, March 20, 1947, 80th Cong., 1st sess., pp. 16, 17.
28 P. T. Chen.
2. Minister of Finance also informed me that Legislative Yuan had recommended suspension of issue of any currency denomination over CN dollars 5,000 but that recommendation had not yet come before Executive Yuan and Supreme National Defense Council, where he would vigorously oppose it when it did.

Repeated Shanghai as 308. [Adler.]

STUART

803.00/4-1247 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, April 12, 1947—3 p. m.
[Received April 12—9:47 a.m.]

801. For Acting Secretary of State. Foreign Minister \(^{29}\) sent for Min[ister]-Coun[selor] (reEmbelt 800, April 12, 2 p. m.\(^{30}\)) and in the course of the interview informed him, and for conveyance to me, that Chinese Govt had almost completed its assessment of its economic and financial situation and intended shortly to address a formal communication to our Govt, either through this Embassy or the Chinese Embassy in Washington, requesting financial assistance. Min-Coun inquired whether it was intended that such a communication should be dispatched before the Govt reorganization had been completed and before General Marshall returned from Moscow. Dr. Wang Shih-chieh indicated that it should be possible to make announcement of the reorganization of the Govt in a few days and that note would arrive a day or two before or day or two after, and a copy would be given General Marshall in Moscow.

Min-Coun stated that he was not in a position to make any official comment regarding any such formal and presumably well-considered action by Chinese Govt. Dr. Wang Shih-chieh indicated that he personally would like Min-Coun’s initial personal reaction. Min-Coun said that two queries immediately came to mind. After his year in China General Marshall had reported to the American people on his mission to China\(^ {31}\) and the situation here as he saw it, and the information he had thus provided and the conclusions he had drawn had entered into the concept of China of the American people, on the support of whom American foreign policy rested. The query, therefore, immediately arose as to the desirability of Chinese Govt’s applying for financial assistance before it had completed the steps which

\(^{29}\) Wang Shih-chieh.

\(^{30}\) Ante, p. 512.

the Generalissimo had last December announced would be soon under-
taken. The second query rose out of the fact that Secretary of State
having just returned from a year in China would bear an unusually
large share of the responsibility in advising the President in con-
sidering any such formal request of assistance and that at the
moment he was preoccupied with the Moscow Conference.

Min-Coun received the impression that Foreign Minister was being
pressed for action and that he was personally disposed not to present
the issue at this time. The foregoing remarks may have furnished him
sufficient ammunition to meet the situation when Generalissimo re-
turns. It should not be difficult to ensure the postponement of such a
request by an informal approach, and it is quite likely that this ques-
tion was raised by the Foreign Minister for the purpose of obtaining
an indication as to what our desires in the matter were. Your instruc-
tions are awaited.

The economic-financial situation at the moment is briefly as follows:

There has been no basic change in unfavorable economic situation.
While foreign exchange position has temporarily improved, fiscal
situation continues to deteriorate and with it pressure on price struc-
ture increases.

Govt’s foreign exchange position has temporarily improved since
promulgation of emergency economic regulations on February 1 as
result largely of tighter import controls and immediate fillip to exports
given by exchange adjustment, cessation of sale of gold and measures
against foreign currency. Govt’s total foreign exchange assets now
approximately $410,000,000, an increase of $70,000,000 over February
16; 75% of Govt’s foreign exchange assets consists of US dollars and
gold, the remainder of sterling area currencies and silver. On the
other hand, as the effect of the February 16 exchange adjustment wears
off, the pickup in exports will decline while the loss of exchange neces-
sitated by essential imports, however tightly controlled will be resumed.

Fiscal position continues to deteriorate. Note issue March 30 ap-
proximately CN $5.7 trillion, an increase of about one-sixth on Febru-
ary-March expenditures CN $1.5 trillion, or about 50% larger than
February, while receipts (incomplete) barely 25% of expenditure.
Over 50% of March expenditures were for direct military expedi-
tures, and undoubtedly continued fiscal deterioration can be ascribed
to extension of military operations.

Price situation is delicate and precarious. For about first 6 weeks
after promulgation of emergency economic regulations Govt was
relatively successful in holding price line by its gold [boldP] show
of action and by fear of drastic penalties. More recently commodity holders and speculators have been testing out efficacy of Govt controls, and accumulation of idle funds in Shanghai and continued note emission inevitably impose heavy pressure on line Govt is trying to maintain. Whether Govt will be able temporarily to hold these pressures within reasonable bounds should be known in next week or so.

Embassy still of opinion that moderate ExImBank cotton loan judiciously timed and accompanied by steps by Chinese authorities to mobilize Chinese private foreign exchange holdings would be of considerable short-run psychological value to Govt in its efforts to contain dam against which waves of note issue are mounting.

Repeat to Moscow as 12 for personal attention of Marshall. 32

STUART

893.00/4–1247 : Telegram

The Acting Secretary of State to the Ambassador in the Soviet Union (Smith) 33

WASHINGTON, April 14, 1947—8 p. m.

924. Moskco 60. For the Secretary. We suggest a reply along the following lines to Nanking’s 801 Apr 12 repeated to you as no. 12: Believe Chinese Govt will be well advised to delay presentation of request for assistance until after reorganization of Govt and you are authorized to make an informal approach in that sense. It is realized that the Chinese Govt may infer that we are in effect giving encouragement to the idea that their request will when submitted receive favorable consideration. You should make it clear that no such assurance is or can be given now.

It is not believed advisable to tie timing of request with my return to Washington. Your raising this question also raises the question as to whether the Chinese Govt is contemplating a request in a form which will require Congressional action or whether they have in mind utilization of funds earmarked by Eximbank for possible future credits to China. You might discreetly endeavor to ascertain the answer.

ACHESON

32 The Secretary of State was at this time attending the Meeting of the Council of Foreign Ministers in Moscow.

33 In telegram No. 1360, April 14, 11 p. m., (893.00/4–1447) the Embassy in the Soviet Union had transmitted a request of Brig. Gen. Marshall S. Carter, Special Assistant to the Secretary of State, for the views of Mr. Vincent on telegram No. 801, April 12, 3 p. m., printed supra.
The Ambassador in China (Stuart) to the Secretary of State

NANKING, April 15, 1947—1 p. m.
[Received April 15—7 a. m.]

809. Last evening before seeing the Generalissimo the Governor of Central Bank called at Chancery on his own initiative. He gave Minister-Counselor résumé of financial-economic situation and covered much of same ground as is contained in Embtel 807, April 15, 9 a. m.\(^2\) One additional development he mentioned was that due to disturbing reports he had received in last day or two regarding pressure for higher prices and increased speculative activities, particularly in Shanghai, he had countermanded by telephone a previously agreed announcement permitting holders of exchange to import with their own resources certain categories of goods, since he feared that such an announcement would be seized upon in present circumstances to foster further speculative price rises and intensify speculation in US currency.

Chang Kia-ngau made to the Minister-Counselor the same sort of statement that Foreign Minister had as reported in Embtel 801, April 12, 3 p. m., and was given the same reply, though Chang Kia-ngau was more specific in that he directly referred to a cotton loan, and in this connection Minister-Counselor asked him about plans for mobilizing the admittedly substantial foreign exchange assets of mill owners for partial application to China’s need for increased cotton supplies. The Governor indicated that he intended to institute discussions with this group when he returned to Shanghai with a view to making an arrangement with them without disturbing the general currency situation. He then reiterated his pressing need for help and the importance of the psychological effect it would have in alleviating the pressure for price increases which, if undampened, would lead to further Govt expenditure on supply and, therefore, further increase in note issue.

Sent to Dept, please repeat to Moscow as 13 for personal attention of Marshall.

Stuart

\(^2\) Not printed; it gave Chang Kia-ngau's detailed estimates for 1947 of China's exports, imports, foreign exchange requirements, holdings, etc.
The Ambassador in the Soviet Union (Smith) to the Acting Secretary of State

Moscow, April 16, 1947—11 p. m.
[Received April 17—6:20 a.m.]

1407. Kosmos 44. For Acheson from Marshall. Please reply to Stuart's 801 in sense of your Moskco 60 and indicate my concurrence. 
[Marshall.]

SMITH

893.50/4-2147

The Minister-Counselor of Embassy in China (Butterworth) to the Secretary of State

No. 652

Nanking, April 21, 1947.
[Received May 1.]

SIR: I have the honor to refer to several telegrams sent by the Embassy to the Department in late March and early April, 1947, regarding the meetings at Nanking of the Third Plenary Session of the Central Executive Committee (CEC) of the Kuomintang and referring, in part, to the proposals for economic reform made by Dr. Chen Li-fu, Minister of the Party's Board of Organization and chairman of the CEC sub-committee on economic policy which drafted the Economic Reform Plan adopted March 23, with modifications, by the CEC.

There are now enclosed copies of the following translations, memoranda of conversations and press articles which relate to this Plan:

1. Translation of the Economic Reform Plan prepared by the International Department of the (Kuomintang) Minister of Information;
2. Copy of a memorandum of conversation on March 28, 1947, with Dr. Kan Nai-kuang, Political Vice Minister for Foreign Affairs;
3. Copy of a memorandum of conversation on April 1, 1947, with Dr. Wong Wen-hao, Vice President of the Executive Yuan;
4. Copy of a memorandum of conversation on April 3, 1947, with, among others, Dr. Huang Yuan-ping, member of the CEC sub-committee on economic planning and one of the drafters of the Plan;
5. Copy of an article entitled "Important Economic Reform Plan adopted by Kuomintang Session", issued March 24, 1947, by the official Central News Agency, Nanking;

In telegram No. 445, April 17, 6 p. m., the Acting Secretary complied with this instruction by repeating to the Ambassador in China this telegram and Department's telegram No. 924 (Moskco 60), p. 1097. (893.00/4-1247)

Enclosures not printed.
6. Summary translations of three articles from the Chinese press regarding the Economic Reform Plan; and

Summary of the Plan. The Economic Reform Plan is a very elaborate and comprehensive document. Divided into two parts, Part I refers to the deteriorating economic situation and the failure of the economic measures thus far enacted to improve conditions; Part II is much more lengthy and contains an outline of the suggested policies and plans for economic reconstruction. In Part I are stated the following reasons why existing legislation has “brought but negligible results and frequently conspicuous disappointments”: (1) failure to follow the basic features of the “Principle of People’s Livelihood”; (2) failure to make proper use of China’s manpower and other resources, and to map out plans for a sound economic foundation; (3) decline of confidence of the people in the Government caused by hasty and ill-advised economic and financial measures; (4) lack of clear demarcation between state-operated and privately-owned enterprises; (5) currency inflation and failure to lead floating capital into productive enterprises; (6) failure of past economic measures, which served no purpose other than providing “predatory merchants” with chances to accumulate more wealth, to meet the requirements of the majority of the people; and (7) irregularities in gold sales which caused further rises in commodity prices; and (8) lack of long-range plans.

Part II, entitled “Principles for the Future”, states that China’s economic problem “still rests on whether the Government has adequate policies to boost production and conserve the people’s economic power.” It is further stated that “if all economic problems are tackled in compliance with the spirit of the Principle of People’s Livelihood and its socialistic principles, suitable solutions will not be too difficult to find.” The suggested policies call for development of state capital and state operation of major enterprises; operation of minor enterprises by private capital; enactment of clear-cut measures to encourage foreign investments and privately-run enterprises; and rigid enforcement of laws, coupled with severe punishment for corruption and eradication of speculation and manipulation.

The Plan contains recommendations under 15 headings covering briefly the following: (1) full utilization of manpower to boost production; (2) increased production of goods to stabilize commodity

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*One of the Three People’s Principles (San Min Chu I) taught by Dr. Sun Yat-sen, who was known as the Father of the Chinese Republic and who was its first Provisional President in 1912.*
prices; (3) stabilization of the value of currency; (4) reform of banking system; (5) rural reforms; (6) development of industries with recommendation that the Government should map out an over-all economic plan and specify the scope of state, provincial, municipal and private enterprises and fix annual production quotas; (7) development of commerce with a view to encouraging exports and restricting imports so as to attain a favorable trade balance; (8) development of communications by joint efforts of the Government and private enterprise; (9) financial measures aimed to increase production, to increase the Government's revenue and prevent corruption, and to reduce expenditure; (10) reforms in food administration calling for abolition of compulsory borrowing of foodstuffs in 1947, more reasonable collection of land tax in kind, and adoption of a granary storage system to stabilize grain prices; (11) diversion of idle capital from speculation to productive channels; (12) encouragement of foreign capital, including measures to expedite remittances from overseas Chinese; (13) rational adjustment of treatment accorded public employees, school teachers and Army personnel; (14) severe punishment for persons who utilize political influence to benefit private enterprises; and (15) strengthening of the economic organization with over-all planning of the nation's finance and economy.

End of Summary.

Obviously, with the Economic Reform Plan in mind, the Central Executive Committee of the Kuomintang, in its manifesto issued March 24, 1947,38 at the close of the Third Plenary Session, made the following recommendations under the heading "Carry out the Principle of People's Livelihood and Stabilize the National Economy":

"A serious obstacle to the development of our nation is economic maladjustment. This Plenary Session considers that the only way to remedy this situation is to carry into effect the Principle of People's Livelihood by reforming our economic policies. Thus, all the economic policies of the Government must be aimed at promoting the welfare of the masses, including the farmers. Economic rehabilitation and reconstruction must not be confined to large cities but extensively pushed to all rural areas. Further, there should be rational administration of finance, improvement of procedures for extending loans to productive enterprises and extensive establishment of cooperatives. At the same time, the nation as a whole should sincerely observe all the laws and ordinances pertaining to the enforcement of emergency economic measures."

In effect, the foregoing offers a brief and concise statement of the objectives of the Economic Reform Plan. It is couched in the same

38 For summary, see United States Relations With China, p. 737.
*As reported by the official Central News agency, Nanking on March 24, 1947. [Footnote in the original.]
vague terms; it also contains reference to Dr. Sun Yat-sen’s Principle of the People’s Livelihood; and covers practically every economic ill that besets China today—and has for many years past. The Plan itself is an “omnibus” of plans, and many of the recommendations contained therein appear to be covered by laws already passed but never enforced. Implementation of all the recommendations contained in the Plan would result in an utopian, socialistic state of the type envisioned by Dr. Sun Yat-sen. The quandary faced by Chinese economic planners is summed up aptly in the following sentences from the article entitled “Trouble with China is Confucius,” which appeared in a recent issue of Fortune magazine:

“Dr. Sun said in effect: What we have won’t do; neither will capitalism, which smacks of imperialism, nor Russian Communism. There must be a middle-ground rallying-point for a social revolution. We cannot have big-business capitalists, who are foreign to Chinese tradition in any case (Confucius was a managed-economy, not free-enterprise man), but socialization will not fit the anarchistic strain in Chinese life. Therefore, we shall have socialism in heavy industry and we shall guarantee free enterprise elsewhere...”

The foregoing reflects the general atmosphere and statements of principle which feature the Economic Reform Plan. Moreover, the same contradictory economic objectives indicated above may also be found in the Plan.

It does not appear advisable to dismiss the Plan merely by stating that it “reaches the highest point in dreamy nebulousness,” as opined by a Shanghai newspaper (Enclosure No. 7). Neither does it seem advisable to say there is nothing new in it (Enclosure No. 2).

The Plan is believed to be of significance primarily because it was drawn up under the direction of Dr. Chen Li-fu, Minister of the Kuomintang Board of Organization and head of the so-called C-C Clique which dominated the Third Plenary Session of the Central Executive Committee of the Kuomintang, and because Dr. Chen is reportedly endeavoring to obtain control of several key economic posts in the Chinese Government (Enclosures Nos. 2 and 3).

As stated by one of Dr. Chen’s associates (Enclosure No. 4), there is some question, in view of the present reorganization of the Chinese Government, whether the Plan will be approved by the Cabinet or, if

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† As reported by the United States Information Service in a report from New York dated April 4, 1947. The issue of Fortune is believed to be that for April 1947, the USIS report stating that it was the “current” issue. [Footnote in the original.]

39 Omission indicated in the original despatch.

40 Namely, Minister for Economic Affairs, Chairman of the National Resources Commission, and Chairman of the National Economic Council.

41 Huang Yuen-ping.
approved, whether it would be substantially modified out of deference to non-Kuomintang parties participating in the Government. Another very definite possibility exists that the Plan, which appears to have little appeal to those members of the Kuomintang not affiliated with the C–C Clique, may subsequently be modified even by Party members.

If this Plan had been drawn up by the more liberal elements in the Kuomintang, there would appear to be reason to treat its recommendations with respect. In the present case, however, question arises over the motives which prompted the reactionary C–C Clique to sponsor seemingly liberal and much-needed sweeping reforms. The suggestion has been made, and apparently with good reason, that Dr. Chen cynically sponsored the drafting of the Plan as a move to enlist the support of unwary liberal elements in the Party and outside, and with no real desire to be called upon to implement the Plan. It remains to be seen whether this supposition proves to be correct.

Press reaction to the announcement of the Plan was scant and favorable comment was limited almost entirely to papers under control of the C–C Clique or of the Kuomintang. Examples of the type of comment made by three such papers are given in Enclosure No. 6. One of these papers, the Shun Pao, Shanghai, stated that as the new policy had been worked out solely by Dr. Chen, the responsibility for implementing it should be entrusted to him.

Detailed analysis of the Plan does not appear to be warranted at this time, especially because similar recommendations have frequently been made in resolutions adopted by the Central Executive Committee of the Kuomintang, without visible result in so far as actual reforms are concerned. Mr. Solomon Adler, the Treasury Attaché, for example, does not consider significant the recommendations for banking and other financial reforms. Attention is invited to the comments on the Plan made by Dr. Huang Yuan-ping, one of the drafters thereof, as given at some length in Enclosure No. 4. From this memorandum it will be seen that several errors in translation occurred in the English version of the Plan prepared and released by the Ministry of Information.

The reactions toward the Plan of Dr. Wong Wen-hao, Vice President of the Executive Yuan and one of China’s ablest officials in economic matters, and of Dr. Kan Nai-kuang, Political Vice Minister for Foreign Affairs and reportedly to be given the influential post of Secretary-General of the Executive Yuan under the present reorganization of the Chinese Government, seemingly represent the views generally held by the liberal Political Science Group in the Kuomintang, of which both are members. Dr. Wong stated to an officer of the
Embassy that he would find it "extremely difficult" to have to work on important economic matters with members of the C-C Clique which he characterized as "too narrow-minded, dictatorial and essentially only anti-Communist". In this connection, reference is made to the last paragraph of Enclosure No. 4 wherein Dr. Huang Yuan-ping is quoted to the effect that the Plan had not been drawn up primarily for the purpose of combating Communist influence although, if the recommendations contained therein were carried out, the Plan would have that effect.

Respectfully yours,

W. WALTON BUTTERWORTH

893.00/4-2247: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, April 22, 1947—9 a.m.
[Received April 22-1:05 a.m.]

864. Minister-Counselor and I had appointment to see President of Executive Yuan designate
but, as it worked out, I had to accompany Admiral Denfeld, CominPac, to see Generalissimo at same hour.

General Chang Chun told Minister-Counselor that he expected after the preliminaries of the State Council to be able shortly to submit his Cabinet. He expatiated on the enormity of his task and used the same simile as employed by Foreign Minister (Emb tl 775, Apr. 10, 2 p. m.) and by the Governor of Central Bank (Emb tl 809, Apr. 15, 9 p. m.) to the effect that China was like a sick man who needed a blood transfusion, and he made it clear that in his opinion the transfusion had to come from the US. Minister-Counselor led the conversation into the problems of effective rationing and the pressure on prices resulting from the rapidly mounting note issue due to extension of the civil war and indicated that cure for the major ills of China lay in the hands of Chinese. Gen. Chang Chun admitted that civil war was the root of China's troubles, explaining that was why he had personally favored a peacefully negotiated settlement; so that was for the moment out of the question, all that could be hoped for was speedy and successful military action. He went on to say that if the reverses to Govt forces at Shantung had not occurred, the situation would have been better by now but that in any case the next 3 months would be determining ones.

42 Gen. Chang Chun.
43 Adm. Louis E. Denfeld, Commander in Chief, United States Pacific Fleet.
44 Post, p. 1434.
In all the circumstances it seemed unwise and inappropriate to lead him into any detailed loan discussion such as acting upon Dept’s 445, Apr 17, 5 [6] p. m. 45 would have inevitably entailed, the third paragraph of which will be dealt with otherwise.

STUART

102.1/4-2347: Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, April 23, 1947—4 p.m.

473. For Adler from Treasury. Request early agreement with Chinese for payment US procurement expenses at rate more favorable than Central Bank rate. (Reurtel 568 Mar 15 Nanking, 866 [886] April 11 Shanghai 46 indicating black market rate 18,000.) Following alternatives listed in order of preference: 1. Payment all expenses US currency. 2. Sale of US currency or Treasury checks or drafts to Central Bank at current Shanghai open market rate or other realistic rate negotiated by Treasury Representative for US currency. [Treasury.]

ACHESON

894A.50/4-2347

Memorandum by the Chief of the Division of Investment and Economic Development (Havlik) to the Director of the Office of Departmental Administration (Humelsine) 47

[WASHINGTON], April 23, 1947.

Problem:

On April 12 the Embassy at Nanking informed the Department 48 of the intention of the Chinese Government shortly to address a formal communication to the United States requesting financial assistance. It was not made clear to the Embassy whether this request would be in a form requiring approach to Congress for a grant-in-aid, or whether it would request extension of loans under the Export-Import Bank “earmarked” credit of $500 million. On the basis of its review of China’s present economic-financial situation, the Embassy expressed itself in favor of a moderate Export-Import Bank cotton loan to assist Chinese authorities in combating inflationary pressures.

45 Not printed; but see footnote 25, p. 1099.
46 Latter not printed.
47 Mr. Humelsine was on detail organizing the Executive Secretariat.
48 Telegram No. 801, p. 1005.
Action Taken:

The Embassy at Nanking has been instructed informally to advise the Chinese authorities that they would be well advised to delay a request for assistance until after reorganization of the Chinese Government, and to endeavor discreetly to ascertain whether the Chinese Government is contemplating a request which would require Congressional action or whether they have in mind utilization of funds earmarked by the Eximbank for possible future credits to China.

Present Status:

Department does not believe that U. S. objectives in China can best be promoted at this time by a comprehensive grant-in-aid program through Congress, or by an extension of credits for projects aggregating the total of the earmarked $500 million Export-Import Bank loan. Aid of this character, or in this magnitude, it is believed, can only jeopardize attainment of the reforms within China which are essential for widespread support of the National Government, and as a basis so far as that is possible for peaceful solution of civil strife and for economic reconstruction. Currency stabilization does not appear a practical possibility until China improves its fiscal system and reduces military expenditures. It is accordingly believed premature to undertake any large credit directed specifically for “currency stabilization.”

It is regarded as essential, however, that as China takes sincere steps toward reorganization and reform to give some positive, selective support. It may be possible under post-UNRRA relief to give assistance in 1947 in meeting essential foodstuff imports, perhaps as much as $35 million. Such assistance, together with a cotton import credit of $40 million available later this year, could permit China to go through 1947 without much diminution of its existing foreign exchange reserves, and would have important psychological benefits. It is believed that selective financial assistance should, so far as that is possible, prevent a runaway inflation or currency collapse; that it should strengthen the participation of liberal elements in the Chinese Government; that it should not be of such magnitude or character as to remove economic pressure for reform and peaceful solution of China’s internal conflicts.

Representatives of American business have recently brought to the attention of officials of the Department and of the Export-Import Bank two projects now under consideration in China: the first for development of airports at Shanghai and Canton, and the second for an electric power generating plant at Shanghai. These projects appear noteworthy in that they contemplate management contracts with

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49 See footnote 35, p. 1099.
American firms during the life of any loans which may be sought; and because in their formulation concern is being paid to providing specific assurances for repayment of such loans. With respect to a possible Export-Import Bank cotton credit, it has also been indicated that the Chinese Government might be willing to rescind its embargo on export of cotton textiles. Such exports to the Philippines and other areas could provide dollar exchange and offer the Export-Import Bank "reasonable assurances" of repayment of its loan.

Recommendation for further action:

It is recommended that the closest continuing attention be given to China's developing political and economic situation. That following the recent reorganization of the Government in China 60 the Department undertake to give positive selective financial support to the Chinese Government in a way which will best promote attainment of U. S. objectives.

To this end, it is recommended that the Department's support be given the Embassy's recommendation of an Export-Import Bank cotton credit; and it is further recommended that favorable consideration be given to credits for reconstruction projects which are basic to China's needs and offer opportunities for American trade, with suitable safeguards for efficient management and the services of qualified technicians, and which provide reasonable assurances of repayment.

893.50/4-2747 : Telegram

*The Ambassador in China (Stuart) to the Secretary of State*

NANKING, April 27, 1947—9 a. m.

[Received April 27—1:05 a. m.]

907. Embassy's discreetly ascertained info is to the effect that Chinese Government intends in near future to present through Chinese Ambassador in Washington considered analysis of China's economic and financial situation and need for American assistance prepared in the main by Chang Kia-ngau, O. K. Yui, Wong Wen-hao and Wang Shih-chieh. To assist in this S. C. Wang, head of the supply mission in Washington, is coming to Nanking. This document, besides indicating the projects to accomplish which American financial assistance will be required, also will touch on the political importance of a stable China and in terms of the world scene. It will no doubt show in somber colors the immediate economic and financial prospect and in bright colors the longer range picture if adequate

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60 For correspondence on this subject, see pp. 100 ff.
assistance is forthcoming. It will set forth not only a series of projects having to do with (a) transportation, (b) power development, (c) mining schemes, (d) industrial and agricultural innovations, but also the problem of making use of Jap reparation equipment. (Re third paragraph Deptel 445, April 17, 6 [6] p. m., repeated Moscow as 924, April 14, 8 p. m.)

Some of the Chinese officials concerned—and this includes the Generalissimo—greatly favor commodity loans in order that foreign exchange be saved on necessary imports and because these would produce CN on being sold to fabricators. It will no doubt be argued that such loans would have a deflationary effect and that the ensuing CN would be available for use for expenditure on construction and installation of Jap reparation equipment and American equipment supplied under other loans. Of course, it cannot do both. Whether or not commodity as well as special project loans will be applied for under ExImBank procedure is still a subject of debate, one noted disadvantage of such procedure being the fact that repayment of commodity loans would fall due within 3 to 5 years. For this reason it may be that the Chinese request will merely delineate China's needs and not suggest the means for meeting them, but on this point the advice of S. Y. Wong \(^{52}\) may prove decisive.

It is also quite possible that the request may touch on military assistance. It has not escaped the Chinese that large proportions of the Greco-Turkish loans are to be allocated for such purposes; also that in the case of Greece it was testified that an important part of the funds would be made available for local expenditure.

Stuart

102.1/4-2847: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, April 28, 1947—4 p. m.
[Received April 28—5:45 a. m.]

914. To Secretary Treasury from Adler. Left Shanghai April 26 returned Nanking April 25 [sic] (reurtel 473, of April 23).

Price situation undoubtedly deteriorating and payments U. S. procurement expenses at official rate is already creating difficulties in Shanghai. At same time it is my opinion and Embassy fully concurs that this moment is not the right time to approach Chinese Government re an agreement for a rate more favorable than official rate for following reasons:

\(^{51}\) See footnote 35, p. 1099.

\(^{52}\) Possibly S. Y. Liu, Deputy Governor and Managing Director of the Central Bank of China.
1. Most important consideration is following. Chinese Government is in process of making specific demands for financial aid from the U.S. For the U.S. to approach China for relatively small adjustments at this critical juncture when these demands are under consideration would not be politically expedient and would probably be much more expensive in the long run than continuing to pay U.S. procurement expenses at the official rate for a short time.

2. New President of Executive Yuan whose approval for any arrangement would be required, assumed office only a few days ago and is not yet familiar with details of work of his predecessor in the field of finance and exchange.

3. While burden of paying procurement expenses at official rate is increasing it is not yet intolerable. In addition black market for U.S. drafts and currency in Shanghai is still thin and largely subterranean.

Timing of approach to Chinese authorities for satisfactory arrangement is a matter of judgment to be exercised in conjunction with Embassy in view of larger political and financial considerations involved. Am in daily touch with Army and Navy as well as Embassy on problem and propose, subject to your approval, to defer approach to Chinese authorities until status of Chinese demands for financial aid is clarified unless, of course, burden of official rate becomes intolerable in meantime. Needless to say, strongly favor, and Embassy concurs, China’s being required to carry out certain arrangements including payment of U.S. official expenditures at a realistic rate, should it be decided to give China financial aid though of course such decision would rest on broad economic and political considerations.

[Adler.]

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893.24/4-2947

The Chinese Ambassador (Koo) to the Secretary of State

The Chinese Ambassador presents his compliments to the Secretary of State and, pursuant to the instructions of the Minister for Foreign Affairs in Nanking, has the honor to inform the Secretary that it is agreeable to the Government of the Republic of China to initiate at once negotiations for the final settlement of the war accounts outstanding between the two governments as referred to in the note of the Secretary dated February 26, 1947. The Ambassador has been directed by the Chinese Government to enter into these negotiations on its behalf with the assistance of Dr. Shao-Hwa Tan, Minister of the Embassy, Mr. Hsi Te-Mou, Representative of the Ministry of Finance, and Dr. Shou-Chin Wang, Chairman of the Chinese Supply

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Commission. It is likely that additional experts may be designated, in which case their names will be duly communicated to the Secretary.

WASHINGTON, April 29, 1947.

102.1/4-2847: Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, May 1, 1947—6 p.m.

515. From State and Treasury for Ambassador and Adler.

1. Navy Dept pressing for more favorable rate for official expenditures (reurtel 915 [914], Apr 28). In view of price and exchange rate developments in recent days recommend reconsideration desirability negotiating special rate.

2. Agreed that rate negotiations should not be linked with any possible future loan discussions. As indicated Depts 65, Jan 15, failure of Chinese to make yuan available at reasonable cost may seriously imperil continuance present US Army and Navy programs in China. Reasonable rate not to be considered favor to US which could weaken in any way US position on further financial aid to China. [State and Treasury.]

MARSHALL

102.1/5-247: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, May 2, 1947—2 p.m.

[Received May 2—6 a.m.]

946. To Secretary of Treasury from Adler. At Embassy’s suggestion for appropriate distribution in Department.

1. Called on Governor of Central Bank who was in Nanking for price control conference afternoon of May 1.

In discussing the price situation he asserted that the recent break in prices was inevitable given the continued inflationary pressures, as the emergency economic measures of February 16 were primarily political and did not change the underlying economic situation. The immediate causes of the recent rise in the price of rice were the lack of rain—fortunately now terminating—and the fact that the price controls in the various cities were not coordinated so that in some cases price of rice was higher in distributing than in receiving cities. Controls were accordingly being attenuated or removed outside Shanghai, while in Shanghai it was intended to relax somewhat military and police aspects of commodity controls. Asked how the
sale of Government bonds and treasury notes was proceeding,
Governor replied that he was concentrating on sale of bonds for present
and that he had had to use personal appeals to individuals to push
their sale. He claimed that US $25 million of bonds will have been
purchased by next week. With respect to treasury notes, he anticip-
pated that they would sooner or later attract some speculative funds.

2. Reference your telegram 473 of April 23 and Embassy’s tele-
gram 914 of April 28, at Embassy’s suggestion had an exploratory
talk with Governor pointing out that pressure of rising prices while
official exchange rate remains stationary is creating serious problems
for US Government agencies in China, and that this problem will
become still more acute as prices continue to rise, and informing him
of details of arrangement worked out with T. V. Soong and Tsuyee
Pei, with which apparently he was not too familiar. For your infor-
mination and again with Embassy’s consent, I made no request for
any action. But such an exploratory talk was in any case an indis-
penable preliminary to formal request for action at appropriate
time. [Adler.]

STUART

893.5151/5-247: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, May 2, 1947—5 p.m.
[Received May 2—5:12 a.m.]

947. For State and Treasury from Butterworth and Adler.

1. There is no question as to desirability of negotiation special rate
(reference your telegram 515 of May 1 which crossed Embassy’s
telegram 946 of May 2). Sole question is one of timing, i. e., whether
formal request be made now or next week or week after. There is
also unanimity that reasonable rate not to be considered favor to us.
However, case for reasonable rate in absence of adjustment in official
rate of exchange rests on deteriorating financial and economic situa-
tion, which Chinese invoke as chief ground for urgent action on such
financial aid. Therefore they would certainly feel their case for
immediate aid would be strengthened at least morally by immediate
request for reasonable rate.

2. In meantime as indicated in paragraph 2 of Embassy’s telegram
946 of May 2, Adler has already had exploratory talk with Governor
Central Bank and will repeat substance of conversation to Minister
of Finance tomorrow. He is also planning trip to Shanghai over
weekend for further discussions with Governor Central Bank and one
or two of his advisers. [Butterworth and Adler.]

STUART
Memorandum by the Director of the Office of Far Eastern Affairs (Vincent) to the Secretary of State

[WASHINGTON,] May 2, 1947.

I had lunch alone last Tuesday, April 29, with Ambassador Koo. The conversation was devoted almost entirely to the matter of American financial assistance to China. He did most of the talking, and in the process he went over various and sundry types of assistance we might give, such as credits for approved projects, financing of exports to China, and a currency stabilization loan. He seemed to think that something might be done to persuade the Eximbank to change its attitude. He also showed interest in a special Congressional authorization of a loan. With regard to currency stabilization I pointed out to him how impractical it would be to establish a fund for this purpose as long as the situation required issuance of currency to make up the large budgetary deficit.

I am all but certain that the Ambassador when he calls plans to discuss with you financial assistance, and I believe that this will be the only subject he will want to discuss. In the course of the discussion he will, in all probability, ask your opinion of the recent reorganization of the Chinese Government, including the establishment of the State Council, the appointment of Chang Chun as Premier, et cetera.

I suggest that you express satisfaction over the changes in the Government and the hope that there will be practical results in the way of reform, an arrest in the deterioration of conditions, and reestablishment of confidence on the part of the Chinese people in their Government. With regard to financial assistance you might mention the fact we have been informed that the Chinese Government is now preparing a comprehensive request for assistance and that this request will be given thorough study when it is received in the Department.

In the event that you wish to familiarize yourself with the recent changes in the Government, there is attached a memorandum describing those changes and giving a brief statement regarding the individuals involved. 55

54 See memorandum by the Secretary of State, May 8, infra.
55 Neither printed.
Memorandum of Conversation, by the Secretary of State

[WASHINGTON,] May 8, 1947.

Participants: The Ambassador for China, Dr. Wellington Koo
The Secretary
Mr. Vincent, FE

The Chinese Ambassador called at 11:30 this morning at his request. Dr. Koo expressed appreciation of my work at the Moscow Conference, stating that he felt I had succeeded in making clear to the Russians the position and attitude of the United States and of other nations of similar mind. He asked for my impression of Soviet objectives; that is, whether they were outright expansionist or in a measure defensive.

I gave him my views on the subject which in brief were as follows: There is some lack of clarity both with regard to what Russia wants and with regard to methods employed. There can be little doubt that Russia desires to have a predominant influence in those countries on her borders both in Europe and the Far East. The techniques used to achieve this end, although they assume an ideological form, are not employed necessarily for the purpose of spreading an ideology. They are in fact techniques which might be employed by another ideology or -ism. I went on to explain how these techniques were applied in Austria, for instance; how they might be applied in Manchuria; and how they might be applied by an imperialistic Russia as well as by a socialist Russia, the objective being, and quite a normal one, of extending national power. I pointed out that it was not my intention to minimize the threat of communism as an ideology but simply to show how it served as a potent technique to achieve non-ideological ends.

There was some talk of the work of the press at Moscow. The Ambassador agreed with me that the effect of having in Moscow this large body of men engaged in publicity had been good from the Soviet as well as from the world point of view. I took occasion in this connection to point out to Ambassador Koo how unwise I considered China’s own censorship regulations.

Dr. Koo then stated that he was calling under instructions from his Government to inform me of the Chinese intention to request financial assistance from the United States. He went on to speak at some length of the recent changes in the Chinese Government and of the Government’s need for aid. He said that there would be a request for aid under three headings: (1) for rehabilitation, particularly of Chinese transport and communications; (2) for power projects and

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Drafted by the Director of the Office of Far Eastern Affairs (Vincent).
mining, particularly coal; and (3) for agricultural rehabilitation with particular emphasis on fertilizer production and irrigation projects. He said that in making this request the Chinese Government was prepared to undertake (1) that the money would be definitely expended for the purposes stated; (2) that it would not be used to solve Chinese budgetary difficulties; and (3) that the approved project-by-project basis for releasing the money would be followed. He said that the $500 million earmarked in the Export-Import Bank could be used for the purposes stated above. He went on to say, however, that the Chinese Government would want an additional $500 million to be used (1) to finance the transportation and installation of industrial equipment from the United States and from Japan under reparations; (2) to employ technical assistance; and (3) to purchase in the United States commodities for export to China, such as cotton, cereals and gasoline. With regard to the last item Dr. Koo explained that the Chinese Government would utilize the Chinese currency derived from the sale of the imported commodities solely for the purpose of financing the Chinese dollar costs of the various projects.

With regard to Dr. Koo’s reference to reparations I had earlier in the conversation spoken of the situation in Germany and told him how uneconomic the Russians had found it to remove whole plants from eastern Germany. I said that the Chinese Government should give careful consideration to this situation in its approach to the matter of reparations from Japan.

The Ambassador raised the question of the continued earmarking of the $500 million Eximbank credit after June 30. I told him that this was a matter for consideration by the National Advisory Council which was composed of a number of high Government officials and on which the State Department was represented, and that the question would be no doubt raised in the Council.

I informed the Ambassador that I was most earnestly and that I was personally interested in affording assistance to China, and that I had been anxiously awaiting the time when it would be practicable to give aid. I welcomed the recent evidence of progress in the governmental changes in China but at the same time I noted that a Kuomintang political council had been established with Ch’en Li-fu as its Secretary-General. I had not had an opportunity to give a thorough study to this matter, and I did not want to pre-judge the new development, but I did feel that the establishment of this council under Ch’en Li-fu’s direction was discouraging. It seemed to me to be an approach to the problem which in many respects resembled the attitude which I met while I was in China and which had so effectively frustrated my own efforts. I felt that no good could come from a Kuomintang political council as now constituted, but I repeated again that I wished
to give the matter further study and to watch developments with an open mind.

I spoke of my deep discouragement over the course of military events in China and of my very serious concern in this respect. I told Ambassador Koo, as I had told the Generalissimo, that he was the worst advised military commander in history and that I found no satisfaction in the current unhappy developments which proved that advice I had given the Generalissimo was correct and that which his military commanders had given him was not correct. The National armies were overextended and were expending their military strength. All the Communist armies had to do was go where the National armies weren't—and there was plenty of space for this type of movement.

With regard to the Chinese desire for financial assistance, I suggested to the Ambassador that he prepare an informal memorandum for me, setting forth in writing what he had just told me orally. I said that this would be preferable to raising the matter in a formal note to the United States Government and would give me an opportunity personally to study the matter and thereafter discuss it with him again on an informal and exploratory basis. Ambassador Koo agreed to this procedure. (Note: Although this is the procedure which Koo will no doubt follow, I am quite sure that it has been the intention of the Chinese Government to raise the issue formally and openly in order to take advantage of what they feel is public and Congressional sentiment in this country in favor of a large credit to China. J[ohn] C[arter] V[incent].)

As the Ambassador was leaving he told me that Foreign Minister Wang had recently had a conversation with the Soviet Ambassador at Nanking and had informed the Soviet Ambassador of China's hope that the Soviet and American representatives could get together soon and agree upon the formation of a Korean government. The Foreign Minister had instructed the Ambassador to inform me that, if the Soviet and American Governments were unable to reach agreement in this matter, the Chinese Government did not feel that it could quietly sit by on the sidelines because there was considerable pressure from all political elements in China for progress in solving the Korean problem. He inferred that the Chinese Government, and presumably the British Government, should be consulted in the event that the United States and Soviet were unable in the near future to make progress.

The conversation ended at 12:40 p.m.

(In a conversation with Mr. Vincent immediately following the discussion with the Secretary, Dr. Koo explained that China wished

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57 Memorandum of May 13 by the Chinese Ambassador, p. 1119.
58 Apollon Alexandrovich Petrov.
to have the additional $500 million set up as a credit outside the Export-Import Bank and assumed that this could only be done by Congressional action. He said, however, that China did not expect a credit as in 1942 with no strings attached. China would expect that the credit would be set up with a clearly defined statement as to its use and that the money would be released to China only for the uses stated. Mr. Vincent explained to Dr. Koo that Export-Import Bank credits for specific projects could and often did provide the funds necessary for transportation of the industrial equipment to its destination and for the technical assistants necessary to establish the plant or set the particular project in operation. JCV)

893.51/3–847 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, May 8, 1947—6 p.m.
[Received May 8—5:47 a.m.]

1008. Foreign Affairs Minister asked me to come to see him today and made the following statement:

He spoke of the importance of the stability of China in relation to peace in East Asia and in the world. He then said his Government had recently had long discussions as to the need of an American loan for rehabilitation and for preliminary reconstruction, that this would not be used for reducing the deficit which would be accomplished by gradual reforms and reduction of nonproductive expenditures. The loan would be used for three different purposes:

1. Restoration of communications with some extensions. This would be primarily for railway and some shipping in inland and coastal waters.
2. Development of electric power and for mining and certain industries.
3. Agriculture—primarily conservancy and fertilizers.

The request would be for one billion dollars, one-half of this to be used for purchasing American supplies and equipment, about one-fourth for commodities such as raw cotton, foods, gasoline, etc., and the remaining one-fourth or less for utilizing Japanese reparations, this to include transportation and reconditioning. The commodities would be sold to the public and the proceeds for these sales used for salaries, wages and other domestic needs. This method would ensure repayment of the loan and would improve China’s economic position in the world by restoring the balance between exports and imports.

The cotton now grown in China is one-fifth of the pre-war crop and the foodstuffs now produced are only a fraction of the pre-war volume.
The timing of the loan might be for a 3-year period. The hope was expressed that China might receive the same treatment as Great Britain in the matters of interest, dates for repayment, etc.

This verbal statement, according to the Foreign Minister, will be followed by a formal communication addressed to the Secretary of State in Washington. Dr. Wang asked me to use my personal influence in this matter, which the Government felt was vital to the national welfare. I assured him of my sympathetic interest in all that concerned the best interests of China but pointed out some of the problems from the American standpoint. I referred to a widespread feeling in United States that the present Government is controlled largely by reactionary elements and that there is much corruption and graft throughout the system. Furthermore, American sentiment is very definitely against aiding one party in the civil war and by so doing lengthening the war, strengthening the influence of reactionary or feudal elements, etc. I also spoke of some purely American issues such as the current emphasis on reducing the budget, especially in aid to foreign countries.

STUART

893.5151/5-1147: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, May 11, 1947—3 p. m.
[Received May 11—5:56 a. m.]

1022. For Secretary of Treasury from Adler.

1. Saw Minister of Finance May 3 and after general review of financial situation I raised the problem of United States Government expenditures in China. (Reference Embassy’s telegram 947, May 2.) Minister of Finance was sympathetic but non-committal and said the problem would have to be discussed with Premier and Governor of Central Bank. After I intimated that I had already discussed it with Central Bank Governor he said he would arrange an interview for me with Premier Chang Chun. Saw Premier on May 6 and again he reviewed general economic and financial situation. I then raised the problem of United States Government expenditures, adding that a precedent for reasonable solution had been set by the arrangement worked out in January with T. V. Soong and Tsuyee Pei. He replied that he would have to discuss the matter with Governor of Central Bank who would be in Nanking in next 2 or 3 days. Saw Governor of Central Bank on evening of May 10 informing him that I had already discussed the problem with the Premier and the Minister of Finance, and emphasizing that it had become more urgent and pressing in the 10 days since I had last seen him and that a solution was
essential. He rejected any settlement based on the use of the Shanghai black market rate for United States currency or drafts, stating the obvious objections from Chinese Government point of view. However, he was willing to accept the Hong Kong cross-rate as the basis for settlement of United States Government expenditures in China. He indicated that he was returning to Shanghai on May 11 when he would discuss the details with his business department and asked me to come up on May 12 to finalize the arrangement by an exchange of letters. He also agreed that the use of the Hong Kong cross-rate as a conversion factor should be subject to review from time to time in the light of changing conditions and that the arrangement should go into effect as from Monday, May 12.

2. I strongly recommend that we accept the Hong Kong cross-rate arrangement for the following reasons:

a) The Shanghai black market rate is unacceptable to the Chinese authorities and the Hong Kong cross-rate is the best settlement we can obtain from them. In any case the Shanghai black market is still subterranean and fairly thin.

b) The Hong Kong cross-rate which had been lagging behind Shanghai black market rate for United States currency is now catching up and on May 9 was 80 percent of the Shanghai black market rate.

c) The Government’s agreement to review the situation from time to time in the light of changing circumstances enables us to shift from the Hong Kong cross-rate should it later turn out to be disadvantageous.

3. Embassy approves of arrangement on basis of Hong Kong cross-rate. Am proceeding to Shanghai tomorrow morning, and propose unless I receive instructions from you to the contrary by Niact telegram to consummate the arrangement in the next couple of days. Also propose to settle on basis of Hong Kong cross-rate as of date of purchase of CN dollars and not as of 2 or 3 days prior to date of purchase of CN dollars, as with intensification of inflation such a time-lag works out to our disadvantage. [Adler.]

STUART

102.1/5-1847: Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, May 13, 1947—5 p.m.

571. For Adler from Treasury. Approve completion arrangements for purchase yuan (reurtel 1022, May 11) at Hong Kong cross-rate as of date of purchase. Navy concurs. [Treasury.]

MARSHALL

59 Night action.
The Chinese Ambassador (Koo) to the Secretary of State

WASHINGTON, May 18, 1947.

DEAR MR. SECRETARY: Pursuant to your suggestion in the course of our conversation on May 8th regarding the question of financial aid to China in her efforts of rehabilitation and reconstruction, I beg to enclose herewith an informal memorandum, summarizing what I stated on instructions from my Government, for your personal and favorable consideration with a view to arranging a loan from the United States Government.

With high regards,
Yours very sincerely,

V. K. WELLINGTON KOO

[Enclosure]

Memorandum by the Chinese Ambassador (Koo)

In his interview with the Secretary of State on May 8th, the Chinese Ambassador, pursuant to instructions from his Government, requested a loan of U. S. $1,000,000,000 for China from the United States and outlined the reasons for the request, the purpose which the loan would serve, and the uses to which it would be devoted.

The Chinese Ambassador said that China, conscious of her important role in promoting peace and stability in the Far East and the world, had been anxious to embark upon a program to improve her political and economic conditions which had become serious. In view of the general situation in the Far East and the world, the Government deemed it inadvisable to wait until a settlement was reached with the Chinese Communists but that it was necessary to start the work of political and economic rehabilitation as early as possible.

For this purpose, he informed the Secretary of State of the recent reorganization of the Chinese Government by broadening the basis of political representation in the several branches of the Government. The new coalition Government had pledged itself to carry out a program of national unification and economic rehabilitation agreed upon by all the participating parties and groups in the Government.

It was for the purpose of starting this work of economic rehabilitation that the Chinese Government desired to obtain financial aid from the United States Government in the form of a loan. He was asked by his Government to assure the United States Government that such financial aid would not be utilized to meet the budget deficit. This deficit would be and was being covered by the issuance of short-term treasury notes and the flotation of a domestic loan, along with meas-
ures for increase of internal revenue and a policy of retrenchment for non-productive expenditures.

The proposed loan would be used exclusively for meeting the pressing needs of economic rehabilitation. It is the plan of the Chinese Government to confine the use of the loan to three categories of projects: (1) restoration and development of communications; (2) development of electric power and certain mining industries; and (3) improvement of agriculture with special emphasis on irrigation and the manufacture of fertilizers.

These projects, when carried out, would be a great help in improving the general economic conditions and the standard of living of the people. In order to achieve this purpose of economic rehabilitation, materials and equipment would be purchased from the United States with the loan.

For these purchases and the necessary services for the implementation of the projects, a loan of U. S. $500,000,000 had been earmarked by the Export-Import Bank. But the Chinese Ambassador explained that his Government felt that this amount would not be enough. The cost of transporting these materials and equipment in China, their installation and the initial operation would mean a further considerable amount of money. In addition, the removal of reparations assets from Japan and setting them up in China and operating them would also require a great deal of capital.

All these expenses could not be met by China herself, except by issuing more banknotes. Such a step, however, would again send prices up and further deprecate the value of the Chinese dollar, thereby aggravating the danger of inflation. To meet these requirements the Chinese Government proposes to purchase in the United States such commodities as cotton, food and gasoline and sell them in the Chinese market in order to get the necessary funds in Chinese currency. Such a plan would also have the beneficial effect of checking the danger of inflation by withdrawing a large amount of Chinese currency from the market and re-distributing it in installments only as and when required to meet the above-mentioned needs.

For these reasons and purposes, the Chinese Ambassador said that his Government would like to have a loan of U. S. $1,000,000,000 from the United States, one-half of which for financing the purchase of American materials and equipment and the necessary services, and the other half for financing the purchase of American commodities.

The Chinese Ambassador further stated that his Government was aware of its responsibility, if the proposed loan was accorded, to see that the proceeds of the loan were spent for the purposes which were outlined, so that lasting benefit could be secured from it.
It may be added that details of the plan for the proposed loan are being prepared by the Chinese Government and will be submitted for the consideration of the United States Government when it becomes clear that the request for the loan is acceptable in principle to the United States Government.

[WASHINGTON,] May 13, 1947.

Memorandum by the Director of the Office of Far Eastern Affairs (Vincent) to the Secretary of State

[WASHINGTON,] May 16, 1947.

The attached letter and memorandum from the Chinese Ambassador were handed me last evening at six o'clock by the Counselor of the Chinese Embassy.

The memorandum is simply a restatement of what Ambassador Koo said to you when he called last week. The only thing new in the memorandum is contained in the final paragraph, which states that “details of the plan for the proposed loan are being prepared by the Chinese Government and will be submitted for the consideration of the United States Government when it becomes clear that the request for the loan is acceptable in principle to the United States Government”.

I do not believe that we can, at this time and with the limited information we have, inform the Chinese Government that its request for a loan of $1,000,000,000 is “acceptable in principle”. It seems to me that we must have not only much more specific and detailed information regarding the purposes and practicality of the loan, but also must have a clear understanding with Treasury, Eximbank and Congressional leaders before we can make any such commitment as the Chinese Ambassador requests.

I recommend that the attached memorandum be referred to Assistant Secretary Thorp’s office for study and that the Chinese Ambassador be informed orally that the Department is not in a position to make the commitment he desires, but that we are prepared to receive and give careful study to an informal memorandum from the Chinese Government setting forth and supporting in detail the purposes for which it wishes to borrow the $1,000,000,000.61

J[OHN] C[ARVER] V[INCENT]

60 Supra.
61 Marginal notation: “Mr. Vincent: The Secretary concurs in your recommendations. I assume you will notify A–T [Assistant Secretary Thorp’s office]. Humelsine”
Nanking, May 21, 1947—5 p.m.
[Received May 21—7:10 a.m.]

1109. To Secretary Treasury from Adler. Left Nanking for Shanghai May 12 expecting consummation of arrangement would take day or two, re urtel 571 of May 13 and Embltel 1022 of May 11, but found Chinese authorities evasive when it came to formalization. It was only late on May 15 after 4 days of lengthy negotiations that they again accepted formula agreed upon May 10. On afternoon of May 16 at my suggestion Butterworth and Monnett Davis, whose whole-hearted cooperation has throughout been most helpful, saw Chang Kia-ngau, who had come up to Nanking for week-end to ensure no further attempts at evasion.

[1.] I returned to Nanking late on May 16 and left again for Shanghai May 17. All major difficulties have now been ironed out with one exception. I proposed that exchange of letters should state that “arrangement is subject to review by both parties from time to time in light of changing circumstances”. Chinese proposed replace “by both parties” to “by either party”. While prepared to omit reference whether to both parties or to either party, am reluctant to accede to Chinese proposal, as it would leave them free to terminate arrangement unilaterally in event, for example, of adjustment in official rate, in which case appropriate arrangement would have to be renegotiated anew. I informed Central Bank that I would have to cable Treasury instructions on this point and recommend answer to effect that inclusion of “by both parties” would be preferred, failing which I am authorized to go ahead with compromise proposal of omission of reference whether to both parties or to either party. This compromise should be adequate protection against Chinese unilateral action.

2. For your information in proposed exchanges of letters, it is stated that arrangement is to go into effect as of May 15. Reason for this change is that at my request Army and Navy deferred making any CN dollars purchases in period when Chinese were being difficult, and only on May 15 when it was clear that they were accepting Hong Kong cross-rate formula did I tell Navy Disbursing Officer in Shanghai to proceed with his purchase of CN dollars. This and other subsequent transactions by U. S. Government agencies have been made on basis of Hong Kong cross-rate.

3. We have also agreed that Hong Kong cross-rate to be used is selling rate as of close of business on day prior to purchase of CN dol-
lars. Main advantage is that payment can be made for CN dollars immediately on purchase, and it is hoped to avoid use of no-rate advances. There have been one or two slight discrepancies between rate Central Bank as cabled from Hong Kong and rate Hong Kong Consul General cables U. S.; check is being made both by Central Bank and U. S. to ascertain cause of discrepancy, which should not be difficult as Hong Kong market wide. But if necessary Casaday or I will make short trip to Hong Kong to clear matter up.

4. Returned Nanking May 21. Your early reply to inquiry in 1. above would be appreciated, as I could then proceed Shanghai for completion of exchange of letters. [Adler.]

STUART

124.935 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, May 22, 1947—4 p. m.

607. Reports received by Dept from Shanghai, Peiping, Tientsin and Hankow indicate urgent need for securing reasonable exchange rate for CNC for salaries both alien and American personnel as well as all U. S. Govt operating expenditures in China. Immediate reply to Deptel 578, May 14, noted requested. If arrangements for drawing CNC under surplus property agreement at Hong Kong rate cannot be completed immediately, suggest Emb request Central Bank and its branches give Hong Kong rate on all official drafts and checks presented by U. S. Govt disbursing officers pending completion surplus currency arrangements.

Emb may explain to Chinese authorities that Dept desires do everything feasible to channel all dollar exchange transactions through Chinese Govt, and has in past sustained substantial financial losses in doing so, but under conditions now existing in China it is no longer administratively or financially feasible for Dept to meet problems its employees by salary and allowance adjustments. If Dept is to continue using official channels, reasonable rate continuously reflecting real value CNC must be made available.

Inform Consular offices under your jurisdiction.

MARSHALL

George D. Hopper.

Not printed; it inquired whether the Hong Kong crossrate would apply to surplus property yuan drawn by the Embassy as well as to expenditures by the Army and Navy if it were accepted by the Chinese. In telegram No. 1101, May 21, 8 a. m., the Embassy reported agreement with the Governor of the Central Bank to apply this rate to property acquired under the Surplus Property Agreement (S11.5293/5-2147).
The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, May 22, 1947—6 p. m.

608. To Adler from Treasury. Authorize compromise omission of reference to “both parties” or “either party,” preferring, however, inclusion following in exchange of letters: “arrangement is subject to review by both parties from time to time in light of changing circumstances.” If necessary to reach agreement authorize acceptance Chinese position on this point. [Treasury.]

MARSHALL

893.51/5-2347

Memorandum by the Director of the Office of Far Eastern Affairs (Vincent) to the Secretary of State

[WASHINGTON,] May 23, 1947.

Dr. Tan Shao-hwa, Minister of the Chinese Embassy, called at his request at 12:30 p. m. May 22, 1947. He referred to a previous conversation with me "regarding possible publicity out of Nanking on a Chinese request for American financial assistance and said that the Chinese Foreign Minister had directed the Embassy to inform us that the Chinese Government did not desire publicity on the matter at this time but that questions might be asked the Foreign Minister on the subject at the current session of the People’s Political Council. The Foreign Minister would reply that the Chinese Government was giving careful consideration to the matter of foreign financial assistance; that all parties now participating in the Chinese Government would be informed and consulted with regard to this matter; and that the Chinese Government was having informal exploratory discussions with American officials in regard to the matter of assistance. Dr. Tan asked that I convey this information to you.

I took advantage of Dr. Tan’s call to carry out your instructions regarding the desire of the Chinese Government, as stated in the memorandum submitted by Ambassador Koo under cover of his letter of May 13, that this Government indicate that the Chinese Government request for a loan of $1,000,000,000 is “acceptable in principle” to the United States Government. I told Dr. Tan that we were not in a position to make a commitment of the kind desired for reasons which I believed would be apparent to Ambassador Koo but that we were prepared to receive and give careful study to an informal memorandum from the Chinese Government, setting forth and supporting in detail the purposes for which it desired to obtain

— Memorandum of May 14, not printed.
credit. Dr. Tan stated that he would convey my exact language to the Ambassador as coming from the Secretary of State through me.

J[ohn] C[arter] V[incent]

893.51/5-2647

Memorandum by the Director of the Office of Far Eastern Affairs (Vincent)

[WASHINGTON,] May 26, 1947.

Following are directions given by the Secretary in regard to economic assistance to China at meeting with him at 10:30 a. m., May 26, 1947:

The Secretary desires that the necessary steps be taken to have the half-billion dollar Eximbank credit re-earmarked. He does not want the amount reduced and feels emphatically that failure to renew earmarking will have a bad psychological effect in China. He is not impressed with argument that funds would be available for credits to China even though not specifically earmarked.

The Secretary desires that we move forward as quickly as possible in getting some credits extended to China from the $500,000,000. He feels that there is much to be said for positive action on specific, although limited, projects; that action along this line would be preferable to consideration of some broad over-all program. He does not feel it would be practicable to go to Congress for funds for China. He desires that we prepare a list of projects for which the Bank might extend loans aggregating $100,000,000. He has in mind projects (1) that would result in the creation of foreign exchange for China; (2) that would result in the production of goods in China and thereby relieve demands upon China's foreign exchange resources; and (3) that would create an early improvement in general economic conditions in China and thereby promote indirectly a healthy revival of foreign trade relations. Projects mentioned were the Canton–Hankow Railway, coal mining, consumer goods industries in Formosa and China proper, power development at Shanghai and possibly elsewhere, and credits for purchase of cotton and possibly similar commodities in the United States.

On the basis of a project report such as that envisaged in the foregoing paragraph, the Secretary would consider having the President arrange for a conference with the Directors of the Eximbank. The Secretary would attend the conference, and the Directors would be informed that the President and Secretary consider the situation in China as having developed along lines which make it highly advisable to consider favorably credits aggregating $100,000,000.

John Carter Vincent
The Ambassador in China (Stuart) to the Secretary of State

Nanking, May 27, 1947—2 p. m.
[Received May 27—5:45 a. m.]

1150. To Secretary of Treasury from Adler: Reference your telegram 608 of May 22. Exchange of letters finally consummated Saturday May 24. With reference to inclusion of "by either party" Chinese were obstinate and I finally accepted their position on this point. Chinese also wanted to substitute "revision" for "review", and as in light of probable trend of economic situation this change tends to strengthen rather than to weaken our position, I agreed to this change. Pertinent sentence now reads, "The above arrangement is to go into effect as of May 15 and is to be subject to revision by either party from time to time in the light of changing circumstances". [Adler.]

Stuart

Memorandum by the Chinese Embassy


I. A Fundamental Consideration

Realizing fully that China's own stability and progress are factors vital to the peace of the Far East and the world, the Chinese Government feels that steps must be taken to stabilize and improve both the political and economic conditions of the country, so that she may make her full contribution as a stabilizing force in world politics and peace. So strongly does the Government feel the necessity and urgency of such steps that it can no longer wait to take action until a settlement is reached with the Chinese Communists. It has accordingly embarked upon a political program which will lead to the early realization of full constitutional government as envisaged by Dr. Sun Yat-sen. While political changes are in progress, the Government must strive to launch, without delay, a program of economic rehabilitation and reconstruction in the vast areas where such work is necessary and feasible, so that the economic life of the people may be improved and made secure.

The United States today shoulders to an unprecedented degree the great responsibility for the promotion and preservation of world peace. Her relations with China are bound by ties of long friendship.
Stability and progress in the Far East are as much the concern of the United States as they are that of China. It is the earnest hope of the Chinese Government that the United States will extend to her at this formative stage of her political and economic reconstruction the necessary financial aid in the interest of world peace and prosperity as well as the furtherance of Sino-American friendship.

II. NATURE OF THE PROPOSED LOAN

As to the nature of the loan, which the Chinese Government is requesting, it will be used entirely for the rehabilitation and reconstruction of China's post-war economy. It is not the intention of the Chinese Government to balance its current budget deficit with foreign loans. Such deficit will be met by internal loans, which are being launched, by the gradual increase of internal revenue, and by a policy of retrenchment in non-productive expenditures.

The loan of U. S. $500,000,000 for which preliminary arrangements were made with the Export-Import Bank in April last year through the good offices of the Honorable George C. Marshall in his capacity as the United States Special Envoy to China, was intended for the same purpose as the one here proposed. But the principal scope of that loan was only to cover the supply of American material and equipment. Under that plan, the Chinese Government would have to find considerable additional funds to meet the various costs to be incurred in China in the installation of the material and equipment supplied. This would heavily increase the expenditure of the Government and consequently its note issue, which in turn would bear most unfavorably upon commodity prices and further depreciate the value of the Chinese dollar. It is imperative, therefore, that while supplying China with the much-needed material and equipment, such a loan should not cause further inflation of the currency. In other words, the amount of the loan must be adequate to cover the entire expenditure of the program for which it is intended, including not only purchases from abroad but also such costs as wages and domestic purchases to be incurred in China. These internal costs can best be met by the government sale in China of commodities purchased in the United States with part of the loan.

III. USES OF THE LOAN

It is the plan of the Chinese Government to confine the use of the proposed loan to:

1) the restoration and construction of communications;
2) the development of electric power, certain mines and industries; and
3) the improvement in agriculture with emphasis on river conservancy and the manufacture of fertilizers.

IV. TOTAL SUM OF THE LOAN AND ITS DISBURSEMENTS

In view of the foregoing considerations, the Chinese Government requests a loan of U. S. $1,000,000,000. Half of this sum will be used for the purchase of equipment and material required, while the remaining half will be used for the purchase in the United States of certain commodities such as cotton, wheat and petroleum.

These commodities will be sold by the Government in China to recover an amount of notes which otherwise would have to be further issued, in order to meet the necessary internal costs referred to above. It is believed that only by such an arrangement can full and prompt execution of the plans for rehabilitation and reconstruction under this proposed loan be ensured. It is certain that the importation of such commodities will also help to maintain and increase China’s current industrial production. Furthermore, this arrangement will serve to improve China’s position in regard to the balance of her international payments. In short, the proposed loan will not only give China the benefit of its future fruits, but will have an immediate wholesome effect on the general economy of the country.

V. TERMS OF THE LOAN

It is proposed that the loan can be drawn upon within three years. As regards the terms governing the rate of interest and repayment, China hopes to be given the same treatment as was accorded to the United Kingdom in the Anglo-American Loan Agreement of December 1945.65

VI. SUGGESTED PROCEDURE FOR AGREEMENT

It is proposed that an immediate understanding be reached between the United States Government and the Chinese Government on the total sum of U. S. $1,000,000,000, including the U. S. $500,000,000 already earmarked for China in the Export-Import Bank. Should a formal agreement on the total sum require congressional authorization and therefore cause possible delay, it is suggested that a formal agreement on the earmarked sum of U. S. $500,000,000 shall be concluded before June 30, 1947, with the understanding that the United States Government will submit immediately the remaining half of the proposed loan for the consideration and approval of Congress.

65 Signed at Washington, December 6, 1945; Department of State Treaties and Other International Acts Series No. 1545, or 60 Stat. (pt. 2) 1841.
Attached herewith is a detailed plan comprising:

(1) Appendix A: List of specific projects for the utilization of the proposed loan (with estimated total cost of each project); and

(2) Appendix B: List of commodities to be imported to cover internal costs (with estimated amount of each commodity required for 1947, 1948 and 1949).

[WASHINGTON,] May 27, 1947.

893.24/5-2947

The Chairman of the Chinese Supply Commission (Wang) to the
Director of the Office of Financial and Development Policy (Ness)


DEAR MR. NESS: The Agreement between the Governments of the United States and the Republic of China on the Disposition of Lend-Lease Supplies in Inventory or Procurement in the United States, signed June 14, 1946, provides that the terms of payment set forth in the Agreement, including rate of interest, may be altered by mutual agreement at the time of the final settlement for lend-lease aid. The Agreement also provides for the postponement of payment of a due installment where it is determined by agreement of both governments that, because of extraordinary and adverse conditions arising during the course of payment, payment would not be in their joint interest.

The Governments of the United States and of the Republic of China are about to start negotiations for a final settlement covering lend-lease aid and related matters. Since the Agreement of June 14, 1946, contemplates a review of the terms of payment during the course of such negotiations, and since the exact amount of the first installment due under the Agreement cannot be determined for lack of complete information as to quantities shipped, it would seem preferable to postpone payment of the installment due on July 1, 1947, without prejudice to the interests of either party, until after the conclusion of the aforesaid negotiations, when the matter can have been examined in detail. We propose, therefore, that this payment be postponed accordingly.

I hope that you will agree that the reasons outlined fully justify this step.

Yours very truly,

SHOU-CHIN WANG

66 Not printed.
67 Signed at Washington, Department of State Treaties and Other International Act Series No. 1533, or 60 Stat. (pt. 2) 1760. For previous correspondence on this subject, see Foreign Relations, 1946, vol. x, p. 724.
Memorandum by the Director of the Office of Financial and Development Policy (Ness) to the Under Secretary of State for Economic Affairs (Clayton)

[WASHINGTON,] June 4, 1947.

On May 26 Secretary Marshall indicated to Mr. Vincent that (1) he wished to secure the extension of the present $500 million earmarked for China, and (2) he wished to have prepared a list of projects aggregating $100 million upon which the Eximbank might act shortly.

Mr. Thorp has acquainted you with the results of our conversation yesterday with Mr. Martin concerning, primarily, the extension of the earmark. Mr. Thorp has informed me that you wish to speak to the Secretary about his proposals and that for this purpose you will wish to have available the list of projects to which I have referred.

I attach hereto a proposed memorandum from Mr. Vincent and myself to the Secretary. It covers a list of projects aggregating in all about $135 million. I have asked that the list reach this larger figure in the thoughts (a) that individual amounts will be pared down in further negotiations with the Bank, and (b) some projects may be unacceptable either to the Secretary or the Bank. I wish particularly to emphasize that the preparation of this list does not of itself indicate that we are urging a credit of $100 million to China at this time. It is drawn in response to the Secretary’s directive. It is, however, a good list, although I have some reservation concerning the Yellow River-bridge project.

There is one matter to which I wish to draw your particular attention. I understand that at about the same time the Secretary made his request for this list he indicated also that the existing restrictions upon the purchase in this country of arms and armaments should be relaxed. I do not know whether it was the Secretary’s intention that the proposed financing should permit the Chinese, by the release of resources presently committed or necessary for the purchase of imports, to finance in effect a rearmament program. If so, the attached list will not completely serve his purposes. Except for the cotton-purchase program, the individual projects can be construed as additional, in the sense that they would not be undertaken in the absence of such financing. I think it might be well to keep this aspect of any contemplated financing of the Chinese firmly in mind as you discuss this matter with the Secretary.

The attached memorandum has been submitted to Mr. Vincent for his concurrence before presentation to the Secretary, but I have not yet heard from him.
Proposed Memorandum by the Director of the Office of Financial and Development Policy (Ness) and the Director of the Office of Far Eastern Affairs (Vincent) to the Secretary of State

Discussion:

Attached is a list of selected projects upon the basis of which the Export-Import Bank might extend loans to China aggregating $100 million. The projects listed have been selected from those which have been officially submitted by representatives of the Chinese Government to the Export-Import Bank since April 1946, or which have been discussed by them with officials of the Export-Import Bank and/or of the Embassy and the Department of State.

In the aggregate, the projects enumerated herewith amount approximately to $135,000,000. However, decisions as to the particular projects to be selected and the amounts finally to be approved can only be reached in subsequent negotiations between the Chinese Government and the Export-Import Bank, on the basis of the Bank’s technical and engineering appraisals of the projects submitted. The amounts of the loans involved in the individual projects are as requested in the Chinese letters of application in each instance in which a formal request has been made.

The projects are all of an economically-productive character, and relate to such basic needs as railroad transportation, harbor development, airport facilities, coal mining, electric power, artificial fertilizer, and the cotton textile industry. They would help improve China’s foreign exchange position and would contribute to general economic development and recovery. Furthermore, they would facilitate exports and imports and the exchange of commodities between the United States and China as required by the policies of the Export-Import Bank. Two of the projects listed contemplate participation by American companies, either in capital investment or through the provisions of technical and managerial services. It is assumed that in all cases suitable provision will be made for sound management and competent technical services, and wherever feasible for participation by private capital, Chinese or American, in the projects supported.

It is expected that the Chinese will shortly present this Government with a list of projects for which credits are desired. Included therein may be some, in addition to those selected in the attached list, which can merit early consideration by the Export-Import Bank.

Not attached to file copy. The projects, as modified by further discussions in the Department, were cited in telegram No. 736, June 17, 9 p.m., to the Ambassador in China, p. 1140.

386–748–72—72
Recommendation:

The attached list is recommended as a list of possible projects which the Department would wish the Export-Import Bank to consider with a view to arrangement of credits for China in the near future, aggregating at least $100 million.

Memorandum of Conversation, by the Director of the Office of Financial and Development Policy (Ness)

[WASHINGTON,] June 11, 1947.

Participants: Secretary Marshall
Under Secretary Clayton
Assistant Secretary Thorp
Mr. John Carter Vincent, FE
Mr. Norman T. Ness, OFD

I. At the request of Mr. Clayton there were considered with the Secretary the problems involved in (a) an undertaking to secure the re-earmarking of the $500 million line of credit at the Export-Import Bank and (b) an attempt to secure shortly advances on specific projects aggregating $100 million.

Mr. Clayton expressed his misgivings about an effort to secure the re-earmarking of the $500 million on the grounds (a) that such an undertaking would meet with the firm opposition of the members of the Board of Directors of the Export-Import Bank, and (b) that such a course, if successfully undertaken, might well prejudice our freedom of action should urgent demands develop elsewhere, as in Europe.

Judgment was expressed that while the National Advisory Council might give a majority vote approving such re-earmarking for the consideration of the Export-Import Bank, the Bank Board would nonetheless take a firm line of opposition and might indeed flatly refuse to consider it at all. With respect to the importance of retaining freedom of action, Mr. Clayton drew particular attention to recent communications from Italy reporting that support of the Italian economy during the remainder of 1947 would require not only the use of the existing $100 million earmark but the allocation of an additional $100 million as well. There was, he observed, some suggestion that the Eximbank might now be more inclined to consider such a proposal than it would have been, say, four months ago.

Mr. Vincent, upon inquiry from the Secretary, indicated that while he recognized the force of the considerations cited, he thought the ideal
solution would be a re-earmarking of the credit and the immediate granting of individual small projects. He expressed further his solicitude lest the dropping of the earmark involve the commitment elsewhere of resources which might later prove necessary for China. Mr. Thorp indicated that in his opinion there were really only two alternatives: continuation of the earmark or its quiet lapse on June 30.

Mr. Ness reported briefly on the resources of the Bank, pointing out that at the present time the resources apart from the Chinese earmark are so far restricted as to lend justification to the Bank’s contention that it has no funds for substantial credits. He added that there is no realistic prospect of China receiving $500 million in actual advances during the course of the next fiscal year in any event, and that the net effect of a re-earmarking would therefore be the sterilization of funds for which we may otherwise have genuine need.

The Secretary indicated his growing concern with the development of events in China, and indicated his conviction that this country must in its own interest do something to arrest the course of developments there. He said that he would not, frankly, know precisely what should be done. He felt certain only that something must be done shortly.

Mr. Clayton then offered the suggestion that (a) no effort be made to secure the re-earmarking of the present credit, (b) that we undertake to secure shortly the advance of credits on the basis of the memorandum submitted with the concurrence of Messrs. Vincent and Ness, and (c) that we consider an approach to Congress for such funds as may prove necessary for the general financial assistance of China. With respect to the last, the Secretary remarked that of course such a program could not possibly be brought to Congress at its present session. Discussion was concluded with the Secretary’s decision that we should not give further thought to the proposal for re-earmarking at the Export-Import Bank but that we should pursue at once the proposal for credits on a project basis.

II. Mr. Clayton explained to the Secretary that the next NAC meeting may involve the question whether the NAC should undertake responsibility for the formulation of this country’s foreign financial program. He explained that the issue had been raised by Messrs. Eccles and Martin, both of whom opposed the undertaking, but that primary emphasis had been laid upon it by Secretary Harriman. It was explained that Secretary Harriman specifically suggested that we secure the views of Secretary Marshall. He had added that if it

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69 Memorandum of June 4, p. 1131.  
70 Marriner S. Eccles, Chairman of the Board of Governors of the Federal Reserve System.  
71 W. Averell Harriman, Secretary of Commerce.
is decided that NAC should proceed, we ought to approach the President concerning the propriety of NAC action along this line. After some discussion turning on the importance of political and military consideration in the formulation of such a program, and after the Secretary had been assured that NAC would be consulted, the Secretary indicated that he was prepared to support the contention of Mr. Clayton that this responsibility should remain clearly in the province of the Department of State.

NORMAN T. HESS

102.1/6-1447: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 14, 1947—noon.
[Received June 14—8:53 a.m.]

1301. For State and Treasury from Adler. In a series of conversations with me in Nanking this week Gov. of Central Bank informally raised possibility of silver loan to China. He first sent Li Ming, member of National Economic Council, Vice-Chairman of Import Advisory Board of Central Bank, and Chairman of Chekiang Industrial Bank, to broach subject with me. (K. P. Chen and Li Ming, the two leading private bankers in Shanghai, are the men Chang Kia-ngau relies on most heavily for advice and support in financial and economic matters.) Li Ming informed me that both Governor of Central Bank and Minister of Finance had informed Premier in his presence earlier in the week that even putting aside the politico-military situation the economic and social fabric of China was being threatened by the hyperinflation and that some currency measure was needed to arrest this threat. While it was true that currency stabilization was premature, some measure of “partial” or “intermediate” stabilization was required, which would both ease immediate pressure of currency depreciation not only on economic fabric but also on national finances and at same time facilitate movement towards eventual balancing of budget and stabilization of currency. Governor of Central Bank had accordingly suggested to Premier possibility of using silver to be obtained from U. S. for this purpose. Silver would also have additional advantage that it could be used as subsidiary coinage with eventual currency stabilization.

2. Governor in his subsequent discussions with me elaborated above without, however, adding much detail. He admitted that farmers had not yet refused to accept fapi for their food and that while gold would be even better for intended purposes he preferred to sound U. S. out on silver because of China’s past record in handling gold obtained
from U. S. and because of greater value of gold to U. S. While, of
course, making no comment on the political implications and problems
of his informal request, I did make one or two purely technical com-
ments to the following effect:

(a) The monetary use of silver might accentuate the flight from
fapi.

(b) While it might be his intention to introduce silver gradually,
first for purchase of food from farmer, then for payment of wages
to industrial workers, and then for payment of salaries to Govt em-
ployees, he might well be confronted at the beginning of his experi-
ment with strong pressure from the army for payment of troops in
silver.

(c) The monetary habits of the people had to be reckoned with.
The fact that silver had been withdrawn from circulation in 1935,
that the people had become accustomed to paper currency, and that in
times of pressure farmers and other groups in the lower Yangtze
valley had been able to obtain gold for some of their products or ser-
vices, first from the Japs and then from the Central Bank, might mil-
tigate against the acceptability of silver at a price which would make
it a worthwhile proposition for the Govt. As a result of this comment
Governor made inquiries through Post Office and Postal Savings Bank
and discovered that in fact silver was now readily acceptable in rela-
tively backward rural areas in Szechuan, Kansu, Yunnan and Sikang,
and also in Manchuria, but that there was little available information
on its acceptability in the lower Yangtze valley. On the other hand,
it must be noted that in view of the rapidity with which prices are
rising there is a strong probability that silver could easily become an
acceptable medium even in the more advanced parts of the country.

(d) In view of (a) above, the Governor had to decide whether his
proposal was designed to meet an imminent collapse of the currency
so that accentuation of flight from fapi as a result of introduction of
silver would not make any substantial difference, or whether his pro-
posal was designed as a measure of so to speak intermediate stabiliza-
tion. Governor did not commit himself on these alternatives but on
whole seemed favor latter. Actually his case would be stronger on
basis of former alternative.

(e) Was it intended to have a fixed or a flexible price for silver in
terms of fapi? Governor on whole favored latter.

3. Governor emphasized throughout discussions that whole proposal
was purely tentative and informal, that no detailed plans had been
worked out, and that he would prefer to await Washington’s informal
response before drawing up more specific plans. In our final conver-
sation on evening of June 13 [12], he gave me an undated and unsigned
“memorandum on the Chinese currency” for transmittal.† Mem-
orandum, substance of which is being forwarded by pouch, is a hasty

†Copies of this memorandum and of Mr. Adler’s comments were transmitted
to the chief of the Division of Chinese Affairs by David Jenkins of the Treasury
Department on July 8. The memorandum was summarized in Embassy’s tele-
gram No. 1302, June 14, 1 p.m., not printed.
and rough job which somewhat cursorily disposes of some of technical comments I raised. It is suggested that your reply to Governor's request for an informal response be on lines that it is preferred to withhold comment until a detailed plan is submitted. At same time while it is difficult in Nanking to assess implication for U. S. domestic and international monetary policy of Governor's proposal, it is suggested that in view of deterioration in Chinese currency situation careful consideration be given to any reasoned proposal concerning use of silver which Governor advances. [Adler.]

Stuart

893.51/6-1747

Memorandum of Conversation, by the Director of the Office of Financial and Development Policy (Ness)

[WASHINGTON,] June 17, 1947.

Participants: Dr. V. K. Wellington Koo, Chinese Ambassador
Dr. Shao-Hwa Tan, Minister Plenipotentiary, Chinese Embassy
Mr. Clayton, State Department
Mr. Ness, State Department

During the course of his remarks the Ambassador referred to three matters: I. financial assistance; II. Japanese reparations; and III. Post-UNRRA relief.

I. Financial Assistance

The Ambassador, having been referred to Mr. Clayton by the Secretary, alluded to an earlier conversation with Mr. Marshall in which he had broached the subject of $1 billion of financial assistance for China. He said that he had subsequently been informed that while the United States Government was not in principle prepared to commit itself to such an undertaking, it was interested to have an outline of the way in which this sum would be employed. As a result, the Ambassador remarked, he had submitted to the Department his memorandum of May 27, 1947.

In this memorandum, the Ambassador continued, it was proposed that $500 million be made available for the purchase in the United States of equipment necessary for rehabilitation and reconstruction in China. The additional $500 million would be used to purchase raw materials, such as cotton, wheat and petroleum, which could be sold within China for yuan which would then be available for financing.

73 See memorandum by the Secretary of State, May 8, p. 1113.
74 See memorandum by the Director of the Office of Far Eastern Affairs, May 28, p. 1124.
the local costs associated with the installation and operation of the equipment first mentioned.

The Ambassador lay particular emphasis upon the urgent character of Chinese needs. He said there were three aspects of this urgency: the economic, the political and the international.

Mr. Koo said that the economic system was so far deteriorated as to require the sort of facilities for which the request was being made, and that the price-scarcity situation called for the raw material program involved within the second $500 million. He was inclined, in general, to emphasize this second aspect even more than the first.

The Ambassador then undertook to stress the point that the Chinese Government was dedicated to democracy. He spoke of the existing government as the only "coalition" government in Chinese experience, and described its role as that of preparing for elections to be held this fall with the purpose of establishing a new government under the constitution by the beginning of 1948. This consummation, which he implied we ought to promote, was said to be difficult if not impossible in the presence of an economic situation such as that which presently prevails in China.

He went on to pay attention to the disturbances occasioned by Communist activities in the North. He recalled that American financial policy toward China was contingent upon "unity and peace," but observed that this was an outcome which required the cooperation of all elements within the population of China—a cooperation which the Communists were patently unwilling to give. In these circumstances, he said, it was necessary to urge financial assistance even with the present conditions prevailing in China.

The Ambassador having concluded his remarks, Mr. Clayton indicated that he was familiar with the memorandum to which reference had been made. He said it was his understanding that there was involved a proposal to re-earmark the $500 million presently set aside for possible credits to China at the Eximbank and that the second $500 million was, according to the Chinese suggestion, to be obtained from Congress either as a grant or as a loan. (It may be observed that at no time thereafter did the Ambassador recur to the idea of a grant, instead he consistently referred to it as a loan.)

Mr. Clayton indicated that, first of all, it had been decided, following conversations which included the Secretary, that it would not be appropriate at this time to request re-earmarking the $500 million at Eximbank. He said definitely that such a proposal was "out." He added that in his opinion, China would in any case be unable to absorb as much as $500 million in projects within any such period as a year. In this opinion Mr. Ness concurred. Mr. Clayton went on to indicate.
however, that the Chinese knew well the solicitude and concern of this Government and of the Secretary for China. He indicated, in particular, that we would be prepared to confer with the Eximbank with the view of securing at an early juncture the grant of individual credits on a project basis.

Mr. Clayton then said that he was sure the Ambassador understood that the Congress of the United States would not, at this time, be prepared to consider a project for financial assistance of the sort mentioned in the memorandum. He pointed, in particular, to the concern of Congress that any such requests should be accompanied by reasonable assurance of the successful attainment of the purposes set forth. He referred to the activity aroused in Europe as a result of the Secretary’s speech at Harvard, and indicated that it was incumbent upon any applicant for assistance to come forward with a reasonable plan which would (a) indicate the extent to which the country could, by the use of its own resources, accomplish its purposes, and (b) the minimum assistance required from the United States. He (in my opinion) left with the Chinese a reasonable basis for inference that this recourse was open to them provided they were able to meet the conditions he had indicated.

Following this statement of position by Mr. Clayton, the Ambassador made a number of specific inquiries. With respect to the granting of specific project credits by the Eximbank, he asked what the Chinese ought to do to expedite matters. It was suggested that Mr. S. C. Wang ought promptly to get in touch with Mr. Ness to consider procedures on this point. In this connection, the Ambassador asked whether it would be possible to secure action upon specific projects before June 30. He was told both by Mr. Clayton and Mr. Ness that this was extremely unlikely if not simply impossible.

This last reply led the Ambassador to observe that a cessation of earmark would have adverse psychological effects in China and to point out that the announcement of specific action on loan applications would go far to offset such an adverse effect. The significance of his observation was recognized both by Mr. Clayton and Mr. Ness, and it was indicated to the Ambassador that serious consideration would be given to means whereby such an event could be offset or counteracted.

The Ambassador then inquired whether the term “specific project” could be interpreted to include commodity credits. He recurred to his earlier emphasis upon the availability of raw materials to China,

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*Delivered on June 5, 1947; for text, see Department of State Bulletin, June 15, 1947, p. 1159.*
including the sale of their products within the country for yuan, and questioned somewhat the adequacy of a project approach if narrowly interpreted. Mr. Clayton replied, first, that he doubted very much if the kinds of projects available for consideration by Eximbank would contribute greatly to China’s more immediate problem and, secondly, that as a matter of fact he had had in mind some provision of commodity credit, as, for example, the cotton. In this connection the Ambassador volunteered the observation that his government would be quite prepared to accept the requirement that some portion of the textiles produced from cotton imports should be sold abroad to obtain foreign exchange. Having heard Mr. Clayton’s observation on cotton, the Ambassador went on to inquire whether the same facilities could be available with respect to petroleum and wheat. He was answered in the negative, on the ground that neither of these products gave any promise of additional supply of exports.

Mr. Koo then turned to the possibility of Congressional action, and asked what China should do to anticipate the possibility of such assistance. Mr. Clayton reiterated his earlier observations concerning the necessity of preparing carefully a statement of what the country itself might do and what its remaining needs might be. Mr. Koo inquired whether there would be any objection to the retention of American technical experts to undertake this study, and was informed that there would be no objection provided such Americans were definitely technical experts only.

II. Reparations

Mr. Koo then turned to the first of two subjects which he wished to bring up incidentally. He referred to the reliance which China had placed upon the availability of reparations from Japan, and pointed out that the Far Eastern Commission had recently undertaken to allocate available reparations among the claimant nations. He pointed out that as a first step each claimant had been asked to indicate its idea of its own proper share of such reparations, and observed that the total came to something over 200% of what was available. He noted that the United States representatives, when putting forth their conception of a proper overall allocation of reparations, had set China down at 28 or 29%. The Ambassador reminded Mr. Clayton that China had long taken the position that it was entitled to 40%, and he urged upon the Under Secretary that the U. S. support this figure for China. Mr. Clayton indicated that he was not immediately familiar with the matter under discussion but would refer the Ambassador’s remarks to the appropriate authorities within the Department.
III. Post-UNRRA Aid

Mr. Koo said that upon instructions of his government he was asking that $100 million be made available to China from the $350 million recently authorized by Congress for Post-UNRRA assistance. Mr. Clayton said that this figure was quite outside the range of possibility but added, upon inquiry, that to his knowledge there was no agreement in legislative form. The Ambassador asked whether the shares of the several recipient nations were in any sense frozen or pre-determined. Mr. Clayton answered in the negative. The Ambassador went on to report that there had been a meeting between Chinese Government and U. S. Embassy officials in China concerning Chinese relief needs. Out of this meeting, he reported, there had come the judgment that China needed 370 thousand tons of wheat and rice. It had been suggested by the U. S. Embassy, he went on to say, that China should request assistance for no more than 100 thousand tons, leaving the balance to be financed out of its own resources. Mr. Clayton again indicated that this was material with which he had not continued to keep in touch, and that he would undertake to refer the Ambassador’s remarks to the proper officials of the Department.

NORMAN T. NESS

893.51/6-1747: Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, June 17, 1947—9 p. m.

736. In executive session June 11 Board Directors Eximbank, President Martin raised question of status after June 30, 1947 of earmark of $500 mil. for possible future credits to China. Dept representative Thorp said this was matter he had wished to discuss with Bank’s directors for some time but that in fact the Dept’s decision had only recently been taken. Dept will not, he stated, press for extension $500 mil. earmark beyond June 30. Dept will support, however, early favorable action on Chinese applications for individual projects which can qualify for Eximbank financing.

Reason for Secy’s decision re extension Eximbank earmark is necessity to avoid sterilization $500 mil. of Bank’s funds in view of competing needs, as in Europe, and fact that there appears no realistic prospect of China’s receiving that amount in actual advances during next fiscal year. While NAC might give a majority vote approving re-earmarking for the consideration of Eximbank, Dept is convinced that Bank board would nonetheless take a firm line of opposition. Absence of earmark will not prejudice, and in Dept’s view, may facili-

tate favorable action on individual projects after June 30. Dept’s decision will be communicated to Chinese Ambassador in Washington, and you will be advised.

The Sec’y has indicated his growing concern with development of events in China, and has expressed conviction that US must in its own interest do something to arrest the course of developments there. In conference re Eximbank earmark extension it was consensus that Dept should consider approach to Congress for such funds as may prove necessary for general financial assistance of China although, as the Sec’y pointed out, such program could not possibly be brought to Congress at its present session.

Dept has recently prepared list of projects aggregating $135 mil. as basis of which in its view Eximbank might extend loans aggregating approx. $100 mil. Sums specified for individual projects are as requested in original Chinese applications, and are subject to revision in subsequent appraisals by Eximbank. Projects listed are as follows:

1. Railroads: Hankow-Canton-Kowloon Railroad, $42,654,000; Yellow River Bridge, $4,500,000.
3. Coal Mining: Fuhsin, $6,385,000; Peipiao, $1,350,000.

Dept’s list also included $3,400,000 for artificial fertilizer plants (reDeptel 73580) but status this project not now promising. Feasibility Yellow River Bridge project necessarily depends on extent Natl Govs control of territory—Hankow to Peiping. Dept regards Canton-Hankow-Kowloon project as perhaps of first priority, but the sum requested is generally viewed as excessive. Formal applications have not been received by Eximbank for two of above projects, i.e. United Power Co and China Aero. Services, Inc., and these are accordingly only tentatively included. Dept regards them as important to China economically, however, and as promising in their provision for participation by American companies. With respect to all above projects Dept assumes that suitable provisions would be made for sound management and competent technical services, and wherever feasible for participation by private capital, Chinese or American.

77 See memorandum supra.
78 See Department’s telegram No. 754, June 20, 8 p. m., p. 1142.
79 See memorandum by Messrs. Ness and Vincent, June 4, p. 1131.
80 Not printed.
Emb's comments and suggestions concerning above list are urgently desired. Under present circumstances would Emb recommend other coal mines than Fuhsin and Peipiao which are two mines for which Chinese have applied for Eximbank loans.

MARSHALL

Memorandum by the Secretary of State to the Secretary of the Treasury (Snyder)

WASHINGTON, June 18, 1947.

DEAR SNYDER: I am attaching a radio from your Treasury expert with the American Embassy in Nanking with regard to a possible “silver” loan to China.

I am not now proposing a loan and I have no idea that any such loan would be favorably considered by this session of Congress even were I to favor such action at this time.

What I would like is to have some of your experts analyze this to give us an opinion as to whether or not a “silver” loan is practical without regard to Congressional possibilities. I would like to have it examined to find out how such a loan might be managed. I would like to get the view of your people as to whether or not they thought such a loan would have a good effect in the establishing among the people of China their former confidence in the silver dollar to offset their present lack of confidence in any denomination of paper money.

I repeat again that I have not in mind at all the proposal of a Chinese loan. I am merely endeavoring to clarify for myself the various possibilities.

G. C. MARSHALL

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, June 20, 1947—8 p. m.

754. In informal memo dated May 13 Chinese Amb summarized his statements to Secy on May 8 re financial aid to China, and raised question whether Chinese request for loan of US $1 billion would be “acceptable in principle” to U. S. Govt. On May 22 Minister Chinese Emb was informed on behalf of Secy that we were not in position make commitment of kind desired, but that were prepared to receive

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1. See memorandum by the Director of the Office of Far Eastern Affairs May 23, p. 1124.
and give careful study to informal memo from Chinese Govt which
would set forth and support in detail purposes for which it desired
obtain credit. On May 27 Chinese Emb submitted memo re plan for
utilization US $1 bil loan for economic rehabilitation and re-
construction. It requested $500 mil be secured from presently
earmarked funds in Eximbank for purchase in U. S. of reconstruction
equipment and materials for projects enumerated, and remaining $500
mil be obtained from Congress to be used in U. S. during years
1947–1949 for purchase certain commodities such as cotton, wheat and
petroleum which upon sale in China would provide yuan currency
necessary meet internal costs of Chinese reconstruction program.
Memo suggested that should formal agreement on total sum require
Congressional authorization and therefore cause possible delay, formal
agreement on Eximbank earmarked sum of $500 mil should be
concluded before June 30 with understanding U. S. Govt would im-
mediately submit remaining half proposed loan for consideration and
approval of Congress.

On June 17 UnderSecy of Econ. Affairs informed Chinese Amb
that Dept will support early favorable consideration by Eximbank
of loans for individual reconstruction projects, but that Dept is not
prepared press for extension existing Eximbank $500 mil earmark.
He stated it is this Gov’s earnest and continuing desire assist China
in meeting its reconstruction problems, but in present situation there
does not appear realistic prospect that China could receive or effec-
tively utilize $500 mil in actual Eximbank advances during next fiscal
year.

With respect request that US Gov endeavor to secure Congressional
approval $500 mil loan, UnderSecy indicated further requests for
foreign aid to present session Congress are not contemplated. He
added in effect American people presently seem inclined support pro-
sals for financial assistance to foreign countries only if they can be
assured aid extended can successfully accomplish its intended
purposes.

UnderSecy did not indicate to Chinese magnitude of possible credits
for which Dept will support favorable Eximbank action. In response
to Amb. Koo’s specific inquiry he indicated cotton loan might be
among those to which Dept would be inclined to give favorable con-
sideration, provided there were some assurance concerning repayment
prospects perhaps by permitting cotton textile exports from China.
Amb. inquired whether it would be possible conclude any specific
loans prior June 30, in which case unfavorable psychological reaction
to expiration of earmark would be largely offset. UnderSecy replied
in his opinion such would not be possible in short time before June 30,
but Amb. was assured that in any public announcement we would seek minimize adverse reaction.  

MARSHALL

893.51/6-2147 : Telegram

_The Ambassador in China (Stuart) to the Secretary of State_

NANKING, June 21, 1947—7 p. m.  
[Received June 21—8:23 a. m.]

1369. ReDeptel 736, June 17, 9 p. m. General approach and conclusions of Dept fully concurred in by Embassy. Embassy wishes to stress fact that announcement of non-extension of dollars 500 million beyond June 30 would undoubtedly serve to weaken National Govt internally, unless announcement makes mention of certain projects which are to go to Export-Import Bank for approval and also includes statement to effect that absence of earmark will not prejudice but in fact facilitate favorable action on individual projects after June 30 and that such projects will be designed for economic rehabilitation of China. Embassy accordingly recommends that any announcement of non-extension be on above lines.

With respect to specific projects listed in Deptel 736:

1. Hankow--Canton--Kowloon railroad approved; according to latest information railroad is in bad shape and will need considerable rehabilitation work. In connection with Hankow--Canton--Kowloon railroad it is suggested that Dept and Export-Import Bank strongly recommend to Chinese that port of Hankow be thrown open to foreign shipping. Chinese have confused coastal traffic issue with question of designation of ports open to foreign shipping. Opening of Hankow to foreign shipping is concomitant of and, incidentally, would facilitate improvement of Canton--Hankow railway. Minister-Counselor on recent visit to Hankow was informed by local Chinese commercial circles that they would welcome such a move which will probably only be adopted under friendly and disinterested persuasion. Desirability of Yellow River bridge project appears dubious at this juncture. But see 2.

2. Announcement of project approved for political reason that it is desirable to include at least one and possibly two projects for North China, or it might otherwise appear that we are already resigned to loss of China north of Yellow River to Communists. Whether or not project should be carried out at this time is another question on which there is no need for immediate formal decision.

3. Embassy does not approve of Fushin or Peipiao projects. Nationalist hold on Fushin tenuous and Communists reported to have already captured two of Peipiao mines. Embassy informed that
National Economic Council reviewed whole coal situation at meeting yesterday from which conclusions emerged that Manchurian production can no longer be counted on, that Kailan and Mentoukow supplies are safe at present though transportation subject to temporary interruption by Communist raids, and that production in Honan, Anhwei, Hunan, Kiangsi, and Kwangtung must be revived or increased. There seem to be a number of feasible coal projects alternative to Fushin and Peipiao, such as Hsing Tang in Hunan and Ping Hsiang in Kiangsi, both of which according to Chinese have been surveyed by Pierce \(^\text{83}\) with projects submitted in Washington, and I. Yang in Honan, south of Loyang.

Four, five, and six approved.

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**STUART**

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S93.24/5-2947

*The Director of the Office of Financial and Development Policy (Ness) to the Chairman of the Chinese Supply Commission (Wang)*

*WASHINGTON, June 21, 1947.*

*My Dear Dr. Wang: I have your letter of May 29, 1947 asking for a postponement of the first interest payment due July 1, 1947 under the agreement of June 14, 1946.*

*It is my understanding that agreement has been reached between representatives of your Government and the U. S. Treasury representatives under which the Chinese Government has been billed on an estimated value of the supplies furnished and to be furnished under the agreement of June 14, 1946 in the amount of $51,750,000. I understand that interest and principal payable July 1, 1947 has been billed to your Government in the amount of $2,820,920.32.*

*The pipeline agreement has already settled a portion of the lend-lease aid furnished to China. It would not be our policy to consider alteration of the payment terms at this time.*

*Sincerely yours,*

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**NORMAN T. NESS**

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S11.516 Export-Import Bank/6-2847

*Memorandum of Conversation, by the Director of the Office of Financial and Development Policy (Ness)*

*[WASHINGTON,] June 23, 1947.*

*By appointment arranged at his request Mr. Tan \(^\text{84}\) called at my office on Monday, June 23, concerning the steps which might be taken*

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\(^{83}\) The Pierce Management Co., an American firm, was retained by China to survey its coal mining facilities and requirements.

\(^{84}\) Shao-Hwa Tan, Chinese Minister.
to counteract what he regarded as the inevitable psychological effects of the failure to renew the earmark of $500 million for China at the Export-Import Bank. He lay particular emphasis upon the proposition that while the significance of this act would be clearly appraised by those expert at such matters, the effects upon general public opinion in China would be serious. He proposed, therefore, that this Government (and by implication the Department rather than the Bank itself) should issue a reassuring statement at the time the earmark expires. He asked in particular that emphasis be laid upon the continued willingness of this Government to supply financial assistance to China and upon the way in which the Export-Import Bank might operate consistently with its established rules and policies.

I reminded Mr. Tan that the matter he had brought to my attention had been mentioned in the conversation between Mr. Clayton and Ambassador Koo,85 said that I had been giving attention to the matter and would continue to do so.

I took the occasion to urge upon Mr. Tan the importance of having the Chinese Government representatives here proceed with the Export-Import Bank according to the ordinary rules and regulations of that institution. I emphasized particularly the importance of supplying to the Bank the information it requested for purposes of its study and analysis. Mr. Tan said he would urge this upon his colleagues.

NORMAN T. NESS

893.51/6-2547

The Chinese Embassy to the Department of State

AIDE-MÉMOIRE

(1) The Chinese Government earnestly desires that credits to the total of $500,000,000 intended to be made available to China by the United States Government through the Export-Import Bank of Washington proposed in April 1946, be re-earmarked for China and that Notes to this effect be exchanged between the two Governments before June 30th. Projects for the development of which the credits are to be devoted should be studied and mutually agreed on as soon as possible.

(2) The Chinese Government hopes that a sum of $200,000,000 may be allocated for the purchase of cotton in the United States. This sum is urgently needed, as the China program of UNRRA will soon be terminated and no more cotton will be supplied from that source thereafter, and especially in view of the difficulty in allocating credits

85 See memorandum by the Director of the Office of Financial and Development Policy, June 17, p. 1136.
for the purchase of other equally urgently needed commodities such as wheat, rice and petroleum.

(3) It is hoped that, as regards the other $500,000,000 of the loan requested by the Chinese Government in the Memorandum of May 27th, 1947, and additional aid needed for a long-term program of reconstruction and development, the United States Government will, in line with the plan proposed by the Secretary of State with reference to Europe, find it feasible to make an announcement of its desire to be of assistance to China as part of its policy to promote world economic recovery and reconstruction.

WASHINGTON, June 25, 1947.

Memorandum of Conversation, by the Secretary of State

[WASHINGTON,] June 25, 1947.

Participants: Dr. Wellington Koo, Chinese Ambassador
Secretary George Marshall
Willard L. Thorp, A-T
John Carter Vincent, FE

The Chinese Ambassador called on me at his request and presented the attached aide-mémoire. I asked Mr. Thorp to comment on it.

As to the first item in the aide-mémoire, Mr. Thorp said there was substantial misunderstanding concerning the significance of the lapsing of the earmarked funds, that the earmarking had been a temporary arrangement established until the time when it could be expected the International Bank would be in operation and that its lapse in no way indicated an unwillingness on the part of the Export-Import Bank to consider sympathetically specific projects which might be presented. I described the origin of the earmarking, pointing out that it was done at my request. I reminded Mr. Koo it was because of certain statements made in China that the proposed exchange of notes was not consummated. I said that the decision with respect to the earmarking had been made and a statement was being worked out which would be made by the Export-Import Bank which would clearly state that this was an automatic development not to be interpreted as indicating an unwillingness to consider specific projects.

Mr. Koo stated there were some sixty projects in his hands, that he had picked out the fifteen which were best documented and which totaled about $240 millions. These projects were also located in areas

Drafted by the Assistant Secretary of State for Economic Affairs (Thorp).

86 866-748—72—73
not likely to be subject to military operations. Mr. Thorp stated he felt it was important that Mr. Koo consider not only the Export-Import Bank as a source of funds but also the International Bank which was now definitely in operation and should be considered as a possible source of assistance. He then emphasized the fact that it seemed more important to get some projects started than to drive for a large amount at the beginning. He suggested that the very best projects be picked out for submission to both institutions and that once some project had been approved, it would be much easier to move along with the broader program. Mr. Vincent emphasized the importance of limiting the initial approach to the most likely project. I also emphasized the importance of picking out the best projects and proceeding with them. Mr. Thorp suggested that the Chinese representatives go over the projects with Norman Ness (OFD) and his assistants who might be able to be of help in determining which were the most likely of success. He pointed out, however, that the State Department could not act as sponsor for any particular projects but would be glad to assist at this stage in an informal way.

Mr. Koo then reverted to the problem of the earmark pointing out that assistance had been given to both the British and the French in forms other than that of specific projects. Mr. Thorp commented on the fact that these were done prior to the time when the International Bank was in operation, that if at that time the $500 million project for China had been consummated, it might have taken some such general form but that circumstances now have changed and the operations of the Export-Import Bank are limited entirely to specific projects.

With respect to item 2 of the aide-mémoire, Mr. Thorp said that a cotton loan might well receive favorable consideration by the Export-Import Bank although the suggested sum of $200 million was probably much greater than would be made at any one time. He suggested this also be discussed with Mr. Ness.

With respect to point 3 in the aide-mémoire, Mr. Koo urged that some general statement be made to indicate that the U. S. Government is not completely preoccupied with the problems of Europe. Mr. Thorp remarked that statements of concern with the problems of China had been made even prior to statements of concern over Europe and there ought to be no misunderstanding on this score. Mr. Koo said he felt a statement would be very helpful. I pointed out that we had already indicated that a statement would be made with reference to the lapsing of the earmark and I would take under advisement the question of any further general statement.

Mr. Vincent then inquired from Mr. Koo whether the Chinese Government was aware of the feeling in American business circles that they were being discriminated against in China and that the assistance
which could be given through private channels was being discouraged by various acts of the Chinese Government and its administration. Mr. Koo said that the Embassy was quite aware of this situation and had called it to the attention of the government repeatedly. Mr. Vincent reiterated this was a matter of major importance and that the attitude of the business community would have an important bearing on the whole problem.

Mr. Koo then said he had certain non-economic matters to discuss. (These are covered by Mr. Vincent.88)

883.51/6-1347
The Under Secretary of State (Acheson) to Senator Homer Ferguson
WASHINGTON, June 27, 1947.

MY DEAR SENATOR FERGUSON: With reference to your letter of June 13 89 on the subject of the disposition of the $500,000,000 loan to China, it is suggested that you may wish to reply to your correspondent along the following lines:

This Government has no information which would support the statement that China used a portion of the United States $500,000,000 loan to pay off interest and some principal on a British railway loan. The records of the Government indicate that as the Chinese Government made successive withdrawals against the credit we were informed of the manner in which such funds were to be used. A recapitulation indicates that the $500,000,000 credit was distributed for the following uses:

<table>
<thead>
<tr>
<th>Use</th>
<th>Million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Redemption of United States dollar security issues</td>
<td>$200</td>
</tr>
<tr>
<td>Gold purchase</td>
<td>220</td>
</tr>
<tr>
<td>Purchase of bank notes</td>
<td>55</td>
</tr>
<tr>
<td>Purchase of raw cotton</td>
<td>13.5</td>
</tr>
<tr>
<td>Purchase of textiles</td>
<td>11.5</td>
</tr>
</tbody>
</table>

$500.0

Sincerely yours,

DEAN ACHESON

893.51/6-2747
The Chinese Ambassador (Koo) to the Assistant Secretary of State for Economic Affairs (Thorpe)
WASHINGTON, June 27, 1947.

DEAR MR. THORPE: Pursuant to the conversation I had with you and the Secretary of State on June 25th, I am sending you herewith copies

88 See memorandum by the Secretary of State, June 27, p. 882.
89 Not printed.
of a number of projects, with documentation, which the National Government of the Republic of China intends to submit to the Export-Import Bank of Washington. I also enclose a copy of my letter which will accompany the projects requesting credits to meet the necessary dollar expenditure needed for each of them.

We shall be glad to confer with you and your advisers about these projects for a general examination at any time convenient to you, with the hope, however, that it will be possible for us to submit this material to the Bank within the next few days.

Sincerely yours,

V. K. WELLINGTON KOO

[Enclosure]

The Chinese Ambassador (Koo) to the President and Chairman of the Board of Directors of the Export-Import Bank of Washington (Martin)

WASHINGTON, June 27, 1947.

DEAR MR. MARTIN: On behalf of my Government, I am submitting the enclosed projects on (a) Communications, (b) Power, Mining and Industry and (c) Improvement of Agricultural Economy, to you with the request that the Export-Import Bank grant credits to finance the purchase in the United States of materials, equipment and services required for each project. These projects will aid China’s economic recovery and will facilitate trade between the United States and China. They are listed on the attached summary sheet together with the amount required for each of them.

The projects have been selected from a general outline which has been transmitted to the United States Government. In making the selection, careful attention has been given to a number of factors, including the bearing which the completion of the project will have on China’s foreign trade position, the establishment of a stable economy which in itself will have a direct effect on China’s trade with other nations, and the production of revenue by the individual projects, so that the repayment of the credit advanced to finance its construction can be effectuated from the project itself and will not be a burden on the general economy of the nation.

The importance of improving the system of internal communications cannot be over-emphasized. The Canton–Hankow Railroad and the Chekiang–Kiangsi Railroad, both of which traverse areas not served adequately by other means of transportation, are given first priority among the many railroads in need of rehabilitation. Funds

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90 Attached list of projects and index of documentation not printed; documents listed not found in Department files.
91 Not printed.
for materials for the repair of rolling stock are also included so that China may get as much use as possible out of its existing equipment that can be salvaged.

In connection with these projects it should be noted that the passenger cars China would like to purchase from the War Assets Administration, with Export-Import Bank assistance, described in a letter to you from the Chinese Supply Commission of April 30, 1947, will form an economical substitute for the immediate need for additional passenger cars on the Chinese railroads, and if we are successful in arranging the purchase of these cars, the funds required for the Chekiang-Kiangsi Railroad project, which includes rolling stock, may be reduced accordingly.

The development of the Tangku, Shanghai and Canton harbors holds the key to the volume and shipping cost of export and import trade of the northern, central and southern regions of China. These projects are urgent because they take time to develop and harbors there form the firstline bottleneck of any modernization of the Chinese economy, where substantial tonnages will have to flow into and out of China or coastwise. The Shanghai harbor has suffered badly from the lack of dredging and proper maintenance during the Japanese occupation and their capacity has been materially lowered. The high cost of both exports and imports that have moved in and out of Shanghai since the defeat of Japan as the result of congestion and delays at that port accentuates the need for harbor improvements.

The supply of electric power is equally important and urgent. In regions like Shanghai and Tientsin it has been impossible to utilize all existing productive industrial equipment because of a shortage of power. The production of textiles and other essential consumer goods has suffered for this reason, accentuating the shortage of such goods in China, forcing prices up, and requiring the importation of supplies which should be produced domestically. In other centers this lack is as great, and hinders the establishment of even small new local industries.

Coal is essential both for power and the railroads as well as for water transport. The coal mines, when restored and developed, will in addition provide certain exportable surplus not obtainable otherwise in the Far East and will, to some extent, reduce the need for Chinese imports of petroleum products. Similarly the other mining projects listed—antimony, tungsten and tin, all of which are minerals for export—will provide China with needed foreign exchange and ease a worldwide short supply of these products.

Other projects are designed to increase China’s agricultural production and thus avoid the necessity of importing foodstuffs from
abroad. The fertilizer plants are particularly important. We have previously described, in a letter from the Chinese Supply Commission of April 30, 1947, referring to a proposed purchase of surplus fertilizer plants from the War Assets Administration then under discussion but now withdrawn by WAA, the need for an increased supply of chemical fertilizers and the part it would play in providing larger supplies of foodstuffs. We also referred there to the interest shown in this subject by the Sino-American Agricultural Mission under Dean Hutchinson’s leadership. Even if it were possible for China to obtain sufficient fertilizers from the world’s present short supply, obviously China could not afford the foreign exchange that would be necessary.

Like the export metals, the vegetable oils and sugar projects in addition to providing for China’s own needs, will provide goods for export to other countries.

The cement industries included in this list of projects will fill a basic need for this important construction material and reduce the uneconomical demands of foreign exchange for importing and shipping large supplies of cement needed for reconstruction work.

The mechanical and electrical industries provide equipment needed for the industrial development of China. A large part of their product will find its use in the basic transportation, communication and power industries as well as direct consumer uses.

Most of these projects have been prepared on the basis of surveys made by American engineering firms, and it is contemplated in most cases to engage American technical assistance in the construction of the various projects and in their initial operation.

In addition to the projects enclosed herewith, others are in the course of preparation, and in part await the receipt of further technical information. When in proper shape, they will be submitted to the Bank.

We should be glad to have the opportunity of discussing these projects with you in detail and of answering any questions that you may have. The members of my staff will be available at all times for discussion with the Bank’s technicians and experts.

I should like to express the hope that, in view of the importance of these projects to the economic recovery of China and to the well-being of the Chinese people as well as to the development of trade between China and the United States, we may have an early and favorable answer to this request for credits.

I remain,

Sincerely yours,

[File copy not signed.]
The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, July 1, 1947.

818. Following statement released to press June 27 by Eximbank:

“William McChesney Martin, Jr., Chairman of the Board of Directors of the Export-Import Bank of Washington, stated today that the Bank is prepared to consider the extension of credits for specific projects in China notwithstanding the expiration on June 30 of the earmarking of $500 million of the Bank’s funds in April 1946 for possible further credits to Chinese Government agencies and private enterprises.

“The Bank has heretofore taken action to bring to an end its program of large emergency reconstruction credits and is reverting to its primary objective of financing and facilitating specific American exports and imports, including the financing of American equipment and technical services for productive enterprises abroad which will contribute generally to foreign trade expansion.

“In its consideration of any application, the Bank will observe the basic principles which guide its lending activities in all areas of the world. In pursuance of the policy laid down by Congress, the Bank will make only loans which serve to promote the export and import trade of the United States, which do not compete with private capital but rather supplement and encourage it, which are for specific purposes, and which, in the judgment of the Board of Directors, offer reasonable assurance of repayment. As a general rule, the Bank extends credit only to finance purchases of materials and equipment produced or manufactured in the United States and technical services of American firms and individuals, as distinguished from outlays for materials and labor in the borrowing country.”

Sent to Nanking, rptd to Shanghai as no. 1092 and to Tientsin as no. 110.

MARSHALL

The Chairman of the Chinese Supply Commission (Wang) to the Director of the Office of Financial and Development Policy (Ness)

WASHINGTON, July 1, 1947.

DEAR Mr. Ness: We enclose the check of the Chinese Supply Commission No. 1447, dated July 1, 1947, drawn on and certified by the Bank of China, New York Agency, in the amount of $2,820,020.32. This is the amount of the first payment of principal and interest due from the Republic of China under the terms of the “Agreement between the Governments of the United States and the Republic of China on the Disposition of Lend-Lease Supplies in Inventory or Procurement in the United States”, dated June 14, 1946, known as the
"Pipeline" Agreement. Because of the unavailability of the supporting documents on the part of the U. S. Treasury, it has not been possible to determine precisely the exact amount due at this time. However, this amount has been agreed upon between representatives of the United States Treasury Department and members of our staff as being approximately correct, subject to later adjustment when precise figures are available.

As I pointed out in my letter to you of May 29, 1947, it is provided in the Pipeline Agreement that the terms of payment, including rate of interest, may be altered by mutual agreement at the time of final settlement for lend-lease aid received by China. Negotiations looking to such settlement are now going forward. It is our view that during these negotiations many of the considerations and developments which entered into the making of the Pipeline Agreement or came up thereafter will need reexamination. Because of the spirit of the Agreement, as evidenced in part by the provision referred to, and because of the friendly attitude shown by the United States toward China, we suggest that this check be held by you as evidence of our good faith and not be turned in to the United States Treasury until the conclusion of the final lend-lease settlement. In this way no subsequent decision will be affected by this action. We would welcome any alternative suggestion you may make for handling the matter which would likewise avoid committing the above as a firm payment or setting a precedent for future payments.

In any event we wish to place these funds in your hands without delay.

Sincerely yours, 

SHOU-CHIN WANG

102.1/7-447: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 4, 1947—9 p. m.
[Received July 5—4:57 a. m.]

1463. To State and Treasury from Adler. Reference Embassy’s telegrams 1301 and 1302 of June 14. Governor of Central Bank called on me yesterday to resume discussion of his silver project. He recapitulated the advice he has been pressing on the Generalissimo for the need to introduce sharp line of demarcation between the military zone in North China and Manchuria which should rightly be under military control and a civil zone in south or central China in which military influence should be curtailed and in which there should be a concentrated attempt at economic rehabilitation and relative self-

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Latter not printed.
sufficiency. He was also pressing the Generalissimo to reduce expenditures, but the Generalissimo replied that while he agreed on the need, it was impossible to do so as long as prices rise. Therefore, the Governor concluded, with respect both to internal fiscal policy and foreign exchange policy, where he would like to go ahead with adjustment of exchange rate and export-import linking program but cannot because of unsettled conditions, he is confronted with the need for a new unit of account. He said he needed at least 200 million ounces of silver to give him an umbrella for this operation.

Apparently giving up the prospect of an undisguised loan, he raised the possibility of China's purchasing this amount of silver from the United States and asked me to convey to you a request for the possible terms on which such a purchase might be made. With respect to price, he was not specific but called attention to the fact that the Mexican price was lower than the New York price.

With respect to other terms, he alluded to the possibility of a credit, but in general he took the position that he would prefer the seller to indicate terms.

When asked what the Central Bank's foreign exchange position was, Governor replied that it had equivalent of US $350,000,000 in gold, United States dollars and sterling area currencies, of which I believe $60,000,000 is committed to the National City Bank, Chase and the Bank of China for first and second quarters 1947 cotton quotas. [Adler.]

STUART

102.1/6-1447: Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, July 9, 1947—7 p.m.

845. For Adler from State and Treas. It is thought that a loan for currency stabilization is not possible at this stage, re Embassy 1801, June 14. Such a loan would, in any case, require Congressional action. Recognized here that reintroduction of silver coins may ultimately provide means of achieving stabilization, but considered that (1) no monetary measure could have appreciable effect in the face of continued massive deficit spending, and, (2) as proposal sketched in Central Bank Governor's memorandum 94 indicates, if adopted flight from fapi might be more seriously accentuated. Your comments requested. [State and Treasury.]

MARSHALL

94 See footnote 72, p. 1135.
Memorandum by the Chief of the Division of Chinese Affairs (Rungwalt) to the Director of the Office of Far Eastern Affairs (Vincent)

WASHINGTON, July 11, 1947.

Subject: Attached memorandum ⁹⁵ presented to Adler by Governor Chang Concerning a Silver Loan

As suggested by Mr. Adler in paragraph 2 of his comments ⁹⁵ on the subject memorandum, the Chinese request for a silver loan as presently outlined can be considered merely as a request for financial assistance required to reduce social and economic chaos during the next six months to a year.

The Chinese memorandum does not provide any hope that a silver loan at this time would be effective in producing even a moderate degree of stability in the Chinese currency. It appears to me, therefore, that our considerations should be as to whether or not we wish to extend a general credit to alleviate the immediate situation.

In order to provide a new currency equal in total value to the present amount of currency in circulation (10 trillion CN) at a ratio of 25,000 to 1, the new currency would have to total CN400,000,000. As the Chinese propose a ratio of 5/7 ounces of silver per yuan, this would require approximately 286 million ounces of silver. At the present US price of approximately 70 cents an ounce, this would require $US200 million. However, if China were to acquire this amount of silver in a comparatively short period of time, the price might well rise to 91 cents an ounce, in which case the total cost would be $US260 million. The figure of $369 million mentioned in the penultimate sentence of paragraph 1, page 2, of the memorandum is incorrect in that it is based on the US Treasury evaluation of $1.29 per ounce, which figure would not be the purchase price for the Chinese. It is not clear from the memorandum whether the Chinese would wish to introduce at the outset 100 million or 400 million new units of currency. One hundred million 5/7 ounce units would cost $50 million at 70 cents and $65 million at 91 cents.

The statements in the memorandum with respect to seignorage can be disregarded in view of the fact that there has been a further deterioration in the value of the yuan, both internally and externally.

⁹⁵ Not printed; see footnote 72, p. 1135.
The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 12, 1947—2 p. m.  
[Received July 12—11:45 a.m.]

1518. Plan now being studied by National Economic Council is economic reform plan adopted March 23, 1947 by Central Executive Committee of Kuomintang described Embassy's despatches 652, April 21 and 665, April 25.98 (ReDeptel 1112, July 7, sent Shanghai,97 repeated Nanking 881, Tientsin 114, Geneva 735.)

Embassy officer July 9 discussed with Chen Li-fu,98 whose proposals for economic reform are embodied in plan now being discussed by NEC, present status that plan. He said that plan, while containing basic objectives stated Embdes 652, has been redrafted; that it contains 87 articles grouped under 3 major headings including (1) economic projects already undertaken but not vigorously carried out; (2) projects for which Ministries concerned will be instructed to draft detailed plans for early execution; and (3) projects of long-range nature not presently considered urgent.

Chen stated that "only defect" of plan is that it does not take up in detail question of land problems; that plan as now drafted contains about 95% of his original proposals for economic reform (Embdes 665, April 25); that it has no connection with 5-year industrial plan (Embdes 473, February 497) which continues to be shelved; that part of emergency economic measures promulgated February 17 [16]99 are included in plan; and that NEC currently discussing inclusion of recently announced general mobilization measures in economic plan.

Other meetings with Chen will be held soon and efforts will be made to obtain full text of redrafted plan and additional information on proposals affecting foreign trade. Plan adopted March 23 by Kuomintang includes following recommendations:

"For international trade, restrictions should be applied to importation those articles other than production tools, raw materials, books and scientific research equipment so as to save our foreign exchange—encouragement should be given to all exporting trades. To stimulate business of export and import, exporters may use their foreign exchange for importations. To improve export trade, efforts should be made to standardize manufacture of different native products.

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98 Latter not printed.
97 Not printed.
99 Vice Chairman of the National Economic Council.
96 See telegram No. 299, February 17, from the Ambassador in China, p. 1071.
Handicrafts should be organized in the form of cooperatives with aim of expediting export. National commodity supply cooperative should be charged with responsibility of contacting international cooperative and trade committee of international cooperative union and wholesale cooperatives all over the world and trying barter system.

Embassy withholding comment on points raised Deptel pending receipt of further information from Chen Li-fu with whom those points will be discussed. Meanwhile, impression gained in talks with Chen and several of his associates that he is optimistic regarding adoption economic reform plan by NEC and that development described Embdes 830, June 25 [23]², only temporary reversal. Chen stated that [he?] had been appointed Vice Chairman of NEC and, in absence of Premier Chang Chun, had alternated with Hsu Kan, Director General of Office of Comptroller-General, as temporary Chairman.³

Sent Department 1518; repeated Shanghai 622, Tientsin 86. Department please pass to Geneva USDel ITO.⁴

STUART

102.1/7-1547: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 15, 1947—8 p.m.
[Received July 16—4:08 a.m.]

1532. To State and Treasury from Adler. ReEmbtel 1463, July 4 and Urtel 845 of July 9. Arrived Shanghai July 8, returned July 15. On July 10 I had a further long discussion with Governor of Central Bank on silver, in which he informed me that he, K. P. Chen, Li Ming and Tsuyee Pei, who is now acting as Governor’s adviser, had been reviewing the whole financial situation and had decided that they must take steps to have a stock of silver coins on hand within approximately 3 months. He asked me to transmit the following formal request:

“In view of the time which will be necessary for making the dies and for the completion of other processes of coinage, would you be kind enough to inform the United States Mint to start at once the preparation for the coinage of our new silver money against a silver deposit with the National City Bank of New York, Shanghai? The initial installment of coinage will amount to 45 million ounces of fine silver. The new coin, I hope, will have on one side a portrait of Doctor

² Not printed; this despatch indicated that Dr. Chen had not realized his ambition to attain control of top economic positions in the Chinese Government (893.50/6-2347).
³ For discussion of the plan, see memorandum of July 23 by the Assistant Commercial Attaché in China, p. 661.
⁴ United States Delegation to the International Trade Organization.
Sun Yat-sen and on the other side the Chinese equivalent for one yuan encircled by patterns including that of our national emblem of the 12-pointed star. The portrait of Doctor Sun is available at the American Bank Note Company in the United States. 7

The coin’s specifications are: gross weight of 14 grams or .45 ounces, .720 fineness, net silver content of 10.08 grams or .324 ounces, copper 3.92 grams or .126 ounces and a diameter of approximately 31 millimeters. It was further suggested that if in the Mint’s opinion the fineness can be reduced without changing its color and without necessitating use of nickel and zinc a larger coin with the same net silver content would be preferred.

The Governor said the Central Bank had 45 million ounces of silver on hand which it could turn over to National City Bank, Shanghai, for transfer to Treasury to replace the silver advanced by Treasury. He added that the whole matter was one of some urgency and that Central Bank would like to have the first installment on hand in Shanghai within 3 months. He indicated that the Central Bank would of course pay all cost involved.

He admitted that 45 million ounces would be far from sufficient to provide the requisite coinage for the new currency and asked if the Treasury could facilitate the acquisition by China from Mexico of 50 million ounces of silver which the Bank of Mexico now has in its vaults and the 60 million ounces the Bank of Mexico expects to obtain within the next 6 months from current production. When I asked what terms he contemplated for this transaction in view of fact that Mexico would not sell silver except for cash, he became vague. (For your information I learned later that Governor has asked Urquidi [of] Bank of Mexico who recently visited China to cable Mexico on possibility of a Mexican credit to China for purchase of silver and that Mexico turned down Chinese request.) He also repeated possibility reported in Embtel 1463 of July 4 of a “purchase” of 100 million ounces from the United States, suggesting that China make her payment for the silver over a period of 10 years, and that part of payment be made in Yunnan tin.

Governor then informed me that S. D. Ren, vice president of Universal Trading Corporation, 6 was leaving for United States in the next day or two and would phone Treasury long distance from San Francisco to ascertain whether he should come to Washington immediately for consultation on design of new coinage.

I pointed out to Governor that step he was taking was a very serious

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6 An official Chinese agency incorporated under the laws of the State of New York on October 18, 1938. Its chief functions were to market tung oil and other Chinese products in the United States and to act as purchasing agency in the United States against Export-Import Bank credits to China.
one and that further discussions with him and his advisers were desirable before I transmit his formal request to Washington, with which suggestion he readily agreed. [Adler.]

STUART

102.1/7-1647: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 16, 1947—4 p.m.
[Received July 16—9 a.m.]

1585. To State and Treasury from Adler. RefEmbtel 1532, July 16, 8 p.m. Saw K. P. Chen on morning of July 11 and in reviewing the proposal to introduce a new silver currency he admitted it would be a gamble and a move undertaken out of desperation.

He further admitted many of the longer run disadvantages of the proposal, as for instance the dubious value of silver as a means for settlement of international balances. However, he claimed that one great advantage was that the peasants would use silver coin instead of food as a hoarding medium and thus the injection of silver coin into circulation would fulfill the same function as the gold-selling policy in 1946. Between 300 and 400 million ounces of silver would be needed.

(For your information K. P. Chen made following observation.) The Generalissimo is hemmed in and has had little freedom of political maneuver. In the period when the British were the dominant power on the lower Yangtze valley, they were realistic and did not ask him to do things which it was impossible for him to carry out. “You Americans are straightforward and direct” and are asking him to do the impossible. He was obviously alluding to United States antipathy to the extreme reactionaries. I replied that the United States is realistic in its awareness that Generalissimo cannot save himself unless he moves on certain lines, however difficult it is for him to do so.

Evening of July 11 I attended a 3-hour conference with Governor, K. P. Chen, Li Ming and Tsuyee Pei. Conference was discouraging as it revealed their inability as a group to face up to unpleasant facts which as individuals and privately they readily acknowledge. Pei acted as spokesman and built up a rosy picture with only tenuous relations to the actual situation, though he did reveal that Generalissimo wants restoration of silver dollar. Pei argued that China is faced with two major economic problems: its unbalanced budget and the deficit in its balance of payments. As the former could not be tackled now, it was best to concentrate on the latter. Rectification of deficit could, he claimed, be achieved by institution of a free exchange

*Chang Kia-ngan.
market, with Central Bank only granting exchange at official rate for good cotton and Government imports; for rest importers would have to get exchange themselves at free market price as best they could. He admitted that free exchange market would necessitate tightening of trade controls and elimination of current large-scale smuggling, but argued nevertheless that consequent increase in exports and in-flow of overseas remittances would bring China's international payments approximately in balance in about 3 months.

Then would [be] propitious time for introduction of silver coinage, especially if there had been one or two military victories, as some confidence in Government would have been restored. China would need between 200 and 250 million ounces of silver, in addition to the 45 million ounce stock in her possession. It would be best if she could have around 150 million ounces of silver coin on hand at time of its introduction, but there might not be time for that. He would like to see the silver coin introduced as unlimited legal tender, but there would not be enough on hand and it would have to be injected gradually through the main financial centers. The introduction of silver coin would be conditional on the Generalissimo's taking measures to reduce expenditures so that it would be utilized to move toward a balanced budget. I then proceeded to raise a number of questions:

1. The establishment of free exchange market would accentuate the flight of capital. Moreover, prevention of smuggling would be a major political problem, as most smuggling is via Hong Kong, which depends on entrepôt trade for its existence, and Kwangtung, where it would be hazardous for Central Govt to try to strengthen its political authority at this time.

2. The Central Govt would run the risk of rapid depletion of its stock of silver coin if it started with only 45 million ounces of silver coin. It was admitted that around another 100 million ounces would be needed, upon which I asked where this 100 million ounces and the balance needed eventually to make up the 250 million ounces would come from. The Governor again alluded to the possibility of an arrangement with Mexico through American good offices and to a purchase of silver from the United States. With respect to Mexican silver I tried unsuccessfully to pin him down on possible terms. With respect to U. S. silver he indicated that he had a 10-year credit in mind, and K. P. Chen suggested that repayment might be in the form of commodities such as tin and wolfram ore, with repayment to begin 3 or 4 years from now. When I pointed out that such an arrangement would in fact be a loan, this was generally agreed to. When I mentioned the obstacles in the way of a loan, K. P. Chen intimated that the "silver bloc" might support such a loan, citing the late Senator Pittman, who said to him 11 years ago: "Come to U. S. 6 years from now and we will give you all the silver you want." However, he confessed that the silver bloc might raise certain difficulties as to price. Another suggestion was that China might make an arrangement simi-
lar to that made by the United Kingdom and India during the war, when we lend-leased silver to them on condition that repayment be made in silver.

3. Would the silver coin be maintained at a fixed or a fluctuating price in terms of fapi? After some discussion of the advantages and disadvantages of both courses, Pei said it would be best to regulate the price of silver coin in such a way that it would exceed the value of its silver content in terms of the free market exchange rate, but no definite answer to the question was given.

4. The introduction of silver coin would accentuate the flight from fapi and significantly increase its velocity of circulation.

5. How would it be possible to resist pressure of military to obtain silver coin for their appropriations?

6. Finally, judging from Pei's analysis it would appear that silver coin was going to be introduced on the basis of the expectation that the economic situation was going to improve and not deteriorate. K. P. Chen speaking for the group as a whole said that was correct.

After further discussion Governor asked me to transmit over the week-end request contained in section 1.7

Saw Li Ming on July 12. He confessed that Pei had been too optimistic in his analysis of the impact of a free exchange market and that the silver proposal was the product of a desperate situation but claimed that hard money would act as a curb on military extravagance and contribute to fiscal sanity. K. P. Chen later joined us and also confessed that the establishment of a free exchange market, which he has supported for some time, would be a gamble. [Adler.]

STUART

10217-1647: Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, July 16, 1947—7 p.m.

874. For Adler from State and Treas. Navy reports July 8 that Shao of Central Bank [of] China informed Casaday, Maj. Johnson 8 and Lt. Milliren 9 that Central Bank unwilling to provide more than CNC 29,000 to $US 1, insists on renegotiation, and desires to sell at official rate only. Request your views on Shao's complaint (CommNavWestPac 10 080505Z July 8 11). Indicate whether agreement can be considered still in force, also your views on resumption of renegotiation.

In the event that renegotiation of Hong Kong cross-rate agreement

7Telegram No. 1532, July 15, supra.
9Lt. Howard C. Milliren. Disbursing Officer, United States Naval Port Facilities, Shanghai.
10Commander. U. S. Naval Forces, Western Pacific.
11Not found in Department files.
necessary, following procedure may be appropriate, subject to further checking in Washington. Views of Ambassador and yourself requested.

1. Resumption of negotiation with the Central Bank on a new cross-rate agreement or alternative, during which time Marine CNC proceeds will be used at the cross-rate.

2. Then indicate to Chinese after reasonable period that, unless agreement is reached before exhaustion Marine CNC, US will be forced to take appropriate alternative financial measures. [State and Treasury.]

MARSHALL

893.24/7-147

The Director of the Office of Financial and Development Policy (Ness) to the Chairman of the Chinese Supply Commission (Wang)

WASHINGTON, July 16, 1947.

My dear Dr. Wang: This is to acknowledge with thanks your letter of July 1, 1947, enclosing a check of the Chinese Supply Commission of $2,820,020.32 in payment of the principal and interest due on July 1, 1947 under the Agreement between the Governments of the United States and the Republic of China on the Disposition of Lend-Lease Supplies in Inventory or Procurement in the United States”, dated June 14, 1946, and known as the “Pipeline” Agreement.

The check has been transmitted to the Treasury Department with instructions to deposit it in a special account so that, in the event that the lend-lease settlement negotiations should result in any modification of the Pipeline Agreement, any agreed portion of this payment could be refunded to the Government of China. This is to conform with the suggestion contained in the second paragraph of your letter.

Sincerely yours,

NORMAN T. NESS

1021.7-1747: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 17, 1947—11 a.m.
[Received July 18—12:40 a.m.]

1540. To State and Treasury from Adler. ReEmbts 1532 of July 15 and 1535 of July 16. Herewith my comments on Urtel 845 of July 9 and on Governor of Central Bank’s request that (a) Treasury start minting 45 million ounces of silver coin for China on basis of a swap against 45 million ounces Central Bank has in Shanghai, and
(b) Treasury Department long-term credit of not more than 100 million ounces of silver to China on terms to be worked out.

1. While deterioration in financial and economic situation continues unabated and while certain prices particularly in larger commercial and financial centers are increasingly based on open market prices of U. S. dollar and gold, there is not an immediate threat to general internal acceptability of fapi. Granting a tolerable harvest, for which prospects are reasonably fair, and no drastic large-scale military reversals not already discounted, at present rate of deterioration this acceptability should be tenable for at least 6 months if not longer.

2. Pei's proposal for the establishment of free exchange market has certain important advantages from point of view of China's balance of payments and has something to be said for it, though his expectation that deficits on international accounts would be more or less eliminated within 3 months is quite unreasonable. At same time German experience would appear to indicate that in hyper-inflationary situation existence of free exchange market with widespread opportunities for exchange speculation and flight of capital intensified hyper-inflation and general economic instability. This factor alone would, of course, contribute to accentuation of flight from fapi.

3. The injection of silver coinage into circulation would undoubtedly dangerously accentuate flight from fapi. As it would be impossible to keep silver plans secret, expectation of move would have impact on flight from fapi even before move was initiated. More important, fact that move would be undertaken with only relatively small stock of silver coin on hand would further contribute to flight from fapi and loss of confidence in Central Government.

4. From fiscal point of view, injection of silver coin into circulation on a small scale would initially certainly not improve budgetary picture, as receipts would be paid in depreciating fapi and amount of silver remitted would be too small to make a sizable dent on the deficit.

5. Governor's request for a swap of 45 million ounces of silver and for our immediately beginning preparations for minting this amount is a disingenuous request for a loan of silver up to the whole amount needed for a new silver currency—probably 400 million ounces—minus the 45 million ounces China has on hand. For once we committed ourselves to minting the 45 million ounces we would have a moral responsibility to China for the new currency, which in effect we would be underwriting. The Governor's proposal, if acted on in its present form, would unnecessarily and inexpediently reduce what life there is left in fapi and would entail introduction of new currency under more unfavorable conditions than is necessary. Although fact that U. S. was associated with new currency would be psychologically bene-
ficial to the Central Government, this effect would be short lived and wholly uncommensurate with the cost. Therefore, it would be unwise to underwrite the new currency in such circumstances.

6. Therefore it is recommended that you instruct me to inform Governor as follows: Without prejudice to merit or demerits of plan for new silver coin, in opinion of State and Treasury it would not be feasible to embark on plan in 3 months.

Furthermore, following explicit information and details are needed for a considered evaluation of Chinese proposal:

a. How much silver does China need for a new silver coinage?

b. What is the minimum amount of silver coin China must have on hand at time of introduction of silver coin to leave her within margin of safety?

c. Does China contemplate establishing a fixed or fluctuating rate between silver and fapi?

d. Does China intend to replace fapi entirely with silver, and, if so, how long is process intended to take?

e. What specific and concrete steps is China contemplating with respect to budgetary deficit in period both before and immediately after introduction of silver coin?

f. Has China a plan for ultimate currency stabilization tied up with plan for new silver coin?

It would, of course, be made clear to Chinese that request for such information involved no commitment of any kind on part of the U.S. [Adler.]

STUART

102.1/T-1847: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 18, 1947—5 p. m.
[Received July 18—8:25 a. m.]

1550. To State and Treasury from Adler. ReDeptel 874 of July 16. Saw Shao July 10 and he said Governor had informed him that agreement in its present form was unsatisfactory and required renegotiation as Hong Kong cross-rate was too high. I replied that our complaint was precisely the reverse; whereas previously Hong Kong cross-rate was between 80 and 95 percent of Shanghai open market rate it had for most of period since May 15 been only between 60 and 70 percent. Shao at first took position that last two purchases by Army and Navy earlier in the week should not be settled on basis of Hong Kong cross-rate, but when I pointed out this would constitute retroactive as well as unilateral termination of agreement, he abandoned his position. However, he insisted that new basis was now required. I
asked him what basis he proposed and he made quite unrealistic and unacceptable offers. When I saw Governor later in the day and on July 11 he was vague and asked me to keep on negotiating. Shao was inaccessible on July 12 and when I saw him again on July 14 he at first maintained unreasonable attitude and then confessed what I had already observed, namely, that while Governor might have been pliant in his conversations with me Governor's instructions to him were firm and rigid. He gave me distinct impression that Central Bank, being highly embarrassed by having to carry on transactions at other than official rate, would prefer us to go into open market without asking Central Bank's sanction.

For your information, on afternoon of July 14 Central Bank tried unsuccessfully to perpetrate a crude deception on Navy. Governor of Central Bank will be away in North China until early next week and Shao will be in Hong Kong for another 10 days.

In view of Central Bank's intransigent uncooperativeness, of Governor's evasiveness which was manifested in May as well as in current negotiations, and of fact that Marine CNC proceeds will be slow in becoming available, it is recommended that I inform Governor on his return from North China that unless we are given a reasonable arrangement we will be forced to adopt appropriate alternative financial measures. Only drawback is that without arrangement with Central Bank we would probably have no working formula for acquisition of real estate under FLC agreement. But if Central Bank remains unwilling to accept reasonable arrangement, there would appear to be no alternative. Attitude of Central Bank is the more inexplicable in view of numerous requests China is making for assistance from the United States.

Should Central Bank continue to be unreasonable, and should we be forced into open market, there are a number of alternatives:

(a) Army, Navy and Embassy can pay alien staff in U. S. currency.
(b) Army, Navy and Embassy can cover CN requirements, excluding alien staff salaries, by sale of U. S. currency.
(c) Army, Navy and Embassy can cover CN dollar requirements by sale of checks or drafts to reputable American firms or by transfers to their accounts in New York.
(d) Same as (b) and (c) except that alien staff salaries would be paid in CN dollars. Their payment in local currency would on whole appear preferable for time being.

Advantages of (c) over (b) are that it would yield a better rate and would be easier to operate, but disadvantage is that it would render U. S. Government liable to accusation of favoritism by firms not included. In any case, whichever arrangement were adopted, it would
be advisable to require Army and Navy to consult Treasury and Assistant Treasury Attachés on their purchases.

In view of urgent need for CN dollars by Army, Navy and Embassy, speedy reply would be appreciated.

Have consulted Ambassador who concurs in above. [Adler.]

STUART

893.00/7-1547

The Director of the Office of Far Eastern Affairs (Vincent) to the Secretary of State

WASHINGTON, July 18, 1947.

DEAR GENERAL MARSHALL: The real purpose and body of the attached memorandum is to be found in the 5th and final Section, Currency Reform; and the specific problem raised is that of a reintroduction of silver into China as a medium of exchange. This Section of the memorandum adds nothing to what we already know. As a matter of fact, we have much more precise information from Sol Adler in Nanking. The Treasury experts continue to take a dim view of the project. They do not consider it feasible. As a layman I am still for it and wish that some way could be worked out to put it into effect. I find also that most of the old China business hands with whom I have talked favor the proposal. Some form of American supervision would be necessary if we gave China a large silver credit to assure that it did not fall into the hands of large speculators and hoarders in Shanghai but actually went into the interior to loosen up the flow of goods to the seaports. Jenkins of Treasury, who is accompanying Wedemeyer, will no doubt report on the matter.

I am of course in hearty disagreement with the statement in Section 1 (c) that “one and a half year’s time was lost to these futile efforts to prevent civil war in this country”. I am quite sure that conditions in China would have been much worse had there not been during 1946 a relative lull in military activity. Although little has been done, the Chinese Government is more alive now than it was then to the need for putting its house in order. Had there been active civil war in the early part of 1946, I seriously doubt that the 250,000 Russian soldiers in Manchuria would have withdrawn. And, unless we were prepared for total involvement in the civil war on the side of Chiang, I do not believe he was any more capable then than he is now of eradicating the Chinese Communist army from north China.

With regard to Section 2, I would comment that Chiang’s popularity

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12 Lt. Gen. Albert C. Wedemeyer; for correspondence on his mission to China, see pp. 685 ff.
is decreasing. Butterworth supports this view. But it does not follow that he should be replaced. Disintegrative forces in China are always stronger than integrative. Chiang has been fighting a losing battle primarily because he has been, it seems to me, playing the wrong game with the wrong cards. I do not believe he realizes the extent to which the relative unity achieved by him before and during the war was due to two factors: (1) the pressure exerted by Japan and (2) the healthy financial and economic situation which made it possible to attract provincial loyalty. The financial strength of the Nanking Government, which it used to bring unity, has always been in the Yangtze River area. Outlying areas have been, generally speaking, liabilities. If Chiang goes, the disintegrative trend will be speeded up because there is no strong man or group to succeed him. If he stays he may be able, with our assistance, to improve his position in the Yangtze River area from a financial and economic standpoint and cut some of his liabilities in outlying areas. There is a somewhat oblique approach to a solution of this kind in Section 4 (a) of the memorandum which suggests that in the area south of the Yangtze "greater power should be vested in provincial governments so that governors may have a freer hand to improve their fiscal administration, to balance their budgets, to make necessary agrarian reforms, etc."

I agree with the main thesis in Section 3 that "the prospect of peace with the Communists is not very hopeful" and I might add one more reason to those given; namely, the inability of the National Government to visualize the problem in terms of a social as well as a military contest.

With regard to general policy on the question of economic aid to China I tend more and more to the belief that, while continuing efforts to contain the spread of Communism in China without becoming directly involved in the civil war, the grass roots and strength of our relations with China over the past 100 years derive from American commercial and cultural activities in the country. With this thought in mind, I believe we should do all that we reasonably can to strengthen American business and cultural enterprise in the country. Specific projects should be considered in the light of their relation to strengthening American business in places where we may reasonably expect operations not to be completely at the mercy of the vicissitudes of civil war or of the vagaries of the present National administration. If we can build up enclaves of increasing American influence in such places as Shanghai and Tsingtao, the effect might gradually spread and be beneficial to wider areas and perhaps lead the way to more extensive economic assistance which we would then be able to justify in the eyes of the American people as sound American policy. This will
take time; and the question is whether time is on our side; whether we have time. I am inclined to think we have because the Russians do not seem anxious to move aggressively and precipitately into the morass of China. They may realize the difficulties of playing hockey in a marsh.

Manchuria, of course, is a more urgent problem. There is no need crying over the mistakes of the past. But I believe that if Chiang would modify his desire to achieve unity based upon the complete authority of the National Government and would make a practical and sincere attempt to gain the support of the old Manchurian leaders and the Manchurian population, he could at least move in the direction of improving the situation in Manchuria. After all, Chang Tso-lin may have been a thorn in the side of intramural Chinese Governments for 20 years because of a semi-autonomous position; but he was also able to operate in a manner which modified the aggressive tendencies of the Japanese and the Russians and which maintained him in control.

J[ohn] C[arter] V[incent]

[Enclosure—Memorandum]

1. Factors leading to the present chaos:
   
   (a) Privation as the result of eight years of war against the Japanese.

   (b) Development of the Red influence in North China in the course of the war.

   (c) Too much optimism after the war. Peace negotiations during Marshall’s mission, the preparations for the National Assembly and the Coalition Government, etc. held many things in abeyance and prevented the Government from paying necessary attention to such important problems as the improvement of Government administration, finance and monetary policy. About one and a half year’s time was lost to these futile efforts to prevent civil war in this country.

2. Factors essential to stability in China:

Political unity, maintenance of the social economy and of regular economic relations with countries abroad are the three most important requirements for a peaceful and stable China.

Towards the objective of political unity, which is most important not only to China herself but also to the Far East as a whole, the Chiang regime has made an important contribution. There has been

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33 Ruler of Manchuria until his death in June 1928.
34 Sent by the Secretary of State to Mr. Vincent on July 3 with a note asking for his comment on this memorandum which had come “from a very high Chinese source”.

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two versions with respect to the present regime. Although some think that the absence of the Generalissimo from the Government may improve conditions in China, the majority of the Chinese people believe that, before the completion of the constitutional machinery, Chiang's absence will bring greater chaos to China, with peace to be regained only after a long period of turbulence. Without the Generalissimo, there will likely be a united Communist regime in North China vis-à-vis a disunited non-Communist government in the South.

Thanks to the agrarian system in China, the economic system of the country has never been impaired despite the repeated changes of dynasties. But the situation is somewhat different under the present conditions where a system of managed currency is used.

When the people loses confidence in the currency, their confidence in the Government will also be lost. The loss of confidence among the rural populace will mean interruption of trade between cities and rural areas. There will be no agricultural supplies for the metropolitan areas and little trade with countries abroad.

3. Peace with Communists:

The prospect of peace with the Communists is not very hopeful because of (1) the different ideology of communism, (2) the deep-rooted hatred between the Communists and the Kuomintang Party, and (3) the dominance of the Soviet influence over the Reds in China.

A temporary truce with the Communists might be attained if, and only if,

(a) China can meet the demands of Soviet Russia, particularly an exclusive interest in Sinkiang and Manchuria, or

(b) the Central Government can win a few strategic victories so as to ensure a definite superiority over the Reds, or

(c) the Central Government can yield unconditionally to the terms of the Communists.

4. Will the Chiang Government be able to prevent the expansion of the Communists in China?

The bulk of the people in China is in favor of the Central Government because (1) they are afraid of a radical revolution and (2) the experience of those who have been in the Communist areas have not been pleasant.

In order to consolidate its position among the people, there will also be several important conditions which the Central Government must fulfill:

(1) On the political and military side, the Government must adopt a bold and determined policy. This will include the following points:

(a) The area south of the Yangtze River will be designated as an
area for economic reconstruction and industrial development under the following conditions:

(i) Civil personnel will take charge of the provincial governments to replace the military men who are now holding a great number of these posts.

(ii) Greater power should be vested in the provincial governments so that governors may have a freer hand to improve their fiscal administration, to balance their budgets, to make necessary agrarian reforms, etc.

(iv) [???] Peace and order in this area will be maintained by militia and police forces rather than regular combat units.

(b) The area north of the Yangtze will be designated as a pacification area, in which more power should be given to the military personnel before the Communists are cleared up. In the meantime, it will also be imperative to make these areas adequately provided with food and clothing so that the allegiance of the northern provinces to the Central Government may be ensured, despite the continuance of the civil war in these provinces.

(2) On the economic side, currency reform and measures to reduce the budgetary deficit are imperative:

(a) The currency reform must be undertaken in the next few months, before a total collapse in the present economic system becomes a reality.

(b) The budgetary deficit must gradually be reduced by improving the tax system as well as curtailing government expenditure. To reduce military expenditure, it will be helpful to divide the nation's military forces into two sections: the combat units and the local militia. The former units must be well trained and fully equipped for their duty, but their number may be reduced since the areas south of the Yangtze will mainly be guarded by the militia and police forces.

5. The Currency Reform

(a) In order to ensure the flow of indigenous agricultural supplies from the rural districts and in view of the waning confidence in the paper notes among the rural populace, the use of metallic coins will probably be imperative if the currency reform is to be successful. A limited amount of gold coins and a sizeable amount of silver money will be put into circulation in the course of monetary reform. Gold and silver certificates duly backed by metallic reserve may also be used, if the technical difficulties involved in coinage prevent the use of metallic coins at the early stage of the reform or when conditions prevent the circulation of a new paper money. The size of the gold circulation will be predicated on the supply of the metal that China will be able to obtain. The coins will not be used to meet the Govern-
ment deficit, but to pay wages of industrial workers and to buy agricultural supplies from the rural areas.

(b) The conversion ratio between the old fapi notes and the new money will be fixed in accordance with the market conditions at the time of the monetary reform.

(c) A currency reserve board consisting of representatives of the Ministry of Finance, the Central Bank of China, the Ministry of Audit of the Control Yuan, the Bankers' Association, the Chamber of Commerce and other relevant associations or institutions will be established to supervise the issuance and the reserve of the new currency. Foreign advisors may also be invited to participate in the supervision.

(d) At present, the volume of the note circulation in China is about nine trillion yuan. Assume that the circulation needed after the monetary reform will double the present volume of circulation, the conversion ratio between the old notes and the new money is about 25000:1, and 50% of the new circulation is composed of hard coins and the rest of the money notes backed by a metallic reserve of 50%, the amount of silver needed will be approximately 302,400,000 ounces. At US$1.29 per ounce, the official price for silver in the United States, about US$390,096,000 will be required; and at the market rate of US$0.70 about US$211,680,000 will be required.

(e) To undertake the monetary reform it will be necessary to have a loan of 302,400,000 ounces of silver from the United States. The loan may be repayable in silver in the course of a thirty-year period beginning five years after the loan is granted. To ensure the servicing of the loan, China will specify a few commodities to be exported to the United States and the proceeds derived therefrom will be used to purchase the silver for the payment of the interest and amortization of the loan.

(f) To replenish China's depleting exchange reserve, short-term commodity loans amounting at least to US$200,000,000 will also be imperative besides the silver loan previously mentioned. In the past year, commodities valued at about US$300,000,000 totaling about three-fourths of China's entire imports, were from the United States. They included fuel, cotton, wheat, flour, dyestuff, fertilizers, metals, pharmaceuticals, machinery and machine parts. In order to continue such imports, it is necessary to arrange commodity credits with either the Export-Import Bank or other financial institutions of the United States. These credits will have a term of not more than five years and will be strictly on a business basis and repayable, like some of the previous loans from the proceeds of specified exports from China. It is hoped that these commodity credits will be repaid before the servicing of the silver loan is started.
The above scheme of monetary reform is designed so as to:
(1) Minimize the drain of gold, which is precious in the United States or the dollar fund, which is scarce in the world market.
(2) Increase the demand for silver, which is relatively abundant in the United States.
(3) Prevent the collapse of the social economy of China.
(4) Guard through the Currency Reserve Board the credit granted by the United States from being mis-used.

It is hoped that through this monetary reform, the confidence of the people in the currency as well as political unity of the country may be restored.

102.1/7-1747: Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, July 24, 1947—5 p.m.

911. For Adler from State and Treas. It is assumed here that monetary authorities would not wish to place order for minting 45 million ounces silver without assurance that balance of 250 to 350 million ounces could be minted promptly following completion initial order reurtels 1532 and 1535 and 1540. Otherwise issue limited to 45 million ounces could easily be dissipated without any improvement in economic situation. As indicated deptel 845 loan for currency stabilization not thought possible at this stage and introduction silver coins under existing conditions considered nugatory. [State and Treasury.]

MARSHALL

893.24/7-3047

The Director of the Office of Financial and Development Policy (Ness) to the Chairman of the Chinese Supply Commission (Wang)

WASHINGTON, July 30, 1947.

My Dear Dr. Wang: On August 19 [18], 1945 your Government was requested\(^\text{15}\) to submit an inventory of lend-lease supplies furnished by the Foreign Economic Administration to your Government on lend-lease terms and still under the control of your Government on V–J Day.

This inventory was to cover all articles transferred to your Government by the Foreign Economic Administration that had not been lost,

\(^{15}\) Letter from the Administrator of the Foreign Economic Administration to the Chinese Ambassador, Foreign Relations, 1945, vol. vii, p. 1130.
destroyed or consumed. I would appreciate receiving this inventory from you at your earliest convenience.

I wish also to call your attention to another lend-lease matter involving 1488 Dodge T-294 Trucks which were turned over to the Chinese Government during the period of September 2, 1945 through October 3, 1945. The Chinese War Production Board through its agent, the War Transportation Board, accepted delivery of these trucks. Upon receipt of the trucks the Chinese War Production Board was to have furnished the Foreign Economic Administration authorities with an “interim receipt” acknowledging the receipt of these trucks. This “interim receipt” was also to contain a stipulation by the Chinese Government that payment for these vehicles would be made to the United States Government on terms to be determined between the two Governments. A suggested form of the foregoing mentioned “interim receipt” was transmitted on November 12, 1945 to Mr. R. C. Chen 16 by Mr. W. T. Stanton. 17 Mr. Stanton requested the Chinese War Production Board to execute four copies of the suggested receipt, if acceptable to the Board, and the four executed copies were to be returned to Mr. Stanton. These receipts have never been received by this Government.

Would you kindly look into the matter and advise me as to the status of these “interim receipts”. If these receipts have not been executed by the Chinese authorities I would appreciate your efforts in having it done and transmitted to me at your earliest convenience.

Sincerely yours, Norman T. Ness

102.1/7–2447: Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, July 31, 1947—6 p.m.

945. From State and Treasury. This Govt is at loss to understand the position apparently being adopted by the Chinese Govt which refuses to make available a reasonable and equitable rate of exchange to support the activities of the US Govt in China and in particular the activities of elements of US Army and Navy stationed in China in the interests of the Chinese authorities and at their request (Embtels 1550, July 18 and 1577, July 24 18).

The Treasury Attaché should reopen this question with the Governor of the Central Bank with a view to effecting speedily an equitable arrangement. You are also authorized to reinforce his representa-

16 Deputy Director, Department of Priorities, Chinese War Production Board.
17 Special Representative of the Foreign Economic Administration in China.
18 Latter not printed.
tions by bringing this matter to the attention of the Pres of Executive Yuan who was party to the last arrangement and strongly urge upon him that satisfactory arrangements be completed in the very near future.

Dept and Treasury infer from parenthetical comments in antecedent telegrams of Emb that if the Chinese Govt does not favor an agreement for current expenses it is prepared to look with tolerance on procurement of CN funds by US Govt agencies from private sources. If this correct, Treas Attaché is authorized to arrange for such procurement should emergency payments have to be made before envisaged arrangement through official channels can be effected. [State and Treasury.]

MARSHALL

893.24/8-847

The Acting Chief of the Division of Lend-Lease and Surplus War Property Affairs (Shenefield) to the Chairman of the Chinese Supply Commission (Wang)

WASHINGTON, August 8, 1947.

MY DEAR DR. WANG: This letter is to inform you that the Congress recently passed the Supplemental Appropriation Act, of 1948 (Public Law 271) and this legislation was signed by President Truman on July 30, 1947.19

As a result of this legislation, the lend-lease pipeline material may be delivered in accordance with the Agreement of June 14, 1946 with your Government. The Department of State has requested the Treasury Department, Bureau of Federal Supply, to proceed as expeditiously as possible, with shipments of materials remaining in the China pipeline.

Sincerely yours,

Hale T. Shenefield

893.5151/8-947: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, August 9, 1947—5 p.m.
[Received August 10—3 a.m.]

1679. To State and Treasury from Adler. Reference Embassy’s telegram 1562 of July 22,20 Governor of Central Bank informed me that present plan with respect to “partial linking” scheme is as follows:

1. All importers with approved import licenses will be required to procure their exchange from current exchange proceeds of exports

20 Not printed.
and inward remittances at prevailing market rate of exchange. Central Bank will, however, sell exchange at official rate for imports of raw cotton, rice and wheat, fertilizer and coal, total imports of which will be about $112 million.

2. Exchange from exports and inward remittances will be sold at prevailing market rate to appointed banks.

3. A committee of five consisting of representatives of Executive Yuan, Ministry of Finance, Central Bank, Import Control Board and Export Control Board will constitute exchange equalization committee, whose function it will be to bridge temporary and seasonal gaps between exchange outpayments and impayments. Committee will receive advances from Central Bank for this purpose, to which the allocation of approximately $50 million is being considered.

4. It is hoped to achieve equilibrium in China’s balance of payments in one year. Deficit in China’s balance of payments for next 12 months, including imports of cotton, foodstuffs, coal and fertilizer, but not including Government expenditures and imports estimated at over $100 million, tentatively estimated at $100–125 million. Preliminary estimates for next 12 months are (all figures in dollars million):

(a) Out payments.
   i. Imports. Cotton, food, coal and fertilizer 112; schedule I, 20; schedule II, 198; schedule III, 32.21
   ii. Payments for financial services, et cetera, 55.
(b) Impayments.
   Exports 165–180; overseas remittances 100; foreign government expenditures 25; philanthropic 12.

Governor and Pei indicated that the expected part of deficit to be met through $25 million of post-UNRRA relief food supplies and an Eximbank cotton loan.

5. Governor keenly aware of need for restricting smuggling and flight of capital (see 1 of Embassy’s telegram No. 1678 [A] of August 922). He is also anxious for political reasons that Central Bank should not assume responsibility for operation of plan or of exchange equalization committee. In fact his real reason for having five representatives on exchange equalization committee is to diffuse responsibility and avoid political vulnerability in fact [face?] of inevitable depreciation and [of?] CN dollar. In view of the C-C clique’s anxiety to encroach into economic and financial affairs and its demonstrated willingness to exploit economic situation to this end, of Political Science group’s delicate position and of fate of Pei in March, Governor’s attitude is not surprising. At same time it must be emphasized that ability of envisaged committee to carry out plan effectively must be seriously doubted; precisely because it will have

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21 For a description of the nature of these schedules, see telegram No. 1910, November 19, 1946, from the Ambassador in China, Foreign Relations, 1946, vol. x, p. 1024.
22 Not printed.
to function in difficult and unfavorable circumstances it needs to be entrusted with real power and responsibility and to be protected from “political” pressures. Otherwise it will have to support the market heavily and thus dissipate large amounts of foreign exchange which will negate the whole point of the plan, or become the political scapegoat for depreciation of fapi and the inevitable continuance of hyperinflation.

Furthermore, with committee composed of five members on lines contemplated, danger of leaks and scandals is seriously enhanced. Finally, when I asked Pei about the degree to which cooperation of appointed banks could be relied upon, he was characteristically optimistic; Rogers, on the other hand, expressed grave doubts about such cooperation. [Adler.]

STUART

811.516 Export-Import Bank/8-1247: Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, August 12, 1947—6 p.m.

1009. For Agricultural, Commercial Attachés from Eximbank. China has requested $200 million Eximbank credit 23 to cover estimated raw cotton deficit of 500 thousand bales last half this year and 580 thousand bales 9 months next year.

Application states average of 4 million spindles now operating and consuming 200 thousand bales monthly. Estimates for next year 10 percent higher. Stock of cotton carried over from last year 300 thousand bales; UNRRA agreed to supply 200 thousand bales this year; 350 thousand bales obtained by direct purchase and domestic crop estimated to provide additional 1 million 50 thousand bales this year. Three month stock of about 600 thousand bales must be maintained to ensure continuous operation. For next year domestic supplies available to mills estimated 1 million 930 thousand bales which with 600 thousand carry over from this year would total 2 million 530 thousand bales prospectively available while requirements are 2 million 640 thousand bales plus necessary stockpile of 660 thousand bales.

China proposes 4 year credit with repayment of principal over last 2½ years during which Chinese Govt would earmark for export a portion of cotton textile production sufficient to provide foreign exchange to carry and repay loan. Exports stated already resumed but extraordinary demand in China and below-normal production permits only small quantities to be exported in immediate future.

23 Letter from the Chinese Ambassador to the President and Chairman of the Board of Directors of the Export-Import Bank of Washington, July 31, not printed.
Chinese estimate sum required to meet interest and principal in third year of credit would be produced by export of about 276 thousand bales cotton yarn or about 7\% percent Chinese prewar output.

Eximbank requests information from Agricultural and Commercial Attachés on present and prospective cotton situation in China including information on domestic crop and whether domestic cotton actually reaching mills in substantial and increasing volume; amount of exports and whether made by other than govt agencies; whether increased exportation cannot now be undertaken by govt and private mills to produce exchange for servicing 15 to 24 month credit in a reasonable amount and perhaps also to finance future purchases raw cotton and whether stipulation for export of sufficient part of production to service a credit could be policed effectively by any existing Chinese Govt agency or responsible millowners association. [Eximbank.]

From Dept Eximbank's attention has been invited to previous cotton estimates submitted by ConGen Shanghai which differ radically from Chinese figures but reassessment situation desired.

Sent Nanking Depts 1009 repeated to Shanghai Depts 1354.

MARSHALL

811.516 Export-Import Bank/8-1847: Telegram

The Consul at Shanghai (Meyer) to the Secretary of State

SHANGHAI, August 18, 1947—2 a.m.
[Received 4:54 a.m.]

1991. Our opinion substantiated by leading importers no additional imported cotton required balance this calendar year. Third quarter raw cotton quota recently announced US 20 million dollars will cover over-all requirements up to July 31, 1948, assuming domestic cotton arrivals even somewhat less than estimated by Chinese cotton authorities. Possibility small amount (50 thousand bales) may have to be ordered during first quarter 1948 for some mills whose stocks may not be balanced.

Because of constantly fluctuating conditions in China affecting agricultural production, transportation, coal and power, cotton requirements last part 1948 difficult to estimate accurately. However, based on present indications and trends, figure of some 580,000 bales appears to be reasonable for imports August, September, October 1948 to carry mill production over gap until 1948-1949 domestic crop begins to arrive market in volume. ReDeptel 1354, August 12. 24 Preliminary copy of balance sheet substantiating these estimates has been given Wedemeyer Mission, E. D. White, Agriculture 25 and Reed Dunn,

24 Telegram No. 1354 repeated telegram No. 1009, supra.
25 Edwin D. White, Assistant to the Secretary of Agriculture.
Cotton Council of America. We are now checking certain items which may need slight revisions. Will radio unclassified copy of balance sheet for ExImBank and depart [Dept.] Further comments will follow.  
Repeated Nanking 1439.

Meyer

893.24/8-2147

The Acting Chief of the Division of Lend-Lease and Surplus War Property Affairs (Shenefield) to the Chairman of the Chinese Supply Commission (Wang)

WASHINGTON, August 21, 1947.

My Dear Dr. Wang: In my letter to you on August 8, 1947 you were advised that as a result of the enactment of Public Law 271, 80th Congress, the lend-lease pipeline material not previously made available to your Government, could now be delivered in accordance with the Pipeline Agreement of June 14, 1946.

In this connection I should like to call your attention to Mr. Lane’s letter to you dated December 13, 1946. In view of the recent favorable action by Congress, the accessorial expenses mentioned in paragraph number (1) of that letter will be paid by the United States Government, as provided in the Agreement of June 14, 1946 subject to repayment as provided in paragraph C (2) thereof. Payment for ocean freight will remain subject to the statement contained in paragraph (2) of the letter of December 13, 1946.

If you have any further questions concerning this matter, please do not hesitate to call on me.

Sincerely yours,

Hale T. Shenefield

102.1/8-2347: Telegram

The Ambassador in China (Stuart) to the Secretary of State

Nanking, August 23, 1947—6 p.m.
[Received August 24—4:25 a.m.]

1788. To State and Treasury from Adler. Reurtel 845 of July 9 and Embtls 1532, 1535 and 1540 of July 15, 16 and 17. Learn from a

28 See telegram No. 2060, August 26, from the Consul General at Shanghai, p. 1180.
27 Chester T. Lane, Lend-Lease Administrator and Deputy Foreign Liquidation Commissioner as of December 1, 1946.
28 Not printed.
29 Inland freight, warehousing, hauling, etc. Mr. Lane’s letter indicated, primarily, that China would pay these charges on goods shipped after midnight, December 31, 1946, in lieu of the 7½% charge provided in the pipeline agreement.
30 This paragraph indicated that China would pay freight charges and freight forwarding fees on goods shipped on vessels sailing after midnight, December 31, 1946.
reliable American source that Hsi Te-mou was instructed by the Generalissimo to fly to Mexico in mid-August to negotiate purchase of some silver. Apparently what Generalissimo has in mind is to purchase about 55 million ounces from Mexico and use this amount plus stock Central Bank possesses to mint 100 million ounces of silver as a kitty. Generalissimo is still obdurate in his intent to have reserve of silver coin on hand for emergency and to prepare for introduction of silver coinage, in spite of fact that 100 million ounces would be hopelessly inadequate, even assuming scheme as whole were feasible. Generalissimo’s intent borne out by Governor Chang asking me to inform Treasury he would much appreciate its cooperation in response to Hsi Te-mou’s request on dies, moulds and mint production capacity. [Adler.]

STUART

893.61321/8-2647 : Telegram

The Consul General at Shanghai (Davis) to the Secretary of State

SHANGHAI, August 26, 1947—6 p. m.
[Received August 26—11 a. m.]

2060. Inform Commerce and Agriculture. There are at present about 4 million standing spindles in China excluding Manchuria. Present number of spindles in condition to operate calculated at 3,400,000. Present average full time operating capacity all China only about 3,100,000 because of power shortages; in Shanghai due to lack of power-producing equipment, in Tientsin and Tsingtao lack of coal. ReDeptel 1354, August 12, paragraph 2. Shanghai mills still working at reduced capacity in conformity with scheduled and non-scheduled shutdown operation plan alternated from time to time according to power producing capacity and other consumer demands on existing generating capacity. Cotton mills shutdown in Shanghai due to power producing capacity and other consumer demands on existing generating capacity. Cotton mills shutdown in Shanghai due to power shortage commenced in June 1946 and have continued since that date as reported ConGen airgrams A–754, October 2, 1946, and A–601, August 13, 1947.\[a\]

It is estimated that by July 31, 1948, contingent on availability of power, China will be able to operate about 4 million spindles but an increase beyond this number assuming sufficient power available is

\[a\] Telegram No. 1354 repeated telegram No. 1009, p. 1177.
\[b\] Neither printed.
dependent upon more rapid deliveries of new machinery at present very slow. Average spindle operation for crop year ending July 31, 1947, spindles 3,500,000 as per ConGentel 2000 August 18.\textsuperscript{a3} Requirements of 2,640,000 bales imply an average operation 5,280,000 spindles during 1948 which is not possible.

Re paragraph 4, our opinion accurate analysis export possibilities requires further study. Preliminary survey indicates there should be good market for Chinese piece goods provided China can export at competitive prices. Export of large quantities of yarn debatable as sources here indicate demand other Far Eastern markets mainly for piece goods. Total yarn export 1946 bales 782 piece goods yards 182162. Exports 1947 January–May inclusive yarn bales 5859 piece goods yards 507250.

Government now apparently making belated effort to promote export of cotton products in view of necessity to obtain foreign exchange; also because of mill pressure to introduce Chinese products in Far Eastern markets before Jap exporters are in position to make real competition.

Re paragraph 2 re movement domestic crop to mills, extensive research by this office supported by data important Chinese sources substantive [of] figure of 800,000 bales available to mills 1946–47 crop. (ReConGentel 2000, August 18.) Of this quantity moderate part still up country but collected and moving in volume to mill centers. 1,933,000 bales is approximately the figure estimated by this office for entire 1947 domestic crop of which it is estimated that 1,100,000 bales will be available for mills consumption. Latter figure also included in balance sheet submitted ConGentel 2000 August 18, is believed fairly optimistic and contingent upon no further deterioration of transportation facilities to mill centers. However if present unsettled conditions in China should show significant improvement in the next season our estimate of 1,100,000 bales could be increased moderately owing to some domestic stocks becoming available now believed held up country from previous crops. There is now great incentive for mills to purchase Chinese cotton even though it is higher priced than imported as the products of Chinese cotton are not subject to possible additional JDC [Government] control other than price ceilings.

Sent Department, repeated Nanking 1483.

\textsuperscript{a3} Not printed.
The Secretary of the Treasury (Snyder) to the Secretary of State

WASHINGTON, August 30, 1947.

Dear Mr. Secretary: I have your memorandum of June 18, attaching a copy of a cable of June 14 from Mr. Adler, the Treasury Representative in Nanking, and requesting an opinion concerning the informal Chinese proposal for a silver loan.

The Chinese have proposed the minting of 45 million ounces of silver owned by the Central Bank in Shanghai, and a long-term advance by this government of 100 million ounces on terms to be worked out. This would provide an initial stock of coins which the Central Bank apparently would introduce gradually for the purchase of crops, payment of wages to industrial workers and of government salaries. Proponents of the plan hope that the silver would circulate side by side with the existing paper currency, presumably at a fluctuating ratio. An initial rate of 25,000 to one has been suggested. It has been estimated by the Chinese authorities that upwards of 400 million ounces of silver would be required to replace all the paper currency now in circulation. The Treasury feels that this may well be an underestimate.

As you know our two Departments advised the Embassy in Nanking in July that a credit as suggested by the Chinese would require Congressional action and that it was considered here that no monetary measure could have an appreciable stabilizing effect in the face of the continued deficits being incurred by the government. Despite our negative response the Chinese subsequently made inquiries concerning the minting facilities of the United States Treasury. They are now negotiating with our Bureau of the Mint for the preparation of dies, although only the 45 million ounces of silver owned by the Central Bank are now available for a new silver currency.

The Treasury Department is of the opinion that there is little merit to the proposal to introduce silver currency in China under existing conditions. Opportunities for graft and favoritism are involved in this proposal such as were afforded under the gold sales program of 1942. The depreciation in the value of the paper currency would occasion a drain upon the government stocks of silver coins, a large part of which may go directly into hoarding. It is our view that the

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31 Text of this letter quoted in airgram No. A-138, September 9, to the Ambassador in China.
32 Telegram No. 1801, p. 1134.
33 Telegram No. 845, July 9, p. 1155.
completion of the program of substituting silver coins for paper currency might involve an impossibly large volume of silver coins under such circumstances. It is also possible that the introduction of silver coins on a partial scale such as is proposed by the Chinese Government might actually bring about a situation where the paper currency would depreciate in value faster than it would without the silver coins, and accelerate the deterioration in Chinese fiscal conditions. Any association on the part of this Government in the provision of an initial stock of silver coins might involve it in a moral responsibility to provide much larger amounts of silver which would be required for the development of a new currency.

In the presently thin world silver market, any program for the remonetization of silver in China would inevitably drive up the price of silver, and entail an outlay on the order, possibly, of half a billion dollars. Even if the presently circulating paper currency were completely replaced by silver coins there is no present indication that the Chinese government’s budget would be balanced and that the government would not again resort to the issuance of paper currency to finance its deficit.

China’s basic economic difficulties are a cause rather than a result of the increasing instability of her currency. I do not need to elaborate on this theme—the heavy government deficits which are being met by continuous expansion of the paper currency, and the lack of internal peace are at the root of China’s troubles. In our opinion, the appropriate time for a revision of the Chinese monetary system will come when a broad program of internal reform is developed. A remonetization of silver at that time would have advantages and disadvantages which would need to be reviewed in the light of existing circumstances, and other possible financial and monetary measures which might be taken.

From such information as we have received, it would appear that plans of the Chinese government for the reintroduction of silver coinage are tentative, and that many details of the programs would still have to be worked out. There are indications that some of the Chinese officials who have discussed the proposal with Mr. Adler feel that a silver loan to China would receive strong support from the “silver bloc” in Congress, which would be less interested in any other form of aid to China. This consideration may well be the principal reason for the attention that is being given by the Chinese government to the reintroduction of silver, since recent attempts at obtaining other forms of assistance from this government have been generally unavailing.

Very truly yours,

John W. Snyder
The Ambassador in China (Stuart) to the Secretary of State

No. 966  NANKING, August 30, 1947.  [Received September 9.]

Sir: I have the honor to refer to the Embassy's despatch No. 652 of April 21, 1947, regarding the economic reform plan adopted March 23, 1947, by the Third Plenary Session of the Kuomintang Central Executive Committee, and to the Embassy's telegram No. 1583 of July 25, 3 p. m., stating that the plan, with minor modifications, had been approved July 21 by the National Economic Council (NEC). Reference is also made to the Embassy's despatches Nos. 665 of April 25, 1947, regarding the proposals for economic reform presented to the Kuomintang CEC meeting by Dr. Chen Li-fu, Minister of the Kuomintang Board of Organization, and 887 dated July 18, 1947, on the subject of the National Economic Council and the economic reform plan.

The plan was adopted August 1, 1947, by the State Council of the National Government of China, reportedly with few if any changes being made in the plan as previously approved by the NEC. What was purported to be a complete translation of the plan as it now stands was issued August 11, 1947, by the Government Information Office. A copy of this translation is enclosed.

Present Plan Versus Original Draft of Plan. The present plan contains most of the recommendations which originally appeared in the draft plan approved March 23 by the Kuomintang CEC. In general, however, the plan as it now stands is a more compact and better organized document and reflects the extended discussions on the plan which took place in the NEC during the several months it was under discussion.

The plan consists of a foreword, which purports to explain the need for reform, and recommendations given under three main headings, as follows: A. Banking System; B. Production and Reconstruction; and C. Financial Reforms. The brief conclusion states that, to achieve desirable results in the enforcement of the plan, particular attention should be paid to the giving of "reasonable" improvement of treatment accorded military personnel, government employees and educators; to placing State-operated and private enterprises on an equal footing; and to the launching of an extensive economic reconstruction movement among the people.

As expected, the proposal to establish hsien (county) banks was

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37 Not printed.
most bitterly contested in the NEC meetings but was finally approved with certain modifications. It was originally proposed that the capital of these banks, whose main objectives assertedly are to improve rural economy, to facilitate local reconstruction, and to help enforce the local self-government program, would be initially supplied by the National Government to the extent of 60 percent, with the remainder being supplied by the hsien governments. In the final draft of the plan it is stated that the hsien governments, and subdivisions thereof, are expected to make the necessary investments, and that the hsien banks “may also accept private capital by selling shares to people residing in the hsien.” Limited National Government support is provided for in a new provision to the effect that “the Central Bank of China and the provincial bank concerned should, besides making investment for the sake of promotion, provide the hsien bank with trained personnel, guidance and assistance to carry out its functions.”

Some clarification is made in stating the specialized functions of various banks and allied financial agencies of the National Government. It is of interest to note that the following recommendation is restated and clarified: “The specialized functions of the Central Trust of China should be to handle trust, re-insurance and the insurance of public enterprises and to guide private trust and insurance enterprises.” This recommendation, if carried out, presumably would result in the restriction of operations of the Central Trust by divesting it of its manifold trading and other activities which have given rise to much complaint by foreign and Chinese business interests.

Among measures aimed to increase agricultural production and stabilize prices, the provision for establishment of a system of “ever-stable granaries” was amplified, it now being recommended that “the initial plan to set up such granaries in various important localities in the Yangtze Valley should be completed speedily. Local granaries should be promoted and set up on a large scale in order to further increase food storage.” It is also newly recommended that “the Farmers Bank of China should extend its credit facilities and take an active part in the transportation and distribution of farm products so that the Bank with its financial resources will assist the Government in boosting production and transporting foodstuffs from regions of plenty to regions where there may be a shortage.”

Recommendations for development of forests, animal husbandry and fisheries have been clarified and amplified.

It is stated in more specific terms than previously that, in the development of industry, efforts should first be directed to meet the needs of rural communities, with priority being given to water conservancy projects and industries for manufacture of chemical ferti-
lizers, farm implements and transportation equipment. Regarding other industrial development, it is recommended that special attention be given to increase of fuel production and promotion of the power industry; exploitation of various mines; production of steel, cement and other construction materials; and establishment of machine-making factories. The recommendation is repeated that the National Government should stipulate the main classifications of industries which are to be state-operated and privately-operated.

It was originally recommended that "the Government should call all public and private banks together to organize a reconstruction financial corporation" to make long-term loans for mining and reconstruction enterprises. This recommendation appears substantially altered in the present draft of the plan, it being stated that "the Government should organize and promote various industrial and mining enterprises and encourage the formation of investment corporations so that long-term capital may be invested in such enterprises."

In the preliminary remarks on recommendations to improve and expand commerce, the following has been newly added: "In regard to domestic trade, inadequate transportation facilities and multiple taxation impede the flow of goods and cause shortages of commodities in the market, resulting in the decline of trade. It is, therefore, imperative that restrictions on trade should be removed so as to expedite a return to normal conditions." This recommendation seemingly refers to the revival of the ulkin system, whereby goods shipped from producing areas to markets are repeatedly taxed by various local authorities.

Regarding international trade, the recommendation is repeated to the effect that imports of articles other than production tools, raw materials, books and laboratory equipment should be restricted so as to conserve foreign exchange. A new recommendation appears, however, as follows: "Trade guilds should be strengthened in order to improve trading methods, raise commercial morals, and help the Government in the enforcement of its price control measures." American and other foreign business interests in China have already expressed objection against the intrusion of the trade guilds into their relations with local importers and buyers; the foregoing recommendation suggests that the increased activity of the guilds may henceforth have greater official support.

Several important changes were made in the recommendations on communications. Regarding private operation of aircraft, it is repeated that encouragement should be given for such operation but only "after preparations for air routes, ground installations and flight control measures have been completed," the latter phrase being newly
added. While it is stated that “the fullest encouragement should be given to private navigation enterprises”, there is nothing to indicate that any change is contemplated to permit foreign shipping to engage in coastal or inland water services.

The recommendations contained under the heading “Increase of Production and Price Stabilization” are substantially those contained in the earlier draft of the plan. In connection with financial reforms two new recommendations appear under the heading of “Financial Readjustment”: the first states that “to meet reconstruction needs, new sources of revenue should be developed in accordance with the principle that taxes should be borne by those with the ability to pay”, while the second recommends that “priority in foreign exchange allotments should be given by the Central Bank of China to those who are able to pay with gold, provided the exchange thus granted is for the purchase of importable goods.”

In the section headed “Currency Stabilization”, it is newly—and hopefully—recommended that the Government should actively seek to increase its revenue receipts and cut down all unnecessary expenditures in order to reduce gradually the budget deficit and avoid further increase of the note-issue; that effective measures should be taken to retard the circulation of currency; that foreign exchange control measures should be strengthened; and that a time limit should be set for the people to declare their assets in foreign countries.

References to Foreigners in Present Plan. References in the present plan to foreign participation in development of China’s economy are scanty and vague. In the foreword there appears a brief statement to the effect that “favorable terms should be offered to induce foreign capital and technical help to China for the purpose of achieving national industrialization.” Even more vague is the statement which appears under the suggested policies for increased production and reconstruction, as follows: “With increased agricultural and industrial production and an improved transportation system, and through the encouragement of creative enterprise and foreign investment, prices will not fail to become stabilized.”

Under the recommendations made to assist and develop industry, it is urged that: “To hasten industrial development, the Government should make clear provisions for the encouragement of foreign investment and technical assistance.” Included in the recommendations aimed to increase production and stabilize prices, it is stated that: “The Government should negotiate favorable machinery and raw material loans with foreign countries as a means of increasing commodity supplies.”

In connection with the foregoing very general statements of policies,
it will be remembered that the NEC has passed a more specific statement of policy governing foreign investments in China, this statement being issued August 13, 1947, by the Government Information Office. A copy of this statement is being forwarded to the Department as enclosure to another despatch (No. 958, August 29, 1947). 39

*Foreign Press Reaction to New Plan.* With attention at home being directed largely at the activities of the Wedemeyer Mission, the foreign press paid relatively little attention to the adoption by the State Council on August 1 of the economic reform plan. The American-owned *Shanghai Evening Post & Mercury*, however, made two editorial references to it, stating that the plan is the “usual recital of pious aspirations” and that it was drawn up by “professors-in-spirit who show no sign of ever having sullied their fingers by contact with life’s grim necessities.” The pertinent extracts from these two editorials are given in Enclosure No. 2. 40

*Chinese Press Reaction to New Plan.* Chinese press comment, as indicated by translations from Nanking and Shanghai newspapers, reflect the policies of the groups or interests which operate the newspapers in question, the Kuomintang-operated press generally favoring the plan while the independent press as a rule follow a critical policy and termed the plan unrealistic. Enclosure No. 3 40 contains translations of the more important articles and editorials from the Chinese press.

*Embassy’s Evaluation of New Plan.* The Embassy’s general comments on the original draft of the plan were presented in despatch No. 652 of April 21, 1947. As the plan as now drawn up appears to be little changed, there would seem to be little reason to comment further. As previously pointed out, many of the recommendations contained in the plan were made years ago, with legislation enacted to carry them out. According to Dr. Chen Li-fu, Vice Chairman of the National Economic Council, and assertedly the drafter of the original proposals on which the plan is based, the Council considers that the enforcement of the plan is one of its most important objectives. Dr. Chen’s interest in the plan and in the Council suggests that great effort may be made to see that the economic reform measures already enacted are carried out and that new measures, designed to implement other recommendations in the plan, will be drawn up in the near future.

The Embassy is planning to make additional and confidential comment on the plan in a despatch 41 supplementing confidential despatch

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39 Neither printed.
40 Not printed.
41 Despatch No. 983, September 8, not printed.

Respectfully yours,

For the Ambassador:
WILLIAM T. TURNER
First Secretary of Embassy

102.1/9-1747: Telegram
The Ambassador in China (Stuart) to the Secretary of State

NANKING, September 17, 1947—10 a.m.
[Received September 16—11:29 p.m.]

1942. To State and Treasury from Adler. Foreign exchange assets of Central Bank middle of last week around U. S. $260 million. While Central Bank has gained a little foreign exchange since introduction of new exchange regulations, amount involved so far quite small and much less than gains in comparable period after introduction of emergency regulations in mid-February. Both in Shanghai and Tientsin which I recently visited there was a movement of goods which had been accumulated for export in anticipation of exchange adjustment, but there is little sign of restoration of export trade to anything like normal basis. In Tientsin black market rate already over 20 percent above open market rate; this spread is greater in Tientsin than in Shanghai due partly to 7 percent remittance charge on funds between Tientsin and Shanghai, partly to greater political insecurity of North China, and partly to fact that Tientsin, Peiping and Tsingtao more overtly on U. S. dollar basis than Shanghai as a result of previous presence of U. S. armed forces in Tientsin and Peiping and presence of U. S. Navy in Tsingtao. Prices of export goods, which have moved up substantially since exchange adjustment, generally tend to move with black market rate.

2. Inward remittances in last few years have been diverted from regular banking into black market channels, and as a consequence impact of exchange adjustment on appointed banks receipts of overseas remittances will take some time even if spread between open market and black market rates remains narrow. Central Bank hopes to divert remittances from black market in Hong Kong and Canton by agreements with Hong Kong authorities and by abolishing remittance charges on funds between Shanghai and Canton.

3. Current sharp upward contra-seasonal movement of prices is due partly to fact that stabilizing influence of Wedemeyer Mission’s presence acted as a brake on prices during July and August, partly to
reported military requisitioning of food supplies becoming available from current crop, and to rumors in connection with Liu Po-cheng's raid toward the middle Yangtze valley. [Adler.]

STUART

893.51/9-2647

The Chinese Ambassador (Koo) to the Secretary of State

The Chinese Ambassador presents his compliments to the Secretary of State and has the honor to present for the consideration of the United States Government the claim of the Chinese Government against the assets in the United States of the Russo-Asiatic Bank, a pre-Soviet joint stock bank which continued to function outside of Russia after 1917 until its failure in 1926.

The greater part of the claim of the Chinese Government, amounting to £6,417,894.13.3 is for funds paid to the Shanghai branch of the Russo-Asiatic Bank and transmitted to the London branch of the said bank during the period from 1917 to 1926, pursuant to the Chinese Reorganization Loan Agreement of 1913. It consisted of the difference between the amounts deposited by the Chinese Government in, and transmitted by the Shanghai branch of the Russo-Asiatic Bank to its London branch during that period, and the amounts disbursed by the London branch in payment of interest coupons and bond retirements in accordance with the Agreement under which the Chinese Government was obliged to provide duplicate payment of the difference.

The United States Government, as assignee of the Soviet Government under the so-called Litvinov Assignment of 1933, is taking steps to enforce against the New York assets of the Russo-Asiatic Bank a 1917 decree of the Soviet Government confiscating properties of that Bank. While the claim of the United States is still in litigation, it has been upheld to the exclusion of all other claims by the United States Court of Appeals for the Second Circuit, and petitions for review are now pending in the United States Supreme Court.

The Chinese Government, however, has had an interest in these assets antedating the Litvinov Assignment, which it asserted by initiating legal action in the United States prior to the Assignment. The grounds of the Chinese Government for the belief that its claim is entitled to special consideration are among others as follows:

(1) The claim of the Chinese Government is based largely upon the payments made by it, pursuant to the Chinese Reorganization Loan

*42 For correspondence on this subject, see Foreign Relations, 1913, pp. 143-192.
*43 See note from the Soviet Commissar for Foreign Affairs to President Roosevelt, November 16, 1933, ibid., 1933, vol. 11, p. 812.
Agreement of 1913, to the Shanghai branch of the Russo-Asiatic Bank during the period of 1917 to 1926.

(2) Such payments were made by the Chinese Government in a period of time during which (a) the United States Government formally advised the Chinese Government that it would not approve the Soviet confiscation of any pre-existing interests in the Chinese Eastern Railway—all the stock of which was owned by the Russo-Asiatic Bank; (b) the courts of the United States held, in a number of cases involving the Russo-Asiatic Bank, that the Soviet confiscatory decrees would not be enforced against its New York assets; and (c) in at least one case (de Gumoens v. Equitable Trust Company), deposits made in New York by the Shanghai branch of the Russo-Asiatic Bank, after the bank was nationalized in Russia, were held properly applied in satisfaction of a pre-nationalization debt of the Russo-Asiatic Bank at Petrograd.

(3) Prior to the Litvinov Assignment and the assertion of any claim of the United States, the claim of the Chinese Government had not only been placed in litigation, but had acquired the protection of a writ of attachment granted by the Supreme Court of the State of New York and levied upon the deposits of the Russo-Asiatic Bank with New York banks.

(4) In connection with its efforts to enforce its claim in the courts, the Chinese Government had incurred substantial expense which will have inured in large part to the benefit of the United States Government if the latter should ultimately recover the property in a suit.

There is enclosed a memorandum containing a more detailed statement of the relevant facts of the case.

Inasmuch as the award to the United States Government of the assets in New York of the Russo-Asiatic Bank would deprive the Chinese Government of the remedy that otherwise might have been available to it, and in view of the special circumstances briefly set forth above, the Ambassador, pursuant to instructions, requests that the claim of the Chinese Government against these assets be given due consideration in the event that the United States Government should ultimately be successful in its efforts to collect these assets or through a compromise settlement to be negotiated.

Washington, September 26, 1947.

893.51/10-247

Memorandum of Conversation, by the Minister-Counselor of Embassy in China (Clark), Temporarily in the United States


Mr. Gauss said that the Export-Import Bank was sitting on the Chinese request for loans in the neighborhood of $500,000,000

44 Not printed.
45 Clarence E. Gauss, member of the Board of Directors, Export-Import Bank of Washington.
and didn’t even plan to study the details of any of the requests made until administration policy in respect of loans to China had been clarified. So long as our policy was “no loans” there was no need for the Export-Import Bank to waste its time going into the Chinese requests. Should our policy become “loans to China” then the Export-Import Bank could go into some of the Chinese requests. In respect of these requests, Mr. Gauss said that none of them had been adequately documented nor did they give assurances of repayment in hard currency. They gave every evidence of inefficient preparation and showed that the Chinese had not studied the Act of Congress 46 under which the Bank operates. He showed me in this connection a letter he had written in reply to one he had received from the Governor of the Bank of China requesting a loan for a cement plant. Although the plant Chang Kia-gnau had in mind had also formed the subject of a request from the Chinese Government the details differed as did the amount involved. Gauss had pointed out in some detail the documentation requirements of the Bank and had suggested that a little more care be exercised in submitting Chinese requests to the Bank.

Mr. Gauss said that a casual perusal of the Chinese list of requests indicated that many would have to be ruled out because, like the Tangku Harbor development, they were too close to Communist dominated areas. Others like the Canton–Hankow railroad would have to be thrown out because the Export-Import Bank was being asked to take a second or third mortgage. The Canton–Hankow railroad request was too large in the first place and in the second place a large British loan and the British Boxer indemnity had first claim on the revenue from the line. If China wanted Export-Import Bank money for the railroads of China it would have first, he said, to find some way of consolidating the railroad debt and making it a charge on the general revenue thus freeing railroad revenue to be pledged for the repayment of Bank advances.

In considering requests for individual projects in China Mr. Gauss said the Bank would look into the management as well as into the justification. It would want to be assured that trustworthy engineering and management personnel were used so as to lessen the possibility of graft and increase the likelihood of repayment. The Bank took the position he said that Congress meant it when it rewrote into the act that there must be a “reasonable expectation of a return

46 Approved July 31, 1945; 50 Stat. 528.
of the money loaned”. Each project in China would be viewed in this light he said.

In respect of the cotton loan for $200,000,000 requested by the Chinese Mr. Gauss said that studies instigated by the Bank through our own people in Shanghai as well as through private cotton companies had indicated that China either had already in the country or on route enough cotton together with the domestic supply to keep China’s mills busy through July 1948. There would be a short gap between the end of July 1948 and the new cotton crop when China would need further imports of cotton but it was nothing like in the nature of $200,000,000. In addition the Chinese were asking for a 2% rate of interest when the Bank had to have 3 or 3½% as a minimum. Also the Chinese were asking for a term of four years rather than the two years during which the Bank would anticipate the cotton would be consumed.

On cotton loans he said the Bank’s policy was to require a showing that the raw cotton would be used to manufacture materials which would be exported and bring in hard currency foreign exchange. They expected service of the loan as the foreign exchange became available and two years was a normal time. He went on to say however that if the Chinese were to repay the $33,000,000 cotton loan now outstanding and which is due next year, then he, Mr. Gauss, would be prepared to fight, and he said that a fight would be needed when it came before the Board, to obtain a further cotton loan for China. If they did not repay that $33,000,000 cotton loan he said there would be small chance for a further loan.

The Chinese Government had, he said, supplied to the Export-Import Bank what purported to be a balance sheet of revenues, expenditures and foreign holdings. It was not too convincing a document, he said, and appeared to contain considerable guesswork. It skipped the years between now and 1951 and endeavored rather arbitrarily to establish, Mr. Gauss thought, for that year a favorable balance of payments of $50,000,000. He was afraid the balance sheet didn’t give a very accurate picture of the real situation. I mentioned to Mr. Gauss the new traffic plan for Shanghai 47 and he remarked that although he had not gone into the proposal in any detail he couldn’t see how the plan would produce foreign exchange with which to repay any loan the Bank might make to finance purchases in this country of automotive equipment. That plan as the others was pigeonholed awaiting the determination of administration policy.

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47 Recommended by the Conway City Transit Advisory Mission, a group of American transportation experts, surveying Shanghai’s traffic and transportation problems.
The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 6, 1947—2 p.m.
[Received October 6—8:20 a.m.]

2030. Following secret memo was handed to me by Dr. Arthur Young, financial adviser to Chinese Government, who returned to China on August 22 after an absence of 1 year. Dr. Young who has served 17 years in China is one of leading and soundest authorities on Chinese finance.

"China's finances have deteriorated materially since departure of General Wedemeyer. Inflation has now clearly reached stage of acceleration and public are more and more inflation-conscious. While exact prediction obviously is impossible, it is advisable in my opinion to proceed upon premise that stage of violent inflation which could easily turn into collapse could begin without much warning if unfavorable events develop. Such possible events include runaway black market for foreign exchange, termination of covering balance of payments deficit because of shortage of external resources, shortage of bank notes, sharp increase of rice price and general cost of living, bad military news and strikes and Communist-caused trouble at Shanghai. Plans are being made to postpone and avert collapse as far as possible and also to deal with eventualities.

Collapse would mean some of [or] all of the following: Government could no longer finance nation-wide operations with paper money. Troops and civil offices would have to maintain themselves if at all by local requisitions where they are. There would be wholesale desertions and breakup of organizations. Regionalism would be promoted. Shock to morale would be likely to cause political crisis and drastic reorganization of Central Government with very limited authority as to area and range of activities. Anti-Communist campaign would be seriously impaired and might be suspended in many areas. Manchuria and North China might be lost. If Shanghai and other cities could not draw food and other essentials from farmers by payment with money there would be riots and bloodshed. Trade would be on barter basis and thence greatly inconvenienced and reduced. Foreign trade would be disrupted.

Total net external reserves are down to around U. S. dollars 220 millions including sterling equivalent to about U. S. dollars 15 millions. Also there is silver equivalent to about U. S. dollars 25 millions more. Government banks other than Central Bank have some external reserves but amount is exceeded by contractual commitments of Government and pre-zero import licenses now outstanding. Balance of payments deficit estimated to be at least U. S. dollars 10 millions monthly. Fall of reserves to well below U. S. dollars 200 millions would probably force revision of policy of using them to cover balance of payments deficit. This might well happen before end of year and would usher in violent inflation regardless of whether other factors have not caused an earlier crisis.

For first month under new exchange system instituted August
the exchange market was orderly. But disturbed black market which began September 21 further hurts confidence and threatens stability. Equalization fund faces dilemma. To chase black market would put it up more and push up prices faster—Shanghai prices are up nearly 50 percent in past month. But if black market is well above open market rates, e.g. about 25 percent as now, exporters and others hold off selling exchange and export smuggling grows, thus cutting exchange receipts and draining reserves.

During first month fund committee’s receipts nearly balanced market outlay aided by considerable exports held anticipating a rate change. But in past week or two deficit has returned especially because black market rise causes exports to be held back.

Government deficit in October estimated at about dollars 3 trillions and maybe more; hence total note issue which was dollars 16.3 trillions September 26 may grow by about one-fifth. Also after settlement day which was September 20 businessmen and speculators began new plans causing faster turnover of money.

Governor Chang has denied imminent issue of larger denomination notes. Yet present deficit requires printing and issuing over 300 million pieces monthly. Larger notes must come soon despite their inflationary effect. Further large price rise would involve danger of note shortage which could have grave consequences if troops were not paid.

In order to help hold situation, equalization fund committee has urged Nanking to take immediate steps to assure Shanghai adequate rice supply, to hold back Government payments as much as feasible for a couple of weeks and to push sales of stocks of goods and of Government-owned factories. Also Central Bank is reducing and calling back credit from Government banks and enterprises. Whether sufficiently energetic action will result and whether adverse developments will offset whatever can be done is uncertain. Also agreement has been reached with Hong Kong on measures that will help control large black market there and to check smuggling. During the past month stocks of cotton yarn and edible oil have been sold to contract the money market. It has been said, ‘China is on an edible oil standard.’ But such resources are limited as stocks are reduced.

Shanghai is main danger point since prices lately have risen there more than elsewhere. Last February currency panic caused some withholding of rice and this danger could develop again. Mayor K. C. Wu is worried by strikes and states Communist agents are actively trying to cause trouble.

Some measure of American support such as help in meeting balance of payments deficit is urgently needed to strengthen confidence with view to trying to hold situation while more fundamental measures can be considered. Although basic improvement of existing financial and economic situation presents great difficulties it would be infinitely harder to build new structure after collapse and risks of passing through chaos would be incalculable.”

Main difference between Dr. Young’s analysis and that of Embtel 1967 of September 20 is in extent of emphasis on possibility and

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48 *ante*, p. 289.
dangers of collapse. As Dr. Young rightly says, exact prediction is in nature of case impossible. Given fundamental and increasing precariousness of situation, possibility of collapse at any stage cannot be precluded though it is perhaps likely to appear greater if assessed in light of Shanghai’s hypersensitivity. As in February, mood of panic is beginning to infect high Government officials, presumably immediately caused by news from Manchuria, but again as in February Gimo still immune.

Reference in fourth sentence of first paragraph and in third paragraph of Dr. Young’s memo to possibility of termination of covering balance of payments deficit reflects not only continued depletion of Central Bank’s foreign exchange assets, but also Central Bank’s fear that Gimo may ill-advisedly and prematurely order it to cease out-payments of foreign exchange except on Government orders once official assets fall below a certain level.

With reference to silver, Gimo is still wedded to idea of using silver to pay troops with when other means of payment become unacceptable, and China is still endeavoring to obtain more silver on “credit” from Mexico. Consensus of financial opinion is that best course for China would be to dispose of her 45 million ounces of silver and that in any case if Gimo insists on retaining it there is no point in having it reminted, as old silver dollars would be more acceptable to soldiers than new silver coin and as former would be less destructive in their impact than latter.

Recommendation in first sentence of last paragraph is on the whole in line with previous Embassy recommendations to effect that judiciously timed balance of payments loans constitutes most effective method of economic aid to China.

STUART

811.516 Export Import Bank/10-947: Telegram

The Consul General at Shanghai (Davis) to the Secretary of State

SHANGHAI, October 9, 1947—7 p. m.
[Received 10: 44 p. m.]

2397. For Export-Import Bank. Concerning exports cotton products from China reDeptel 1354, August 12 49 and ConGentel 2060, August 26. Production of cotton yarn in China August 1, 1947–July 31, 1948 estimated at 1,500,000 bales excluding home industry. Chinese sources calculate about 700,000 bales yarn will be converted in organized textile mills into piece goods roughly totalling about billion yards. Present plan calls for export of 469,000,000 yards and

49 Telegram No. 1354 repeated telegram No. 1009, p. 1177.
about 30,000 bales twenties yarn during calendar year 1948. Approximate value these exports U. S. dollars calculated at 125,000,000. Prospective markets for piece goods are Manila, Siam, Malaya, Near East and Persian Gulf areas and Dutch East Indies. Because of anticipated delays getting program started some Chinese authorities believe exports for first year will total only 244,000,000 yards and 30,000 bales yarn. Anticipated yardage sales on this basis are divided as follows: Manila 35,000,000, Siam 35,000,000, Malaya 35,000,000, Near East 88,000,000, Dutch East Indies 51,000,000. Prospective pattern of distribution of yarn not settled.

This office not in position definitely assess whether designated market would purchase such quantities of Chinese cotton products although it appears reasonable in view continued worldwide shortage piece goods. Believed, however, quantity exports not possible unless Government continues allow raw cotton import for conversion into products for export be paid for on basis official mean exchange rate CNC dollars 12,000 to U. S. dollar 1.

Full details of export program not clear. Information reported this message based on proposal made by China Textile Industries, Incorporated, to Governor Central Bank neither acted upon by textile stabilization board nor accepted by private mill owners.

Inform Commerce and Agriculture.
Sent Department, Nanking 1661.

DAVIES

811.516 Export-Import Bank/10-2247

The Chinese Ambassador (Koo) to the Secretary of State 51

WASHINGTON, October 22, 1947.

SIR: With reference to the Agreement dated February 4, 1941, as amended, relative to a loan of $50,000,000.00 to the Central Bank of China, between the National Government of the Republic of China, the Central Bank of China and the National Resources Commission, an agency of the National Government of the Republic of China, on the one part; and the Export-Import Bank of Washington on the other; I have the honor to inform you that my Government has authorized an amendment of this Agreement as of October 1, 1947.

I am instructed to inform you that the following persons have been authorized by my Government to execute any and all necessary documents in connection with this revision: namely, Dr. V. K. Welling-

50 Established at Shanghai in January 1946 by the Chinese Ministry of Economic Affairs to amalgamate textile mills taken over from Japan.

51 Acknowledged by the Secretary of State in note of November 12 to the Chinese Ambassador.
ton Koo, Ambassador to the United States, for the Government of
the Republic of China; Mr. Hsi Te-mou, Representative of the Central
Bank of China in the United States, for the Central Bank of China;
and Mr. Po-wen Huang, Director of the New York Foreign Trade
Department of the National Resources Commission of China, for the
National Resources Commission.

I should be grateful if you would be so good as to transmit this
information to the Export-Import Bank of Washington.

Accept [etc.]

V. K. WELLINGTON KOO

893.5151/10-2347: Telegram

*The Consul General at Shanghai (Davis) to the Secretary of State*

SHANGHAI, October 23, 1947—6 p.m.
[Received October 23—7:02 a.m.]

2496. Dr. Arthur N. Young, financial adviser to Chinese and acting
as special adviser to the Foreign Exchange Equalization Fund Com-
mittee, states delicate situation has developed as result recent attacks
by C-C clique on exchange policy in form of statements in press
alleging rise in black market rate due to committee action in raising
open market rate and otherwise attempting make public blame policy
for sharp rise in cost of living. Objective apparently is to discredit
Political Science group, particularly Chang Kia-ngau, K. P. Chen
and ultimately the Premier.

Policy under immediate attack is that of having flexible official
open market rate of exchange making frequent adjustments as con-
trasted with maintenance of rigid official exchange rate prior August
18. Dr. Young says new policy has given reasonably good results
but is threatened when rate too far out of line with export prices.
The open market rate is in effect an export rate and if political pres-
sure is developed to prevent it from being realistic it will necessarily
cease to be effective, exports will decline, black market exchange
transactions will increase, and another crisis might result.

Dr. Young emphasized that a situation of such delicacy has de-
veloped as to make exchange and commodity market extremely sensi-
tive to news that is transmitted as favorable or unfavorable. He
cited as illustration the improvement in and comparative stability
of market conditions for some weeks after news of Wedemeyer Mis-
sion came out. The slight improvement which has taken place during
last 3 days is attributed in financial circles, to some extent at least,
to anticipation that an important statement on policy affecting China
will be made soon in Washington and that it will involve some measure of assistance to this country. He feels in present circumstances any statement made would have exaggerated effect. If favorable, it might put the authorities in such a strong position that attacks above-described would cease and immediate danger of crisis would be removed. If, on other hand, news should be unfavorable, reaction here might be as violent as that of last February which led to resignation Dr. Soong and prosecution of high Central Bank officials for alleged improper handling of gold sales.

Dr. Young said he would appreciate having any advance items which could properly be given him in his present status in event early release official statement contemplated. He takes serious view of situation feeling anything could happen. He says if C–C politicians succeed once again in discrediting honest officials and competent technicians in order to achieve local political ends, result might be grave. He doubts whether critics have technical personnel capable of handling exchange operations in these difficult times if they should have to assume responsibility. He thinks in any case it would not take much to precipitate runaway inflation, which could not be checked and which would have disastrous consequences.

Sent Department 2496; repeated Nanking 1700.

Davis

811.516 Export-Import Bank/11-1847

The Acting Chairman of the Board of Directors of the Export-Import Bank of Washington (Gaston) to the Chinese Ambassador (Koo) 52

WASHINGTON, October 23, 1947.

My Dear Mr. Ambassador: Earnest consideration has been given to the application made by your letter of July 31, 1947,53 on behalf of the Government of China, for a credit of $200,000,000 for the purchase of approximately 1,080,000 bales of American cotton for use during the balance of 1947 and nine months of 1948.

It has been difficult accurately to determine the China cotton situation and the needs for the future, but after careful study of all available information the Bank is inclined to accept the view that, with the recent third-quarter exchange allocation of $20,000,000 U. S. currency by the Chinese Government for cotton imports, the stocks of imported cotton on hand, en route and on order, together with

52 Copy transmitted by the Chinese Ambassador to the Secretary of State on November 18.
53 See footnote 23, p. 1177.
the supplies from the domestic crop, may be expected to cover the overall requirements of the China mills until the end of July, 1948.

As to the need after that date, it is accepted that China may require substantial stocks of imported cotton to carry mill operations over the gap until the new domestic crop begins to arrive on the market in volume; but with the constantly fluctuating conditions in China affecting agricultural production, transportation, coal, and power supply, the Bank does not consider it possible at this time to estimate accurately the foreign cotton requirements of China for the 1948 period.

The Bank is unable to grant a further cotton credit to China at the present time, but, without any commitment that the Bank will finance any part of the 1948 requirements, the Board would be disposed to give the matter further consideration if it is presented again later, in the spring of 1948.

In this connection, the Board wishes me to point out that it has been the general practice of the Bank to limit cotton credits to shorter terms than that suggested in your letter of July 31; also, that applications for such cotton credits have generally been supported by undertakings to export such portion of the finished products as may be necessary to earn foreign exchange to carry and repay the loan. Most cotton credits have been granted on 15 month terms; longer terms have been authorized only under special circumstances. The Bank’s 1946 cotton credit of $33,000,000 to China was made on a 24 month term as a special arrangement. This credit is largely repayable during 1948.

It would be helpful to the Bank to have information showing the use made of the cotton purchased under the 1946 cotton credit, including information as to the mills to which this cotton was made available and whether they are government-owned or private enterprises; information as to the terms, interest rates, and arrangements by which the mills were financed under this credit; and information whether any of the manufactured products from the cotton so supplied have been exported, and, if so, in what form and to what countries and in what volume. Similar information as to the proposed allocation of cotton sought under any new credit from the Bank, with information as to the proposed terms and conditions of such allocations, would be helpful in the consideration by the Bank of any renewed cotton credit application.

Sincerely yours,

HERBERT E. GASTON

2144. For Treasury from Adler.

1. Recommend immediate reexamination of question of financing U. S. Government agencies expenditures in China. (Reference your telegram 1201, of September 26, and Embassy's telegram 2059, of October 11.\textsuperscript{55}) Except for a trifling readjustment against the U. S. dollar on October 24 made to establish a 3 to 1 dollar-sterling ratio, open market rate has remained unchanged since October 9 in spite of rapid upsurge of prices and black market rates. While Exchange Equalization Committee's function purports to be making realistic readjustments in open market rate, it is showing clear signs of being stultified in this task by political considerations. (See paragraph 2 Embassy's telegram 2126 of October 23.\textsuperscript{56}) Chances of its making significant adjustment in open market rate in near future appear none too bright, and in any case political pressures will militate against its reducing gap between black and open market rates to reasonable dimensions over longer period. Moreover, most improbable that Central Bank would agree to special arrangement as in January and May in view of existence of open market rate. Finally near panic has subsided and it is reasonably safe at this time to make departure from present procedure.

On other hand Chinese Government would tend to ascribe undue significance to our recourse to black market, especially as it could not be kept secret. This factor must of course be evaluated in terms of our general China policy, but doubt whether it should be given undue weight.

2. Payments to American firms present no problems, as payment could be made to account of their banks in U. S. This procedure could later be extended to non-American firms with offices in the U. S. Use of U. S. currency for salary and wage payments to alien staff O. K. in Tsingtao, Peiping, and Tientsin which are virtually on U. S. dollar standard and possibly in outlying places, but not in Shanghai, Nanking, and Canton, where it would be preferable to make payments in CN dollars at black market equivalent. Purchases of CN dollar requirements can be made locally in Nanking by Embassy, Army and Navy from oil companies or via Shanghai against payment in United States. In outlying places same basis could be employed

\textsuperscript{55} Neither printed.
\textsuperscript{56} Not printed.
or where expenditures are small direct sales of U. S. currency could be made.

3. But bulk of U. S. Government expenditures, which run to over $500,000 per month, is concentrated in Shanghai. While State Department's regulations with respect to purchase of foreign exchange at other than "official" rates permits of flexibility of procedure, Army requires purchase must be made from and certified by bank and Navy requires obtaining of three competitive bids and purchase from highest bidder. Both these requirements unrealistic in present situation, as purchase of CN dollars would not be necessarily made from a bank, while obtaining competitive bids an awkward and objectionable procedure when some secrecy of operation essential. Suggest should recourse to black market be decided on that:

a. All U. S. Government purchases of CN dollars made in Shanghai, including those made on account of Navy for expenditures in Tsingtao where market is thin, should be coordinated under supervision of Treasury and Assistant Treasury Attachés.

b. Purchases wherever possible should be made from American banks and reputable firms. List of clients could be drawn up in consultation with Consulate General [at] Shanghai. In view of disadvantages to Shanghai Chamber of Commerce of working even informally with a committee and need for avoiding to greatest extent possible accusations of arbitrariness, probably only course would be to purchase by rotation from a limited number of larger firms.

Establishment of rate a difficult procedure. As payment would in all cases be made in U. S., obvious that TT 57 rate which is higher than U. S. currency rate should be used. But market is not organized in sufficiently systematic way, and to disadvantage of lack of secrecy in asking for bids must be added possibility of coordinated bidding. Suggestion to me made by Consul General Shanghai that we name rate for each specific purchase worth serious consideration, as Shanghai is sellers' market for U. S. dollars. This would of course be done on basis of close scrutiny of black market rates for U. S. currency, TT and gold in Shanghai and Hong Kong. Transactions would be consummated at rates as close as possible to best ascertainable current Shanghai TT rate, though as previously indicated given disorganized nature of market in Shanghai, perceptible fluctuations during the day and diversity of quotations even at same time of day, this is not an altogether simple task. As I usually visit Shanghai several times a month, Casaday and I between us should be able to handle coordination and supervision of purchases and I would

57 Telegraphic transfers.
of course spend some time in Shanghai in initiation of arrangement of this kind. While this procedure has certain drawbacks, they are not as serious as those of other alternatives.

4. In sum, unless Committee makes significant adjustment in open market rate before end of this week, recommend that we have recourse to black market for our purchases of CN dollars and that procedure above outlined is most feasible. Would appreciate Treasury’s opinions on above earliest, and particularly whether there are administratively objectionable features from Washington viewpoint, and if so possible methods of eliminating them. [Adler.]

STUART

1721/10-2847: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 28, 1947.
[Received October 28—3:44 a.m.]

2147. To Treasury from Adler. Following UP story under Nanking dateline October 24 appeared in Shanghai English language press October 25:

“Vice Foreign Minister George Yeh, commenting on Mexican Treasury Secretary Ramon Beteta’s statement that Mexico soon may coin silver money for China, declared no negotiations were in progress on this matter. He added that the Chinese Government has made no formal inquiry with the Mexican Government on the possibility of such arrangements.

Asked whether the Chinese Government is interested in investigation the possibility, Yeh said, ‘We know what the possibilities are since we have looked into the matter on previous occasions.’

Beteta indicated in a statement at St. Louis that Chinese dollars would be made in Mexican mints as soon as an agreement is signed. He also claimed conversations in the matter were underway when he left Mexico last week. In Shanghai, banking offices told the United Press that China investigated the matter several months ago and disclosed China was then seeking a $346,000,000 United States silver loan. They said the matter of silver coinage has now become a ‘closed subject’ since it was believed that China would be ineligible as a member of the International Monetary Fund and World Bank if a silver standard were adopted.

The first silver coins circulated in China were Mexican dollars, contained a fractionally higher silver fineness than the ones minted by the Chinese Government later.”

[Adler]

STUART
The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 28, 1947—noon.
[Received October 28—7:33 a.m.]


1. Informed by reliable source that Hsi Te-mou has been negotiating with Mexican Govt for credit of U. S. dollars 10 million for purchase of 14 million ounces of silver, credit to be guaranteed by an American bank, which would require unhypothecated deposit of 10 million dollars by Central Bank with it, as with part cotton credits. Presumably American bank Central Bank has in mind is National City. Understand that negotiations with Mexican Govt well advanced and contract almost ready for signing but as result of Beteta's statement Central Bank has now instructed Hsi Te-mou to submit contract to Central Bank for its examination. Central Bank has been canvassing minting possibilities in India and England.

2. Character of proposed credit involves further depletion of coin as foreign exchange assets at time when they should be conserved to meet China's unfavorable balance of trade on commercial account and essential Govt purchases abroad. Therefore, whole scheme is ill- advised and is explicable only by Gimo's stubborn determination to have a stock of silver on hand in case of emergency and as a desperate gamble on the chance that should China commit herself to some form of silver currency a U. S. silver loan would somehow or other be forthcoming. [Adler.]

STUART

811.516 Export-Import Bank/11—1047 : Telegram

The Consul General at Shanghai (Davis) to the Secretary of State

SHANGHAI, November 10, 1947—noon.
[Received November 10—1:38 a.m.]

2599. Governor Central Bank has given ConGen copy of message received from Chilean [Chinese] Ambassador, Washington, summarizing ExIm Bank reply 58 to Chinese application for a cotton credit. Officers concerned note with gratification that bank's response agrees substantially with statistics set forth mytel 1991, August 18 repeated Nanking 1439. Believe however that bank's indication of earliest time for reconsideration being next spring has discouraged Chinese on two counts as follows.

58 Dated October 23, p. 1199.
a. Need for up to 600,000-bale import during August, September and October 1948 previously agreed all concerned here as reasonable carryover into new domestic crop year on basis present indications and trends. Three months' advance margin for commercial procurement, shipment and delivery this reserve necessary, which would necessitate conclusion of credit arrangements by May. This time schedule justifies in Chinese view negotiations early next year for financing, at which time consumption estimates and availabilities from indigenous crops can be forecast more accurately.

b. Chinese seriously disturbed by bank’s failure to appreciate psychological factors involved. They apparently feel that door was slammed pretty loudly, and without taking into account more delicate balances in present situation, anticipate that Chinese will make their own response along these lines. They are apparently somewhat unnerved by wording of ExIm reply at this particular time since in their view it indicates no disposition even to talk about extending lifeline in emergency.

Sent Embassy 1761, repeated Department.

DAVIS

893.50/11-1047: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 10, 1947—4 p.m.

[Received 6:01 p.m.]

2223. Following memorandum was handed me today by Arthur Young and contains his thoughts on the critical economic situation in China and suggestions for remedial measures. It is Young’s idea that he would endeavor to persuade Chinese Government to propose measures outlined. We will comment in separate telegram but meantime would appreciate Department’s reaction to Young’s proposals.

"CHINA’S FINANCIAL EMERGENCY AND MEASURES TO DEAL WITH IT

In this memorandum I shall summarize the main facts, set forth the nature and extent of China’s needs for external financial and economic aid, and outline certain repeated measures and action on the part of China that are necessary if TEC [aid] is to achieve the aim desired, namely, to promote stability and to further the development of a strong and independent China. In analyzing these measures and actions I have had in mind both the conditions that the American Government and American opinion may deem it wise to fix if aid is granted, and the conditions that would be in the interest

59 Infra.
of both China and the U. S. and that the Chinese Government and Chinese opinion may be prepared to accept.

I. Summary of the facts:

(1) External reserves. The position has lately become graver than China’s leaders seem to realize. Total Central Bank external reserves are below U. S. $200,000,000 for the first time, comprising as of November 8 U. S. $182,000,000 gold and U. S. $15,000,000 equivalent of sterling, total U. S. $197,000,000. Besides there is silver in China worth about U. S. $25,000,000. Other Government banks have some external holdings but the amount is exceeded by contractual commitments and pre-zero licenses outstanding plus the commitment to allow import of accumulated unlicensed goods whose value may reach U. S. $40,000,000 to $50,000,000. The estimated deficit of foreign currency receipts and payments through official channels on commercial account averages about U. S. $12,000,000 monthly. Government payments for civil and military needs have been of similar proportions. But I have just been informed of commitments for military needs totalling around U. S. $50,000,000 before the end of this year. As matters now stand it looks as if external reserves might fall to around U. S. $125,000,000 by the year end. In view of the prospective pressing need for further supplies of ammunition and gasoline, et cetera, there is growing danger the Government may stop meeting the deficit on commercial account. This would not only disrupt foreign trade but the public would take it to mean the near exhaustion of reserves. Such action may be expected to lead to panic conditions in the markets. It would be the prelude to imminent financial collapse. Moreover financial secrets are no longer well guarded and knowledge of the reserve position may leak out and cause great harm.

(2) The internal financial position. The situation is now highly vulnerable and inflation is in the dangerous stage. Prices throughout China have risen more than tenfold in the past year. The deficit covered by inflation was about $3.5 millions in each of the last 2 months, or about two-thirds of total expenditure, and is growing. Note issue exceeded $22 trillions on November 8 and increased 7 percent during the preceding week. At present the shortage of notes on hand is perhaps the most effective check on fresh issues. In such conditions the state of confidence is crucial. For the past 3 weeks hope of American aid has buoyed confidence. But fresh large supplies of money are flooding Shanghai and there are signs that a further price spurt is starting. The black market which usually snaps prices upward reached on November 8 its former top of 93,000. When rates reach 100,000 which may happen soon, that figure may have a bad psychological effect. Without careful handling of the situation and without Ameri-
can aid a financial collapse is unavoidable although no exact time prediction is possible.

(3) The balance of payments on commercial account. For the year ending September 30, 1948 it is estimated that the minimum deficit in foreign currency receipts and payments through official channels on commercial account will be U. S. $125 to $150 millions. The actual deficit may be larger. Imports and other out payments are figured on a basis of austerity and cannot be reduced without damage to China's economy. Attainment of the export target depends upon promotion efforts and upon a fairly orderly foreign exchange situation and no material worsening of internal economic conditions during the period.

(4) Progress in balancing international payments on commercial account. Immediate financial difficulties obscure the fact, which is not generally realized, that in the past year China has made much progress toward a more balanced trade position. As to imports, although administration of the controls ought to be improved there is nevertheless an effective limitation of trade to essentials on a basis of austerity. As to exports China at last has a foreign exchange policy under which they can move in good volume. This policy under the regulations of last August is working fairly well so that maintenance of more realistic rates of foreign exchange is now feasible. The deficit in the trade balance is due primarily to need for abnormally large imports of raw cotton, tobacco and fuel to replace former domestic production. This production notably of cotton was cut to a fraction of the pre-war level during the war partly to prevent the enemy from getting it and partly because food crops were substituted. Then after the war the Communists were in control of important areas producing cotton, tobacco and coal. If they can be cleared from these areas and communications be restored, there is good prospect of restoring balance in China's international transactions without much delay. Furthermore, the restoration of Manchuria's soya bean exports, worth many tens of millions yearly, contains the possibility of providing substantial funds abroad to cover service of China's debts and to finance a program of development. Finally, private Chinese assets abroad, which it is difficult if not practically impossible to marshal under unstable conditions, will tend to be repatriated gradually if the situation improves.

II. China's needs for financial aid:

These needs fall under four main heads:

1. A commodity credit to meet the deficit in the balance of China's commercial account;
2. External aid in checking inflation while internal counter-inflationary measures are being put into operation;
3. A limited number of urgent reconstruction projects; and
4. The external cost of a military program. I shall only touch upon the latter since it is predominantly military and political rather than a financial matter.

(5) Need for a commodity credit. In my opinion such a credit is the first priority to meet the emergency that is not far ahead. The Chinese Government I understand has not made any recent specific proposal adapted to meeting the immediate emergency because of awaiting clarification of the position in Washington. The proposed tobacco credit of about U. S. $30,000,000 would meet part of the need. But at least U. S. $100,000,000 to $125,000,000 more are needed to cover purchases of goods from the U. S. during the next 12 months. It is desirable that the proportion of expenditures for various items be elastic within agreed limits that could be worked out in negotiations, and that the credit be immediately available to meet current dollar requirements. It now appears that the main items other than tobacco and the amounts needed in the next 12 months would include: (in U. S. dollars millions)

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw cotton</td>
<td>80</td>
</tr>
<tr>
<td>Petroleum products (for non-military use)</td>
<td>50</td>
</tr>
<tr>
<td>Timber and paper</td>
<td>10</td>
</tr>
<tr>
<td>Dyes and chemicals</td>
<td>12</td>
</tr>
<tr>
<td>Machinery and parts for current maintenance</td>
<td>20</td>
</tr>
</tbody>
</table>

**Total** 172

Inasmuch as it will take some time to bring the financial situation under control, even under relatively favorable conditions, the duration of any credit should be as long as feasible and early payments should be light. I may add that China has made good record in its repayment of borrowing from American Government agencies. Out of about U. S. $208,000,000 borrowed since 1931, apart from the war-time credit of U. S. $500,000,000 and lend-lease transactions about U. S. $115,000,000 or over half have been repaid to date together with all interest due thereon.

As to cotton, the estimates have been checked with Mr. Dawson, the American Agricultural Attaché. They cover payment for part of the third quota which is in course of arriving in China, part of a “top-off” of perhaps 50,000 bales needed early in 1948 by mills that will be short of specific grades, and estimated imports of about 350,000 bales beginning in April or May 1948. The Export-Import Bank in a recent communication to the Chinese Embassy in Washington has indicated doubt as to China’s needs for cotton in the near future. A more de-

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* Dated October 23, p. 1199.
tailed explanation of the cotton situation will be supplied to them as soon as the text of their communication is received here.

(6) Aid in checking inflation. Since inflation has been in progress for 10 years it is in an advanced stage. But it is essential to check it if any program in China is to be effective. Naturally no fundamental reform is possible while active and large-scale civil war continues. Nevertheless, with proper internal policies and certain external aid, inflation can be kept within manageable limits, even in spite of civil war, and the way prepared for later stability. The added confidence resulting from the act of a program of American aid would in itself tend to slow down the inflation.

The cost of an anti-inflation program would be additional to the proposed balance of payments credit—since the latter would only permit continuation of essential imports now being partly paid for from reserves. It might be advisable that funds for checking inflation be obtained as an advance against China’s share of the undistributed property looted by Japan.

Use of external funds to prevent a calamitous fall of the foreign exchange value of the currency or runaway prices should necessarily be limited, and funds should be used with care as a brake on the situation when circumstances warrant. But it is clear that at certain stages of the inflation sales of imported goods might be used to advantage as a two-edged weapon—to add to the supply of goods on the market, and to withdraw money and contract the currency. The present budget deficit is equivalent to roughly U. S. $40 millions monthly. The program outlined below calls for reducing the deficit both by economies and by development of taxation—as to which latter China has been making a not-too-bad record by covering about a third of expenditures by taxes and other non-inflationary means, not counting substantial receipts in kind (rice, wheat, etcetera). If funds averaging about U. S. $15 millions monthly could be available for use as required, it should suffice to prevent a runaway situation. It would be desirable to have available about U. S. $150 millions for 1948 for checking inflation. The need for such funds would diminish as the effects of the program of reforms would be felt—especially if the military situation improved.

(7) Reconstruction projects. These should be limited to what is essential, such as the Shanghai power development scheme and urgent railway restoration, until the finances are substantially stabilized. The cost of essential reconstruction projects may be estimated tentatively at perhaps U. S. $50 to 60 millions for 1948. This is apart from railway reconstruction in connection with a military program.

(8) Cost of a military program. Here the case might be partly
for items available in the U. S. that might be “declassified” and would thus depend upon the valuation placed on them. But in addition there are current items such as gasoline. No estimate is here made as to the cost of a military program.

(9) Summary of external costs. To estimate total costs for an extended period is impossible unless an assumption is made as to the duration of the civil war. It is difficult at present to look beyond 1948. Apart from the cost of a military program, the cost to the end of 1948 of meeting the balance of payments deficit on commercial account, of a program of checking inflation, and of minimum essential reconstruction would be of the order of U. S. $350 millions. Part of this might be gotten from the undistributed property looted by Japan.

If a program like that outlined below were put into effect, it would be possible after a few months to make better estimates of the cost and duration of further aid. But costs should be on a declining scale.

The question should be considered, as is being done as regards American aid to Europe under the Marshall Plan, whether part of the aid should be non-repayable.

III. Internal measures and conditions of aid:

(10) No external program could hope to succeed unless accompanied by wise and firm internal measures. Some of the measures needed run counter to unsound but well-entrenched economic and financial ideas, and others run counter to strong vested interests. It is clear that these measures can only be taken if they go hand in hand with external aid, and if the extent and nature of external aid is coordinated with and dependent upon adoption and execution of such measures. In particular it is vitally important to reform the present military system. It is hardly necessary to stress the connection between civil war and this system, on the one hand, and the public finances and currency, on the other. In relation to immediate emergency aid, point “a” below is of special importance. The Chinese Government, however, after consideration of the entire program might be prepared to propose giving effect to it as a means of improving the situation and of best utilizing further aid. The program outlined below is partly American and, in keeping with the spirit of the United Nations, is also partly international. It is in the interest of both the United States and China, my judgment, that the program have such an international aspect.

(11) Clearly it is desirable that China adopt a program of internal measures on the following lines:

a. Foreign trade. To promote exports and improve the administration of import controls. To that end the Chinese Government to
inform the American Government that it wishes to appoint an American nominated by the latter to participate in the work of the Export-Import Board. The Chinese Government should undertake to reduce gradually governmental trading, and to remove such restrictions as those on export of oil seed and oils and on private export of mineral products. While probably it would not be expedient to make any formal condition as to opening Hankow and Nanking to direct foreign trade, China should be informally urged to do this as a matter of self-help on the ground that limiting cabotage to Chinese vessels can be justified but that restricting these ports to local vessels goes beyond the general practice of nations and is a form of extreme economic nationalism that China cannot afford.

b. Taxation. It is vitally important to improve the system of taxation. The Chinese Government to constitute a Chinese-Foreign group of tax experts to devise means to improve tax laws and administration. Such a group, on the foreign side, should be international and might be nominated by an agency of the United Nations. This group should deal comprehensively with national, provincial and local taxation, including the land tax. The group should include an expert on land policy, to deal with beginning introduction of a system of land registration. Special attention should be given also to the practicability of means to tax newly-made wealth.

c. Civil expenditures. Similarly, a Chinese-Foreign group should be constituted to deal comprehensively with the system of national, provincial and local expenditures, and to devise means of reorganization on a basis of greater efficiency and economy. Economy in foreign currency expenditures should be included. This field also includes as a major item the problem of personnel training.

d. Military expenditures. Clearly any plan for military reorganization should provide for control of payments and supplies, and specific means for reforming the present military system and bringing its eventual cost to a level that China can afford. As a temporary measure, so long as civil war continues, it is important to determine what military payments are essential and how they may be met with the least damage to the financial and economic situation. Financial and economic experts should participate in determining policy in this regard.

e. Credit policy and banking. It is an elementary measure of self-help that there should be a strict control of granting of credit. Promiscuous giving of credits on the basis of political considerations and favoritism should stop, as should also the use of financial institutions like the Central Trust for primarily political ends. A survey of the position of Government banks and other financial institutions should be made in order to devise a definitive policy for the future, and with a view to gradually putting the recommendations into effect. Here also a Chinese-Foreign group should be named.

f. Currency and foreign exchange. The present foreign exchange equalization fund committee is in a strategic position to become the agency primarily responsible for current policy concerning currency and foreign exchange, and to plan and in due course to give effect to fundamental measures as conditions permit.

g. Land policy and agricultural reform. A Chinese-Foreign group
should be named to work out means for introduction of such of the recommendations of the recent Chinese-American Agricultural Mission as are suitable for early introduction. Stress upon the land question and improvement of rural conditions is important as part of a program of combating communism.

b. Industry and communications. Likewise there should be a Chinese-Foreign group to consider the more urgent problems in these fields. Any large-scale program, however, clearly would have to await the ending of civil war and stabilization of the national finances.

c. Legal system. It is further important that China develop an improved system of law and public administration. Also there should be a Chinese-Foreign group working in this field.

d. Coordination. All of the above major heads involve problems of the budget. There has to be close coordination so that different groups do not work at cross purposes. Hence there should be a central organization, e.g., a commission on economic and financial affairs. Each group working on a particular field should have one or two representatives on such a commission. The commission should be in constant touch with the leaders of the Government and should coordinate the work of the groups. The commission would be headed by an outstanding Chinese, with an outstanding American as co-chairman.

(12) In conclusion I would emphasize that the foregoing is put forward by me personally and not in any way for or on behalf of the Chinese Government."
is constructive work to be done but states categorically that he will return if constructive action is not taken.

Of course the military phase which he passes over is the crux. In this also, however, we are inclined to believe the time is right to strike. The Generalissimo has seemed reluctant to take drastic action required largely because he feared losing the support of his lifelong intimates who are largely reactionary in pursuing a military program which might fail because of the uncertainty of support from the U.S. If within the framework of the Secretary's statement, such plans as those suggested by Young can be worked out and the implementation started, it is barely possible that the Generalissimo will be willing to take the requisite action in the military field. We shall appreciate the Department's early comments and instructions. (For Butterworth from Clark. The Ambassador asked me to stress that the above are my views as well as his own, the drafting being entirely mine.)

There follow our comments on the economic aspects of the proposals:

1. Summary of facts in section I of memo in essence unexceptionable though there is perhaps undue emphasis on importance of state of confidence which can only be created by continued availability of sustained and large-scale American help. Paragraph 4 of Section I would appear to be somewhat optimistic both in the absence of reference to danger that political considerations and pressures may prevent, if it is not already preventing, enforcement of realistic exchange policy, and in its estimate of China's longer term balance of payments prospects.

2. We concur that a commodity credit "is the first priority to meet the emergency ahead" (paragraph 5 of Embtel 2223 of November 10). Young proposes that credit sharing should be "elastic within certain limits". Believe degree of elasticity should depend on extent of American direct supervision; if there is American direct supervision, considerable elasticity could be allowed; if not, the limits should be strictly defined. With respect to cotton, the third quota Young refers to is the third quarter quota of $20,000,000 for 1947. Agricultural Attaché in previous estimate of China's cotton needs also agreed that approximately 50,000 bales are needed as a top-off in the near future. As for the 350,000 bales mentioned by Young for the rest of 1948, Governor of Central Bank informed Embassy official that Shanghai cotton importers find that it takes approximately 5 months for order to be delivered; if this is correct, Young's cotton proposal is quite reasonable as is his proposal concerning

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63 W. Walton Butterworth, Director of the Office of Far Eastern Affairs; he succeeded John Carter Vincent on September 15.
tobacco. It will be noted that total of proposed commodity credits is $202,000,000.

3. In light of past record of Chinese Govt. utilization of foreign credits and foreign exchange assets for specific purpose of combating inflation, we must express grave reservations about Young's proposal for $150,000,000 for checking inflation in 1948 (paragraph 6 of Dr. Young's memo). It is not clear how Young envisages this fund should be used. If it is to be used for import of commodities, as he proposes in one place, such a fund would not be differentiated from balance of payments commodity credits discussed above. If it is to be an all-purpose fund or a fund for specific purpose of withdrawing 'japi' from circulation, previous experience indicates that it would be rapidly dissipated with little to show for it, except increase in private Chinese foreign exchange assets, inaccessible whether abroad or in China. In any case, proposal that funds for checking inflation be obtained as an advance against China's share of undistributed property looted by Japan would not appear to be feasible.

4. We concur with paragraph 7 of Dr. Young's memo and suggest that a beginning should be made with United Power Company and Canton-Hankow Railroad and possibly coal mines in Hunan.

5. On the basis of the above apart from cost of military program, in 1948 $150,000,000-$200,000,000 would be needed for commodity credits and $50,000,000-$100,000,000 for rehabilitation projects. Fully concur that question should be considered whether part of aid should be non-repayable, especially as we take a more pessimistic view of China's longer term balance of payment prospects than does Young.

6. With respect to 11a, Embassy feels that we should insist on opening to foreign trade of Hankow and Nanking as well as other river ports with appropriate facilities.

STUART

811.516 Export-Import Bank/11-1347

Memorandum of Conversation, by the Director of the Office of Far Eastern Affairs (Butterworth)

[WASHINGTON,] November 13, 1947.

Participants: The Chinese Ambassador, Dr. Wellington Koo
The Secretary
Mr. W. Walton Butterworth, FE

The Chinese Ambassador called at his request at 10:45 a. m. and opened the conversation by referring to the reply which he had received from the Export-Import Bank under date of October 23rd
regarding the cotton credit. He indicated that since he requested this appointment to discuss this matter the situation had been changed by reason of the Secretary's statement to Congress regarding assistance to China, for which he expressed appreciation and gratification. He went on to inquire whether the Chinese Government should reply to the Export-Import Bank's letter, which he indicated was not, in the opinion of the Chinese Government, correct in certain aspects: in particular, the Chinese Government could use, and should obtain, in view of the importance of cotton cloth in meeting the inflationary situation, more cotton before mid-1948, and secondly, the reference to the $20,000,000 allocation by the Chinese Government for benefits in the third quarter of this year was also not wholly correct. The Secretary explained to Dr. Koo in confidence that it might be that Congress would find means of relieving the Export-Import Bank of the burden imposed on it by the rigidity of its legislative charter which might result in some favorable action on projects which could not be justified on a matter-of-fact business basis. At the Secretary's suggestion, I pointed out that it was desirable for the Chinese Government to answer as fully as possible the Export-Import Bank's query, having also in mind the fact that the Bank desired to make a cotton credit on terms shorter than the four years proposed by the Chinese, and to include therein provisions for export of fairly substantial quantities of cotton cloth. The Ambassador indicated that he would communicate the above to his Government.

Dr. Koo passed on from there to the proposals for assistance to China, the details of which he wished to obtain in so far as possible. The Secretary explained to him the tentative stage at which this matter was and took this opportunity to point out the present wave of sentiment in favor of aid to China would not run very far and it was to be expected that countercurrents would set in. In this connection, he cited Congressman Judd's attempts to act as public advocate for full assistance to China and indicated that they might well contribute to these counterforces. The Secretary pointed out that if he had replied flatly to Congressman Judd's questions he would have been forced to give answers which could be used by the Chinese Communists and others against the Chinese Government. The Secretary recounted at some length the extent to which the leadership of the National Government armies and inadequate training of recruits as replacements for existing divisions were responsible for the parlous state of the military situation in China despite the amount of American military and other supplies. The Ambassador offered

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*Presumably questions asked by the Congressman at hearings before the House Committee on Foreign Affairs, November 12, 1947; see Emergency Foreign Aid, p. 22.*
to report General Marshall’s views direct to the Generalissimo, whereupon the latter [Marshall] recounted to him at some length how often he had impressed these basic facts on the Generalissimo, the Minister of War, the Chief of Staff and others, and how politely they had listened and how little, if anything, they had done. In this connection, the Secretary cited the recent authorization \(^{65}\) for participation in the training center in Formosa and indicated his expectation that it would do little or no good since a division thus trained would not be able to obtain trained replacements since no attempt was made to create these replacements and he went on to describe the monumental effort the United States had made to supply such replacements to its own army and the essential part that the replacement effort had played in the victory.

The Ambassador also inquired about ammunition and referred to the communications which Dr. Tan had recently handed me.\(^{66}\) The Secretary told him that the question of making available ammunition in the Pacific had formed the subject of a communication to General MacArthur \(^{67}\) and that it was hoped as soon as it was ascertained what types and quantities were available that it might be possible to work out some arrangement.

The Ambassador also made reference to the 350 C–46’s, indicating that members of his staff who were leaving for Georgia, Arkansas and California today had expressed some apprehension that a sufficient quantity of good planes would not be available. The Secretary pointed out that he had impressed upon the Foreign Minister the need for speedy action and that he had had 50 of the best C–46’s earmarked in Arkansas for China’s needs. The Ambassador expressed appreciation and stated that they had obtained from War Assets [Administration] the name of an American firm with whom they might contract to service and deliver the planes in China. I suggested to the Ambassador that it might be well to have two or more firms bid for the work. Dr. Koo thereupon made noises which I took to indicate that whereas the Chinese Government would be willing to pay the American firm or firms, it would like to get the planes on credit, and I explained that the War Assets procedure was fixed by law and that the intervention of the State Department had been to facilitate the sale at the very reasonable figure of some $5,000 apiece.

The Ambassador then renewed his questionings regarding the assistance to China with a view to ascertaining whether it would be pos-

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\(^{65}\) See telegram No. 1302, October 24, 5 p. m., to the Ambassador in China, p. 901.

\(^{66}\) See memorandum from the Chinese Embassy, November 4, p. 913.

\(^{67}\) General of the Army Douglas MacArthur, Supreme Commander for the Allied Powers, Japan.
sible to have China included in the emergency program with Italy, France and Austria. He had previously mentioned the April 1st date. The Secretary had explained to him the time schedule and that assistance to the above-mentioned three countries was to cover the period through March. The Secretary suggested that he pursue this matter further with me. After we left the Secretary’s office, he specifically asked whether the $60,000,000 which had been mentioned in the Congressional hearings \(^8\) could not be put into the emergency request of Congress and appropriated at this special session. I explained to him that the emergency request had been limited to the bare minimum and for uncontroversial and ultra-emergency requirements and that the Chinese position was viewed as being more akin to that of Britain or Holland than to the emergency situation of Italy, France and Austria. In the end the Ambassador said that he assumed the Department of State would have no objection if Congress lifted the $60,000,000 into the immediate appropriation, to which I replied that the State Department had very little experience of the Congress embarrassing us with unasked for appropriations.

W. W[ALTON] B[UTTERWORTH]

1021/11-1347: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 13, 1947—5 p.m.
[Received 7:26 p.m.]

2233. To Treasury from Adler.
1. Sale of 3-year Treasury certificates April 4 to September 30, CN dollars equivalent of U. S. $27,954,040. Sales were at official rate up to August 16 when sales were stopped, to be resumed on September 10 when sales were made at open market rate (reurtel 1294 of October 22 \(^8\)). Redemption both as to principal and interest at open market rate. Equivalent of U. S. $4,621,000 were redeemed on October 1 at open market rate, leaving equivalent of U. S. $23,335,000 outstanding. During October equivalent of U. S. $1,648,000 were sold. Sale of certificates of dubious value as an anti-inflationary measure.

2. Sales of U. S. dollar 10-year bonds par 4—September 30 U. S. $27,525,000. Sales during October $514,000. [Adler.]

Stuart

\(^8\) November 11, 1947: see Interim Aid for Europe: Hearings before the Senate Committee on Foreign Relations, 80th Cong., 1st sess., p. 43.

\(^9\) Not printed; it requested Adler to report on sales of domestic bonds since their issuance in April 1947 (1021/10-2247).
The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 14, 1947.
[Received November 14—8:41 a.m.]

2239. We have been informed by participants in the discussions that principal preoccupation of the Generalissimo at the moment is acute shortage of ammunition coupled with the critical currency situation. Black market CN dollars were 95,000 today.

In reviewing our No. 2223, November 10, 4 p. m. and No. 2231, November 12, 6 p. m., we are increasingly inclined to the belief that Arthur Young’s suggestions may offer a peg upon which we may hang an active policy to help China help herself. Our thought is based on the premise that the strategic interests of the U. S. require friendly Chinese control of Manchuria. We seem to be waiting for China to start cleaning house before we offer aid and China seems to be waiting for irrevocable offers of aid before cleaning house.

We wonder whether in these circumstances we might not, through Arthur Young or ourselves to the Generalissimo, persuade Chinese that best solution of their problems lies in offering to us constructive measures such as those proposed by Young coupled with request for U. S. assistance in carrying out program. Contrariwise it might be possible for the Secretary, after due preliminary sounding of Chinese opinion by us, to make a public offer analogous to that made to Europe, the Chinese response having in advance been agreed to be along lines of Young’s proposals. Following the European precedent a conference, bipartite or multipartite, could be held which might evolve an acceptable and workable plan of reconstruction in China which would have sufficient promise of success to justify commitment of American public funds to rehabilitation of China. The alternative seems to be a constantly deteriorating situation ending not only in loss of Manchuria to Communist domination but also in a return to regionalism south of the Wall vulnerable to Communist pressure.

The military situation in Manchuria as in central China has deteriorated as has currency situation and immediate outlook is most gloomy unless something can be done to instill a ray of hope and confidence in Chinese people. There are those who still believe that Chinese should be allowed to “stew in their own juice”; that present Government is doomed beyond redemption and will sooner or later fall of its own ulcer incompetency and that therefore we should stand aside and let nature take its course. This might be to our advantage were it not for the unavoidable danger which would result to strategic interests of U. S. if Manchuria is long controlled by a Communist government.
Feeling as we do that the maintenance of at least a salient in Manchuria is in the interest of security of the U. S. and that cost of maintaining such a salient now would be much less than cost of reestablishing a salient at later date we again urge Department's prompt consideration and evaluation of the possibilities presented by Young's proposals and would appreciate Department's urgent instructions.

STUART

893.50/11-1547: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 15, 1947—8 a.m.
[Received November 15—3:02 a.m.]

2241. Gimo much cheered by news [of] American aid. Repeated previous request for supreme military adviser and civilian advisory group. Asked whether Blandford might head latter group and approved of his selecting others. I believe this would be best solution to start reforms which Gimo also desires but shrinks from attempting unaided and that it could be harmonized with Arthur Young's proposals (our 2239, November 14, 7 p. m.). This seems excellent opportunity to suggest to Gimo qualified supreme military adviser and I sincerely hope action may be promptly taken. Gimo also described shortage of ammunition as desperate.

STUART

893.51/11-1847: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 18, 1947—8 p.m.
[Received November 18—1:19 p.m.]

2258. According to information made available by Dr. Young (re-Embtl 2223 of November 10 and Deptl 1388 of November 14 ):

1. Central Bank balances in U. S. were $125,000,000 as of September 30 and $95,000,000 as of November 15. Bank of China's net holdings for home and overseas offices $43,000,000 as of September 30. Other Government banks' holdings totalled $27,000,000 in latter part of October. Apparently no substantial change in dollar holdings of approximately $70,000,000 of Bank of China and other Government banks since September 30; minimum of 30-40 percent of these holdings considered necessary working capital, especially since Bank of China has given various large guarantees, including $33,000,000 for Export-Import Bank cotton credit.

* For correspondence on this subject, see pp. 785 ff.
* Latter not printed; it requested information on China's external assets (893.51/11-1447).
2. Total official gold holdings 2,452,000 ounces with 2,412,000 ounces in China and 40,000 ounces in the U. S.

3. Dollar equivalent sterling area currency holdings at par of Central Bank $13,000,000 on September 30 and $7,000,000 November 15, of Bank of China $25,000,000 September 30, and of other Government banks $9,000,000 toward end of October.

4. Silver holdings in China 39,700,000 ounces. In addition, China has 1,900,000 ounces in New York and 1,200,000 ounces in London.

5. Central Bank contractual commitments up to January 1 include (in U. S. dollars million) cotton imports under National City Bank credit 11, fertilizer 8, bank notes 10, munitions 7, military gasoline and fuel oil 6, gasoline and oil for Ministry of Communications 3, air forces training 2, diplomatic and consular costs 2, miscellaneous 3, or a total of 52. Further commitments for munitions, gasoline, and fuel oil, which have to be met early in 1948, total 20–25. In addition to these commitments:

(a) Total debt service for first half of 1948 $33,000,000, including $25,000,000 to Export-Import Bank, of which $18,000,000 for metal loan falls due on February 17, and for second half $37,000,000, including $27,000,000 for Export-Import Bank cotton credit.

(b) About $40,000,000 of import licenses were outstanding on August 18, of which an estimated $10,000,000 have already been taken up. A considerable portion of the remainder may lapse.

(c) Additional Central Bank liability as result of commitment to allow import of accumulated unlicensed goods expected to total not more than $5,000,000 before April 1, 1948.

A detailed estimate of Government foreign exchange requirements for first half 1948 now being drawn up and will be made available soonest. It should be noted China hopes to realize $15,000,000 from sale of U. S. surplus property outside China.

On basis of above U. S. dollar and gold assets of Central Bank, Bank of China, and other Government banks $281,000,000 as of September 30, and dollar equivalent of sterling area currency holdings $47,000,000 as of same date. No data available here on Chinese short term liabilities as of September 30. Thus Dr. Young’s figure of $281,000,000 official gold and dollar balances reconcilable with your estimate of $265,000,000. In Dr. Young’s opinion decline in Central Bank dollar and sterling area currency holdings of $36,000,000 between September 30 and November 15 is a reasonably conservative indication of rate of decline in official balances to be expected in future, although decline from now to January 1 will be faster because of commitments falling due by year end.

Following are Dr. Young’s conclusions based on above:

“(a) Central Bank holdings of U. S. dollars, gold, and sterling currencies are now $189,000,000, and other Government bank holdings over and above necessary minimum working capital are $60–70,000,000, making an over-all total of $250–260,000,000.

References is to a credit of $40,000,000 arranged by the Central Bank of China with the National City Bank of New York for the purchase of cotton. The announcement was released in Shanghai on April 14.
(b) Up to January 1, 1948, Government commitments at least $52,000,000 and trade balance deficit estimated at $8,000,000, totaling $60,000,000. In unfavorable conditions, e. g., a disorderly price situation, the deficit might be more.

(c) By January 1, 1948, over-all available resources, i. e., deducting $60,000,000 as per (b) and allowing for Government banks' minimum working capital, now seem likely to be reduced to $190–200,000,000. This would include $86,000,000 in gold, perhaps $35,000,000 equivalent in sterling currencies, and perhaps dollar balances of $70–80,000,000.

(d) The gold is mainly in China and could not be exported without public knowledge, which might be expected to have a serious effect upon confidence in the currency and the Government. Maintenance of the gold and of some foreign exchange reserves in addition is vital for confidence. Government holds silver for possible emergency use here.

(e) For first half of 1948, deficit on Government account plus trade deficit is unlikely to be less than $25,000,000 monthly and might be more. That would exhaust most of the currency balances mentioned in (c) above by about April, 1948, on the basis of the estimates given."

STUART

S11,516 Export-Import Bank/11-1847

The Chinese Ambassador (Koo) to the Secretary of State

WASHINGTON, November 18, 1947.

DEAR MR. SECRETARY: During our conversation on the 13th instant, I referred again to China's application to the Export-Import Bank for a cotton credit and stated that the Bank in its reply of October 23, 1947, declined to give favorable consideration to the application at the present time. Its conclusions apparently were based on data of an earlier period, which are no longer in consonance with the actual cotton situation in China. In line with your suggestions, I have communicated to the Bank some data on the subject in a letter dated yesterday. I take pleasure in enclosing herewith a copy of my letter to the Bank and the Bank's reply to my letter of July 31, 1947.

Yours sincerely,

V. K. WELLINGTON KOO

[Enclosure]

The Chinese Ambassador (Koo) to the Export-Import Bank of Washington

[WASHINGTON,] November 17, 1947.

GENTLEMEN: This is to acknowledge your letter of October 23, 1947, communicating the views of the Export-Import Bank on our

73 Reply dated October 23, p. 1190.
74 Letter of July 31 not printed; for summary, see telegram No. 1009, August 12, 6 p.m., to the Ambassador in China, p. 1177.
application of July 31, 1947, for a cotton credit. The contents of
your letter were promptly transmitted to my Government.

I have now received a reply from my Government giving certain
additional information which I hasten to communicate to you.

On the side of supply of cotton, the third quarter exchange allo-
cation of $20,000,000 U. S. currency referred to in your letter had
indeed been planned, but it was not possible to put this allocation into
effect because of the stringency of available foreign exchange.

As to supply from domestic crops, which constitute a principal
source, it has been seriously hampered in its movement through trans-
portation disruptions by the Communists, thereby curtailing the
normally available total and destroying its short term elasticity in
supplying the coastal mills.

On the side of need, attention is invited to the essential necessity
of advance planning for replenishment and maintaining a minimum
stockpile, because the textile industry which is now the pivot of the
Chinese industrial economy must be continually kept at its fullest
capacity. The normal stockpile ranges between 600,000 and 900,000
bales; but 600,000 bales are the minimum.

Timely replenishment from imported cotton takes considerably more
time in China than elsewhere in the Western hemisphere. Four to
five months are normally required for the final delivery of imported
cotton, after foreign exchange financing has been arranged. The
necessary financial arrangement, therefore, has to be made well in
advance of the time when the stockpile would reach an acute minimum.

Regarding cotton consumption in mills, it is possible that the estimate
accepted by the Export-Import Bank was based upon the number of
spindles in operation during a past period when the increase of operat-
ing spindles induced by the progressive improvement in the power
supply situation had not yet taken place. This improvement is ex-
pected to continue, which would further reduce the number of idle
spindles.

As regards the other suggestions in your letter, my Government is
giving them further consideration. With reference to the informa-
tion which the Export-Import Bank would consider helpful to obtain,
I shall be pleased to forward it to you as soon as it is received.

Sincerely yours,

V. K. WELLINGTON KOO

893.00/11-2147 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 21, 1947—noon.

[Received 12:38 p. m.]

2271. Dr. Wang, Foreign Minister, asked me to call today and told
me that the situation in China had become so acute decision had been
taken to request American aid and this was being done through the Chinese Ambassador in Washington. At the same time he handed me an informal aide-mémoire indicating the character of the démarche to be made by Koo, the text of which is as follows:

[Here follows text of proposed aide-mémoire; comparison with the memorandum formally submitted by the Chinese Embassy on November 24, printed infra, shows only minor language changes.]

Dr. Wang said that the Generalissimo approved this action and hoped aid might be given along the same pattern as that contemplated in Europe and he was prepared to accept at least equal supervision.

It is Dr. Wang's idea that the Chinese would send to Washington, if desired, someone of the caliber of Pei Tsu-yee accompanied by 2 or 3 qualified persons. He hopes that the aide-mémoire will not be used textually in any public statements but has no objection to the use of information contained therein.

This action by the Chinese Govt results from the initiative of Arthur Young who has been in Nanking the past few days with Chang Chia-ngau. The matter was discussed with the Generalissimo, with the Prime Minister and Foreign Minister present, and the decision reached to act. We urged upon Arthur Young and he passed on the admonition to Chang Chia-ngau that the démarche should not be made unless the Chinese were determined upon effective implementation. Although we have no illusions as to the complexities of the problem, we are encouraged to believe that there is some prospect that the Chinese have a present intention to endeavor to carry through with a program of reform provided there is assurance of continuing support both financial and otherwise from the U. S.

STUART

893.51/11-2447

The Chinese Embassy to the Department of State 75

MEMORANDUM

"1. The Chinese Government welcomes the statement of the Secretary of State that the United States Government should extend economic and financial aid to China and that a definite proposal is under consideration for early action. 76 Such aid is, indeed, essential to China and is to avoid financial and economic breakdown and to achieve stability.

"2. The Secretary of State in his conversation with the Chinese

75 Handed to James K. Penfield, Deputy Director of the Office of Far Eastern Affairs, by Dr. Shao-Hua Tan, Chinese Minister Plenipotentiary.
76 See footnote 62, p. 1212.
Ambassador on November 13, 1947, indicated tentatively that the United States aid to China might be of the order of US$300,000,000 of which US$60,000,000 might be available from April 1, 1948, and that he hoped that definite proposals would be ready for submission to the Congress for its consideration next January. The prospect of such aid is gratifying, but the most recent data show that the financial situation has become so critical that emergency aid is immediately needed, and that such aid cannot be delayed until next April. These data were informally supplied to the United States Government through its Embassy in Nanking on November 18th. The Central Government therefore earnestly hopes that, pending the working out of a comprehensive program as mentioned below, the United States Government may find it possible to provide by action of the Congress interim emergency aid to cover the deficit in China's international balance of payments at the rate of at least US$25,000,000 monthly beginning from January 1948.

"3. The Chinese Government fully recognizes that, in order to deal with the present and prospective situations in China, a comprehensive and carefully prepared program is needed in which external aid and internal measures of self-help are to be closely integrated. The immediate need for emergency aid and action is to check inflation and prevent a breakdown. But it is also clear that the time has come for China to embark upon a program of fundamental internal reform. The program should cover currency and banking, public revenues and expenditures, armed forces, foreign trade, land policy and rural conditions, rehabilitation of essential industries and communications, and administrative methods. As a result of China's sufferings and losses during eight years of war and the subsequent Communist rebellion, China cannot carry out such a program unaided. The Chinese Government, therefore, in keeping with the long history of Chinese-American friendship and cooperation, hopes that it may count upon the material and technical assistance of the United States in carrying out this program.

"4. For the purpose of discussing interim emergency aid and devising a plan for further action along the line indicated above, the Chinese Government would be prepared to send to Washington a small technical mission, or to receive in Nanking a mission from the United States Government. The Chinese Government would appreciate an early reply from the United States Government concerning the views as indicated above."

Nanking, November 21, 1947.

WASHINGTON, November 24, 1947.

See telegram No. 2258, p. 1219.
893.06/11-2847 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 28, 1947—11 a.m.
[Received 11:03 a.m.]

2302. Following memorandum was handed me by Dr. Young on
November 27 in Shanghai:

"1. The worsening of conditions in China is reflected in rise of black
market foreign exchange rates by over 50 percent since November 15
and in sharper price rises than ever before in several regions. Dis-
appointment of unrealistic hopes of American aid and bad military
news touched off the rise which, however, is basically due to the flood
of easy money aggravated by a fall of confidence in the future out-
look. Money is being sent abroad in growing volume by persons in-
cluding officials who fear not only financial deterioration but also the
increasing penetration of Communists in central China and possible
disorders started by them in Shanghai or elsewhere. Some also are
going to Hong Kong 'for the winter'. The fall of confidence could
easily 'snowball' and lead to a breakdown though obviously no pre-
diction as to time would be possible.

2. The urgent need is to avert a breakdown. Clearly the Chinese
Government unaided cannot take effective action to stem tide, espe-
cially since acute inflation is a disease with insidious paralyzing
effect on the whole range of civil and military activities. Whatever
Government's faults or responsibility re the state of affairs, there is
nothing to take its place but the Communists. If a crisis should lead
to the C-C group taking full control they could not cope with the
situation and failure would come quickly because of their unsound
ideas and lack of financial and other technicians.

3. The only hope of averting a breakdown is the earliest possible
commencement of a program of external aid and internal reform.
The sooner such a program is begun the less difficult it will be to deal
with situation. Meanwhile something is needed to revive hope in
China, preferably inclusion of aid to China in the emergency pro-
gram of the special session of Congress even on a modest scale such
as U. S. dollars 60 to 75 millions, together with an official statement
that means to aid China are under active consideration with a view
to being put into effect at the earliest possible time."

Stuart

893.50/11-1047 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, November 28, 1947—1 p.m.

1433. Views expressed by Young (Urtel 2223 Nov 10) proving
helpful in consideration China aid program. Dept for most part
agrees with Embs comments thereon (Urtel 2231 Nov 12). In par-
ticular Dept agrees desirability financial aid contributing to balance
payments and to some priority reconstruction projects and concurs
Embs reservations re proposal for $150,000,000 fund combat inflation.
While foreign advisers may play a useful role in limited number posts Dept considers Young’s recommendations under heading 11 evince a degree of confidence in general efficacy foreign advisers not warranted by recent history their employment [in] China. Recommendations [regarding] reforms under this heading contain much merit though broadness field they cover seems optimistically ambitious in the circumstances.

LOVETT

893.51/11-1847: Telegram
The Acting Secretary of State to the Consul General at Shanghai (Davis)

WASHINGTON, November 28, 1947—3 p.m.

2032. 1. Reurtel 2661 Nov 18,78 there is no basis for report Gauss planning trip China.

2. Reurtel 2599 Nov 10 and representations subsequently made by Chinese with respect to cotton needs and prospects. Dept appreciates requirement [of] advance time margin for procurement, shipment and delivery of cotton supplies. In projection 1948 balance payments on quarterly basis Dept has tentatively allocated total imports $120 million as follows: 1st qtr. 0; 2nd qtr. $20 mil; 3rd qtr. $40 mil; 4th qtr. $60 mil. Figure for total imports is for 600,000 bales, 89,000 needed before July 1. It is on C. I. F. basis Shanghai. Your comments re above quarterly breakdown requested, also your estimate total cotton import requirements for period Apr 1, 1948 to June 30, 1949. To what extent do you regard it feasible that portion [of] import requirements can be met from private exchange holdings [of] Chinese mills?

Sent Shanghai, rptd to Nanking as Deptel no. 1434.

LOVETT

893.515/11-2847: Telegram
The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, November 28, 1947—8 p.m.

1441. For Emb and Adler from State and Treas.

1. State does not now consider desirable to use CN dols available under surplus property agreement if available only at official open market rates.

2. Dept believes possibilities negotiating special rate as alternative to use of unofficial market not exhausted. This should immediately be done by Amb Stuart with Adler’s assistance at highest

78 Not printed.
possible level Chinese Govt. Desirable that special rate be applicable to CN currency drawn under clause 6B (1) of Agreement August 30, 1946 for Fulbright program as well as purchase CN from Central Bank to cover operating expenses. Following points should be stressed:

a. Absolute need US Govt special rate approx 85% unofficial market T. T. rate as essential condition continued operation US Govt agencies China. Expenditure[s] of US Govt agencies operating in China limited by Congressional appropriations expressed in US dols. Unfavorable exchange rate causing too rapid exhaustion of appropriations. Supplemental appropriations not considered proper solution since Congress expects agencies to get fair value for dols they spend. Moreover requests for supplemental appropriations would focus attention Congress on failure Chinese to give US favorable rate and thus might well prejudice Congress against program aid to China.

b. US Govt wishes give appropriate assistance to China in present crisis but is being hampered by failure Chinese Govt facilitate US Govt in this aim by giving US Govt agencies fair value for dols spent in China. Unless US Govt can secure its local currency requirements at reasonable rates, US Govt may be forced contract rather than expand scope its activities in China.

c. The policy of the US Govt is to respect and comply with official exchange rates and regulations. US Govt desires dols it spends go to official accounts rather than black market. Hence US Govt has no alternative but urge Chinese Govt make available CN dols at some special or diplomatic rate applicable all US Govt agencies in China.

3. If course outlined above fails to produce satisfactory results one week from receipt of this tel Emb and other US Govt agencies authorized use unofficial market as outlined Embtel 2144 Oct 27. Emb will then notify Chinese Govt that US Govt regrets necessity this action but unavoidable and that US Govt agencies will immediately resume approved procedure whenever Chinese Govt makes satisfactory rate available. [State and Treasury.]

LOVETT

102.1/12–147: Telegram

The Consul at Shanghai (Pilcher) to the Secretary of State

SHANGHAI, December 1, 1947—5 p. m.
[Received December 1—11:26 a.m.]

2747. For Treasury, State, Commerce from Casaday. Reference Shanghai's 2711, November 25; repeated Nanking 1813 and previous and to A–866–870 inclusive dated December 1, 1947.

79 The Fulbright Act was approved August 1, 1946; 60 Stat. 754. For correspondence on this subject, see pp. 1203 ff.

80 Not printed; it gave the current open and black market rates for U. S. dollars in Shanghai (102.1/11–2547).

81 None printed; they comprised the Consulate General's weekly report on economic developments.
Today press features account ascribed to "realistic sources" of new drastic steps to curb inflation and black market activity. Report stated measures will be put into effect jointly by Shanghai municipal government, Shanghai-Woosung garrison headquarters and Central Bank with a "new organ" to be established to coordinate activities of these bodies. Central Bank to be chiefly responsible for economic and financial front, municipal government to intensify control over ordinary shops and firms and garrison headquarters concentrate on special centers of speculative transactions.

These steps reportedly taken in response to written orders from Generalissimo. Four specific measures thus far agreed upon according to press account.

1. Temporary suspension of loans to business and industrial firms.
2. Temporary suspension of discounts by Central Bank.
3. Temporary suspension of all remittances between Shanghai and outports.
4. Dumping by Government of large amount goods especially cotton and yarn on local markets.

Some of these measures have been tried before as previously reported by both Commercial and Treasury Attachés but present indications are that more drastic enforcement efforts may now be expected. Press reports that 10,000 economic police and other investigative personnel will be mobilized in city this week.

Private conversation with officials indicates that other measures than those listed above may be instituted.

Open rates for U. S. dollars December 1 remain at 72,000-74,000. Black market rates for U. S. currency touched high of 150,000 selling on Friday 28, receding Saturday to 140,000-145,000 opening and to 135,000-140,000 low. Today certain usual market sources of information reported "no market" due it was said to widespread fear of measures being instituted but certain other sources reported black market quotations ranging from 132,000-137,000 to 127,000-132,000 during the morning with downward tendency.

Repeated Nanking. [Casaday.]

PILCHER

893.5017/11-2847: Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, December 3, 1947—8 p.m.

1464. In view drastic measures against black market reported Shanghai Contel Nov 28, 7 p. m., Dept wishes emphasize that authorization resort unofficial market (Deptel 1441 Nov 28 Section 3) lies in

Not printed; it cited the Generalissimo's authorization to contract credits issued by banks, sell 40,000 bales of cotton yarn by China Textile Industries at open market prices, crack down on black market operators in exchange, and effect limited emergency purchase of Chinese currency in Hong Kong at black market rates.
Emb’s discretion alone. Dept continues regard realistic rate absolutely essential and cannot believe China Govt will refuse grant such rate if realized to be essential continuance US operations China.

Lovett

893.51/12-847 : Telegram

The Consul at Shanghai (Pilcher) to the Secretary of State

SHANGHAI, December 8, 1947—4 p.m.
[Received December 8—8:08 a.m.]

2798. ReDeptel 2032, November 8 [28]. ConGen has been making further investigations and tentative recommendations as follows: Imports required by thousands [of bales] first quarter 89, second 150, third 250, fourth 200.

Above requirements based on mill consumption somewhat less than our August 1 estimate and some decrease in estimated collections domestic cotton due disrupted transportation following military activities recent months in important cotton area of North China. This leaves net position regarding import requirements for the season about same as calculated August 1 but some speeding up is now indicated. Marketing of domestic crop from other areas hampered by inadequate transportation and financial arrangements regarding purchasing so seasonal collections may further lag.

Shortage of required staple above 7/8 inch in which domestic crop is short emphasized need foreign imports to supplement supplies domestic cotton. This being further studied and more definite comment can be made later.

Re last question, cotton mill owners would not voluntarily use their own foreign exchange assets. If Chinese Govt attempted coercive measure: a, mill owners would probably go into black market for part of foreign exchange; b, measures would be ineffectual as far as existing private assets located in China are concerned (gold and U. S. currency) and also as far as assets located abroad are concerned without cooperation of countries in which they are located.

Sent Dept, repeated Nanking 1853.

Pilcher

893.51/12-947 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, December 9, 1947—1 p.m.
[Received December 9—3:32 a.m.]

of Central Bank and Treasury Attaché covering current United States Government purchases of CN dollars and expenditures under article 6 b (2) of surplus war property agreement and between Ministry of Finance and Treasury Attaché covering expenditures under Fulbright Agreement concluded on December 8. Exchange of letters established a special rate to go into effect as of December 8 equal to 85% Hong Kong open market TT cross rate (selling) between U. S. dollars and CN dollars with procedure on lines of previous agreement in May. Hong Kong open market TT cross rate approximately same as Shanghai black market rate for U. S. currency, with former fluctuating sometimes slightly above and sometimes slightly below latter; there has not been any significant spread between the two in the last 3 months. Advantages of Hong Kong TT rate are:

a. Open market for TT in Hong Kong much broader than black market for U. S. currency in Shanghai, quotations for which often show wide spread even at same hour of day and not always easily available especially when police drives active. Hong Kong open market TT cross rate also preferable to Hong Kong open market cross rate for U. S. currency both because market for former broader and because TT cross rate significantly higher than currency cross rate.

b. Chinese object to official acknowledgment of any dealings at a rate which is a function of Shanghai black market rate.

Exchange of letters preceded by usual difficulties. Final stumbling block which delayed settlement until over weekend was Prime Minister's reluctance to extend arrangement to Fulbright Agreement.

All Consular Officers and Army and Navy in China being notified of arrangement. [Embassy and Adler.]

STUART

893.51/11-2447

The Department of State to the Chinese Embassy

MEMORANDUM

The Department of State has given sympathetic consideration to the memorandum from the Chinese Embassy dated November 24, 1947, and desires to support steps by which U. S. Government assistance can be integrated with internal measures of self-help in China in order to contribute toward an effective program for economic recovery.

In accordance with statements made at the conference on November 13, between the Secretary of State and the Chinese Ambassador, the Department of State is actively proceeding with formulation of definite proposals for submission to the Congress in January. It is

See memorandum by the Director of the Office of Far Eastern Affairs, p. 1214.
FINANCIAL RELATIONS

contemplated that there should be consultation between our two governments at an early date with respect to various aspects of these proposals. If, at that time, the Chinese Government desires, the United States would welcome a small technical mission in Washington.

WASHINGTON, December 12, 1947.

883.50/12-1247: Telegram

*The Ambassador in China (Stuart) to the Secretary of State*

**NANKING, December 12, 1947—1 p.m.**

[Received 10:51 p.m.]

2381. Generalissimo has again inquired regarding possibility obtaining services Blandford to head civilian advisory group in China (mytel 2241, November 15, 8 a.m.). I should appreciate receiving Department’s comments. Also it would be helpful to us if we could be given some indication of reception in Department of démarche made by Koo (mytel 2271, November 21, noon).

The situation in China continues to worsen and each week of delay makes recovery of stability more difficult. As the feeling of helplessness spreads there is accelerated deterioration in the economic situation and in military situation although in latter tempo has been lessen by some recent victories. We wonder, therefore, whether it would not be possible at this time to agree with the Chinese Government upon a public statement regarding breadth of Chinese request for our assistance and fact that we are giving it sympathetic consideration. Anything we could do at this time to give Chinese people some reason to hope for brighter future would have stabilizing effect.

*STUART*

711.93/12-1347: Telegram

*The Ambassador in China (Stuart) to the Secretary of State*

**NANKING, December 13, 1947—5 p.m.**

[Received December 13—8 a.m.]

2393. In conversation with me, Foreign Minister has expressed deep concern with regard current rumors here that proposal for $60,000,000 interim aid China has been thrown out in conference possibly at instance State Department. Foreign Minister greatly fears adverse effect internal economic financial situation and if there is basis in fact for these rumors, I am impelled to suggest that a statement from you to general effect that there is no change in our
over-all policy of desiring adequately to aid China would have reassuring effect at this time.

STUART

[893.50/12-1547: Telegram]

The Ambassador in China (Stuart) to the Secretary of State

NANKING, December 15, 1947—10 a.m.
[Received December 15—7:38 a.m.]

2896. Gimo has read carefully and shown to Premier and FonMin Price \(^{84}\) memo on reorganization of China enclosed my despatch 1141, December 4. \(^{85}\) All three expressed approval and will consider program in constructive sympathetic spirit.

Gimo, while supporting program, has pointed out following difficulties and its implementation which he nevertheless hopes can be overcome:

(1) Under new constitution Legislative Yuan after December 25 will have to approve any such agreements. Temper of that body is uncertain but care must be taken to avoid accusation of encroachments upon Chinese sovereignty in such way that public support can be won for program. Without public support he feels that neither he nor Executive Yuan could implement program.

(2) He feels care must be taken to assure American public United States is not assuming too great a responsibility for Chinese internal affairs and,

(3) He reiterates that China can accept at least as great supervision as western European countries and suggests familiarity of approach be stressed. He feels initiative might properly come from China and that China should invite the advisers who would help toward modernized democratic reform.

Gimo’s secretary is now working on draft proposal and I anticipate démarche shortly. I have impression Gimo at least still thoroughly convinced time has arrived for reform and that in speaking as above he is merely trying to visualize some of the difficulties which will be encountered.

STUART

\(^{84}\) Harry B. Price, Assistant Director of UNRRA in China.

\(^{85}\) Despatch with enclosed memorandum not printed; the latter proposed comprehensive American aid to China based on a jointly determined recovery and development program, an invitation from the Chinese Government to the American Government to provide for extensive American participation in the implementation of such a program, and development of a series of urgently needed and far-reaching economic and political reforms (893.50/12-447). In telegram No. 195, February 6, 1948, to the Ambassador in China, the Secretary of State described the memorandum as “an idealistic blueprint” and added that it was “predicated upon the availability not only of an abundance of material and financial resources but also on a willingness and ability of the Chinese Govt to act more drastically than ever before. . . . Furthermore the program would involve direct responsibilities to a degree which the US could not assume and commitments which we could not undertake”. (893.00/12-447)
FINANCIAL RELATIONS

893.30/12-1547: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, December 15, 1947—5 p. m.
[Received December 15—11:46 a.m.]

2400. Foreign Minister informed us today Chinese Government was accepting Department's suggestion that technical mission visit Washington early January. We hope to have in few days information re composition mission. (Our 2271, November 21, noon).

Stuart

811.516 Export-Import Bank/12-2047

The Chinese Ambassador (Koo) to the Secretary of State

WASHINGTON, December 20, 1947.

Dear Mr. Secretary: Referring to my letter to you dated November 18, 1947, I have the pleasure to enclose herewith a copy of my letter to the Export-Import Bank of Washington of date the 18th instant, communicating additional data on the cotton situation in China, which may be of interest to the Bank in its consideration of a cotton loan credit to China applied by my Government last July. I take [etc.]

V. K. Wellington Koo

[Enclosure]

The Chinese Ambassador (Koo) to the President of the Export-Import Bank of Washington (Martin)

[WASHINGTON,] December 18, 1947.

Dear Mr. Martin: It was indicated in my letter to you on November 17, 1947, that my Government was gathering more information which the Export-Import Bank deemed helpful to obtain for its consideration of our application for a cotton credit filed with your Bank last July. I have now received a further communication from my Government on this subject and hasten to transmit to you the desired information as follows:

The cotton purchased under the 1946 Export-Import Bank credit was allocated to government and private mills in China without discrimination as to ownership. The beneficiaries under the former group were: The China Textile Industries, Inc., which is government-owned, and the Joint Office of Yung Shing Industrial Company and Yu Foong Cotton Mill, which is partly owned by the Government through the Bank of China. Under the 1946 credit these two enter-

* Ante, p. 1221.
prises received a total amount of cotton valued at U. S. $13,348,186.03, or about 40% of the credit; the balance of the credit was allocated to private enterprises. It is to be pointed out that the afore-mentioned government-owned or partly government-owned mills operate approximately 40-45% of the total cotton spindles in China.

None of the mills concerned, whether government-owned or private, received any special financing for the purchase of cotton in question, as the mills were not short of working capital in Chinese currency.

Regarding exports of cotton textiles from China for the period from January, 1946 through June, 1947, the figures are as follows:

- Cotton yarn: 5,739 bales
- Cotton cloth: 75,620 pieces (of 40 yards each)
- Aggregate proceeds: US$289,782.00
  £737,667.00

It is to be recalled that during the above-mentioned period the need of textiles for the domestic economy of China was exceedingly heavy and it was not possible to export on a large scale.

Since June, 1947, however, plans have been put into effect for the export of substantial amounts of textiles. From June, 1947 to date, these exports have amounted to the following:

- Cotton yarn: 11,742 bales
- Cotton cloth: 1,313,051 pieces
- Aggregate proceeds: £2,246,758.00
  Rupees 413,930.00
  (or about US$15,000,000 in total)

The above export figures represent the overall amount of cotton textiles which China withheld from domestic consumption and shipped to export markets. As to what part of these exports was produced actually from the cotton under the 1946 credit, it has not been possible to determine.

In conclusion, it may be added that for the six month period ending June, 1948, the target of export in cotton textiles is set at about US$5,000,000 and £10,000,000.

Yours truly,

[File copy not signed.]

893.00/12-2247: Telegram

The Ambassador in China (Stuart) to the Secretary of State

Nanking, December 22, 1947—11 a.m.

[Received 4:44 p.m.]

2435. Believing that useful purpose might be served were I to issue a statement at the time Secretary presents to Congressional
Committee program of aid for China, I have drafted such statement which follows. If proposed context statement meets with Department’s approval, I should appreciate early advice in order that Chinese translation may be prepared.

“A MESSAGE TO THE PEOPLE OF CHINA.

From Mr. Marshall’s statement to Congress you now know something of the extent to which the people of the U. S. are prepared to go to assist the people of China. May I, therefore, take this opportunity to attempt to interpret to you the purposes controlling American policy toward China, and the problems involved. I do this from the standpoint of one who was born and has spent most of his life in your country and who is as deeply concerned over its welfare as any of you.

Fortunately the Government and people of the U. S. desire for China precisely what all truly patriotic Chinese themselves are struggling to achieve: its freedom and independence, internal peace and prosperity, the establishment of a genuinely modernized and democratic government. We Americans desire all of this but nothing more. We have no imperialistic designs. We seek no cultural penetration, no commercial exploitation, no political control. The best reply to malicious or misinformed charges to the contrary is the long record of all our dealings with China and the experience of those Chinese who have had the closest associations with us.

Our problem has been how to help the common people who have been the chief sufferers from the devastating internal conflict which has continued since V-J day. What the common people need is peace and productive activity under a government that cares for their welfare.

More specifically the problem is how [to] benefit the common people and to protect them alike from the extreme reactionary or selfish elements and from the extreme radicals with their uncompromising ideology and their brutally destructive revolutionary tactics. Both of these are highly organized. Both place their partisan or their individual interests above those of the suffering people.

We Americans believe thoroughly in democracy and we are convinced it will work in China if given a fair chance and sufficient time. Negatively, a democratic government guarantees freedom from forcible interference in the daily pursuits of the people and freedom from fear. Positively, it fosters conditions under which the more intelligent and progressive leaders can educate and in other ways assist the ordinary people to appreciate the duties and the rights of citizens in the democratic way of life and to apply constitutional procedures in exercising these under rule of law rather than under caprice of individuals.

As has always been true in Chinese history, the masses will follow educated leaders in whose moral character they have confidence. By adapting this ancient democratic Chinese process to modern constitutional procedures, the corrupt or incompetent elements in the present regional, provincial and local governments can be gradually eliminated and replaced by those whom the people freely choose to administer public affairs for the public good.

Personally from my long association with Chinese students I have confidence in their patriotic idealism. They, whether having already
graduated and occupying responsible positions in Government, in education, in business, or any other walks of life, or whether still in school, should be the ones to lead in this latest form of patriotic, public-spirited effort. By their public-spirited and unselfish example, they should be able to surmount those at the other extreme who are so fanatically devoted to their party, so intolerant of all other political faiths, so utterly ruthless in the methods they employ, that they are willing to destroy public and private property and inflict upon the helpless people all the horrors of rapine and war in the attainment of their own arbitrary objectives.

We Americans, under the leadership of Mr. Marshall, did our utmost to assist toward the establishment in China of a coalition government in which Communist Party would be fully represented and have the fullest opportunity for the peaceful advocacy of its principles. Our efforts failed. We would still like to see in China a government representative of all the people. At the moment this appears impossible. Nevertheless, with the traditional friendship between the American and Chinese peoples, and given our belief that the economic well-being of the Chinese people will redound to the benefit of the world, we were led inevitably to continued assistance to the Chinese people through the National Government; that Government which, under the leadership of Generalissimo Chiang Kai-shek, fought so valiantly as our ally against Japanese aggression.

The main task, however, rests upon the Chinese people, not upon the American people. No amount of American material assistance nor any number of skilled American technical advisers can alone accomplish what is required to bring political stability and economic recovery to China. The major effort must be Chinese and there must be a sincere and deep-seated determination to put selfishness aside and strive unceasingly for the common good.

First in importance is to understand clearly what the issues are. For there is much confusion as to terms. Freedom and democracy, for instance, are now being used with wholly different meanings. There can be no intellectual freedom in a totalitarian system where those who think for themselves succumb to fear, are indoctrinated, or are promptly liquidated. Democracy—as the word itself indicates—is government not only for but by the people. In this truly democratic sense the people must, however, continuously assert their will to prevent misuse of power by those in office. This is at once the strength and weakness of democracy. It requires, therefore, freedom of debate and publication, free access to news objectively reported. In a totalitarian system propaganda has been scientifically developed as a weapon dependent for its effects upon unrestrained vituperation and incessant repetition. There is need under present conditions for careful thought and investigation to avoid being misled by plausible and passionately asserted untruths.

China today is faced with insidious dangers which will require the united effort of all public-spirited citizens to overcome. The constitutional rights of full and free publicity, of legal procedure in arrests and trials, of untrammelled elections, must all be insisted on. Public opinion should be aroused and made articulate in resistance
alike against maladministration by Government officials and subversive agitations or armed violence by all others. Wherever the central government is sufficiently in control, this ought to result in better local government and in support of the troops by the populace in order to secure protection against armed depredation. This calls for organization, clear-sighted vision, a high degree of courage and grim determination. But with such cooperation from the freedom-loving patriots of China, the American people stand ready to offer their assistance through the National Government in the hope that that Government will become increasingly worthy of your loyal support and that all elements of the population will eventually join in a constructive evolutionary process that will bring unity and peaceful progress to the entire nation.”

STUART

893.00/12-2247: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, December 22, 1947—11 a.m.
[Received 2:45 p.m.]

2437. Having taken the plunge in requesting American aid (mytel 2271, November 21, noon) the Chinese leaders responsible therefor, namely, the Generalissimo, the Prime Minister, and the Foreign Minister, but I believe principally the latter, are becoming preoccupied with the criticism of their action to which they will be subjected by reactionary elements. As indicative of the trend of their worries, I quote below a memorandum handed to me by the Generalissimo’s secretary entitled “Some Fundamental Considerations on American Aid to China.” Some of the ideas outlined may be considered in the Department as startling and as a retrogressive step. I do not believe such interpretation is warranted. These leaders, but principally Wang Shih-chien, who is unusually sensitive to the reactionary criticism, merely wished, I believe, to let us know something of their thinking on the content of any American aid to China program. In this connection it would be most helpful to be given, as requested in mytel 2381, December 12, 1 p.m., information regarding reception of Chinese Government démarche in Washington.

Memorandum follows.

“1. The American plan for aid to China should be a long-range
4-year project, the purpose of which would be to assist China to
achieve political and economic stability, including currency reform.
To attain this object, the funds for relief and rehabilitation to be
obtained from the U. S. would require 500 million U. S. dollars for
the first year, the same amount for second year, 300 million U. S.
dollars for third year, and 200 million U. S. dollars for fourth year, totalling 1½ billion U. S. dollars.

2. With regard to the relief fund obtained under the plan, the Chinese Government should appropriate a fund in Chinese currency, equivalent to the value of relief commodities supplied by the U. S. This fund should be put to such uses as to benefit production and to curb inflation. There should be consultation and agreement between China and U. S. in mapping out schemes for spending of this fund; and the American Government should receive full information concerning its actual disbursement.

3. China will, on her accord, employ experienced American personnel to assist her in the planning for financial, monetary, and other administrative reforms. She will likewise employ American technical experts to participate in the execution of certain construction undertakings. The Chinese Government itself will express the aforesaid intention to the American Government at an appropriate moment, with request that the latter will assist in the selection of such personnel. The employment of these personnel will not, however, be made an international legal obligation of the Chinese Government in order to avert infringement on China’s sovereignty and administrative integrity.

4. The American aid to China plan shall contain no political condition other than what may be stipulated in the aid plan for Europe. On the other hand, terms which will be stipulated in the aid plan for Europe may apply, wherever practicable, to China.

5. As regards the supply of military equipments and ammunitions, China should be allowed to purchase in the form of loans the surplus and other military material from the American Government. The total of such loans is tentatively estimated at 100 million U. S. dollars for the year 1948. Prior to the submission of lists for such purchases, the Chinese Government will consult the American Military Advisory Group in China.”

STUART

893.00/12-1247: Telegram
The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, December 23, 1947—3 p. m.

1558. Not now possible give any definite info re Blandford (Embeltel 2281 Dec 12) and civilian advisory group pending agreement by Dept and concerned Govt agencies on China aid program now being prepared for presentation Congress. You may in your discretion tell Gimo matter being studied by Dept and other Govt agencies but no final decision yet reached.

As regards inquiry re subject matter para 2 of Reftel Dept assumes you have by now recd memo of conversation betw Sec and Amb Koo Nov 13 forwarded by pouch.

LOVETT
The Ambassador in China (Stuart) to the Secretary of State

NANKING, December 30, 1947—4 p. m.  
[Received December 31—1:35 a.m.]

2468. When we talked to Foreign Minister, Dr. Wang Shih-chieh, today he was greatly perturbed at rapidity with which situation was deteriorating in China. He said that recent Cabinet meetings to consider the budget and memoranda he had seen indicated to him clearly, although he was not an economist, that nothing could be done to improve situation in China until there was currency stabilization. Cabinet had considered, he said, plans for reducing personnel in army and civil service while at same time improving status and pay of those remaining and had found this impossible without increasing revenue. Cabinet was prepared to increase revenue by increased taxation, but found this impossible with constantly depreciating currency. Crux of problem therefore, said Dr. Wang, seemed clearly to be primarily in stabilization of currency. He agreed immediately, however, that stabilization of currency alone would be ineffective and must be accompanied by adequate measures in other fields. We pointed out to him some of the undertakings which are expected of European Govts receiving aid and he raised no objection to possible similar or comparable undertakings by China.

Personnel of technical mission which will visit Washington early January (ref tel 2400, December 15, 5 p.m.) still awaiting approval Gimo, but persons under consideration are General Yu Ta-wei 87 and Pei Tsu-yee, formerly of Central Bank who are planning to depart early January.

STUART

The Acting Secretary of State to the Consul General at Shanghai (Davis)

WASHINGTON, December 30, 1947—6 p. m.

2218. State and Agri agree following is maximum possible procurement schedule US cotton to meet Chinese requirements. Unit: 000 bales.

First and second quarters 339, but not more than 120 in second quarter; July-Aug. none, Sept. 50; fourth quarter 300. This being reviewed and subject [to] decrease as estimates US consumption in process revision. Above schedule states possibilities on basis first

87 Chinese Minister of Communications.
step in procurement operations. Agri believes 2 months sufficient time to procure, ship and deliver, on assumptions: controlled large scale continuing procurement operation with full pipe lines; no interruptions loading and shipping; and no problems handling in China. Note no procurement July–Aug., just before new harvest, on account market impact.

These calculations originated in systematic interagency survey world requirements and availabilities for Marshall Plan and were reviewed in light recent developments re Chinese programs. Please comment and advise, explaining revised assumptions urtet 2798 Dec. 8 and more recently, preferably giving revised Table 1 your report 156, Sept. 10 88 extended to July 1, 1949. Agri questions level of consumption, particularly consumption per spindle.

To insure comparability with above schedule and with balance of payments estimates, state whether your calculations based on port arrivals or distribution to mills and comment on our assumption 2 months lag. Your appraisal also requested of desirability in Chinese situation of handling any proposed cotton program through established commercial channels.

Give total import requirements all sources by quarters Jan. 1948–June 1949 inclusive showing separately non-US availabilities by source and specifying availability probably not requiring dollar payment. Give details reported China–Pakistan barter deal.

Repeat to Nanking.

LOVETT

893.51/9-2647

The Secretary of State to the Chinese Ambassador (Koo)

The Secretary of State presents his compliments to His Excellency the Chinese Ambassador and has the honor to refer to the Ambassador’s note of September 26, 1947 with regard to the claim of the Chinese Government against assets in the United States of the Russo-Asiatic Bank.

The Supreme Court of the United States on October 27, 1947,89 denied the petition for a review of the determination in the lower Federal courts that the United States Government by virtue of the Litvinov assignment is entitled to the assets of the Russo-Asiatic Bank in the United States to the exclusion of all other claimants, including the Chinese Government. The decision of the Supreme Court expresses the position of the United States Government on the question of international law which the Chinese Government has raised. The position

88 Report No. 156 not printed.
of the United States Government is that a government is under no obligation to condition its recognition of another government upon the preservation of interests in property within the jurisdiction of the recognizing government which a third government claims to have acquired during the period prior to recognition when it was assumed that the laws of the unrecognized government had no extraterritorial effect.

The position of the United States Government is similar to that taken by the Chinese Government in 1924 when the issue was the obligation of the Chinese Government to condition its recognition of the Government of the Union of Soviet Socialist Republics upon the preservation of interests which the United States Government claimed to have acquired in the Chinese Eastern Railway during the period prior to the recognition of the Soviet Government by China when it was assumed that Soviet nationalization laws had no extraterritorial effect. The Chinese Government maintained that it was under no obligation to insist upon the preservation of the interests of the United States.

The position of the Chinese Government is expressed in a note of June 16, 1924 from the Chinese Minister of Foreign Affairs to the United States Minister in China, in an aide-mémoire of June 30, 1924 from the Chinese Legation in Washington to the Department of State, and in the Sino-Soviet agreement of May 31, 1924 by the terms of which China acknowledged Soviet ownership of the Chinese Eastern Railway retroactively to 1917 and the Soviet Government agreed to pay only those claims which arose prior to 1917.

The principle for which the Chinese Government now contends would require a government to place a condition upon its grant of recognition which is almost certain to be rejected by the government seeking recognition. The act of recognition is hardly compatible with an insistence that protection be extended to interests acquired prior to recognition on the basis of the assumed invalidity of the laws of the recognized government. On the contrary, it is believed to be a principle of international law that when a government which originates in revolution or revolt is recognized as the de jure government of the country in which it is established, such recognition is retroactive in effect and validates all the actions and conduct of the government so recognized from the commencement of its existence.

WASHINGTON, January 19, 1948.

See telegram No. 184, June 17, 1924, 4 p. m., from the Minister in China (Schurman), Foreign Relations, 1924, vol. 1, p. 494.

Ibid., p. 508.