

*Bates*

NOTES ON THE DIPLOMATIC SITUATION AS OF OCTOBER 1, 1936

Ambassador Kawagoe on September 22, in the course of the third of the formal interviews with Foreign Minister Chang, completed his rigorous statement of the Japanese requirements. Chang replied with a definite refusal and presented Chinese counter demands (there is slight uncertainty as to the exact time for the statement of the counter demands; but it is clear that the conversations broke off in a tense and rather hostile situation early on the evening of the 22d, shortly before the shooting of the marines in Shanghai). It is said that Kawagoe was so startled by the firmness of the Chinese position that he got up in anger to end the conversation.

It will be ~~observed~~ observed that the seven Japanese requirements include Hirota's famous three points. The first four of the demands here named were known somewhat earlier than the later three. This may however be simply an accident of the method of reporting. Those familiar with the Japanese press as reported in telegrams from Tokyo will recognize that three or four of these demands have been reported in almost identical form in Tokyo. Publication of the larger part of the Japanese demands and also of the full series of counter demands has brought no contradictions from either side. Nevertheless officials of both governments continue to refuse to give out authoritative information.

The demands as reported here have been told to us by a close friend of a member of the Central Executive Committee, who attended the Government Council at which Minister Chang made his report on the negotiations. Four or five of the demands were also reported to us independently by each of two men on the staff of the Ministry of Foreign Affairs. In addition a certain foreign diplomat has confirmed our information to the extent of saying that it was substantially correct and that we have a clear picture of the situation.

Minister Chang's refusal was definitely authorized by Chiang Kai-shek. Moreover Chang's report was heartily approved by the Government Council. New instructions to the Minister from Chiang Kai-shek are expected tonight. Unless an unexpected way of compromise is opened, a complete break is expected within a very few days. The Ministry of Foreign Affairs has prepared a complete declaration of the Chinese position in all important matters of recent controversy, and is ready to release it to the press at the instant of a break. Meanwhile complete information is supplied to the British, American, and certain other foreign governments. It is felt that while there remains any hope of negotiation it is unwise to make any statement to the press, despite the obviously unsatisfactory nature of Japanese statements and rumors.

Military preparations are going on steadily. Some emergency measures have been taken very recently; but they are thought to be precautionary, and of a kind to show to the Japanese that a real defensive policy is now in force. High Chinese official circles and foreign diplomats are united in feeling that a great crisis is at hand. War is not a foregone conclusion, but it is an imminent possibility.



Foreign Office report ahead of newspapers that real sticking-points are the proposed pledge of joint action against communists, and the program of autonomy for the five provinces. An Embassy confirms this, adding that the Chinese leaders are convinced a pledge against communists would bring them into war with Russia at the convenience of the Japanese.

Li Shih-hao, and still more Chang Shih-chao, are Central Government men of the Hwang Fu clique. They represent the improved relations with Sung Cheh-yuan. Chang Chun again today expressed his entire confidence in the loyalty of Sung. At the same time, the Government is greatly embarrassed regarding the aviation arrangements. When asked point-blank today by an Embassy, two Ministries concerned were frank to declare that they had given no approval and did not even receive a report of what had been done in the North. Through a junior member of the Hwang Fu group, I have heard that they favor considerable yielding in the North, with the expectation of war before long, which would overthrow all present agreements. (This line of thought seems to me peculiarly dangerous, and I have challenged it in several quarters).

Dean of Navigation School at Woosung ordered by Ministry of Communications to remove all valuable records and apparatus to the Settlement. He says that the Marine Products Laboratory had similar instructions. An Embassy spokesman commented on this that the Ministry of Communications had been well ahead of all the others in "emergency" plans of various sorts.

A well-informed official says that there are more than 200,000 Chinese troops near the borders of Suiyuan and Hopei, including several divisions of Kwangsi soldiers. I have repeatedly heard that five divisions of Kwangsi troops have passed through Hankow and Chongchow as part of the understanding in the South. However, I remain skeptical of anything more than a concentration upon the communists in Shensi and adjacent parts of Kansu, composed largely of troops that were sent southward in May and June.

An Embassy representative quoted to the Waichiaopu Mme. Chiang's statement that as soon as things got bad they would shift to Nanking. Reply was that this trip is for an anti-communists conference. Embassy thinks no action against Japanese in North or Northwest is contemplated other than resistance by local troops to any moves initiated by the Japanese themselves. Statements from Chiang and from Chang Chun to support this view. Compare declaration by an official of good rank that a military council decided to leave Wang Ying and Li Shou-hsin to Fu Tso-yi as a provincial matter; but if any Japanese unit, however small, crossed into Suiyuan, Central Government troops would be thrown in.

Breakdown of negotiations expected in one Embassy, unless Japanese regain their reason and are willing to return to slow and piecemeal procedure. But Japanese want too much in a hurry, and are obsessed with ideas of prestige for the Empire.

In another Embassy great anxiety over war, which should be avoided at almost any cost, as bringing ruin to China and to everybody else. No immediate fear, but concern over the drift toward stronger attitudes on both sides.



Very high degree of secrecy in recent weeks. Literally the Foreign Minister and the Japanese Ambassador have been alone in their conversations, and no detailed report has been made to the Central Executive Committee or to other considerable groups of high personages.

Hsu Ho: "We must enable the Japanese to find a way of retreat that will save face for them."

Eight demands, mainly of an economic nature, have been made upon Sung Cheh-yuan by the Japanese generals. They have been sent to important men in relevant Ministries here for comment. Part have been disclosed vaguely in the press: Development of Tangku as a port; extension of cotton production on Japanese lines; reorganization of the Lungyen mines; construction of the Tientsin-Shihchiachuan Railway. Others are kept in strict confidence thus far. None of them sounds startling in itself, but the total program is so extensive as to put Japanese hands into most parts of Hopei and across the borders of neighboring provinces. Moreover, the "proposals" are from military men, who merely say that they will take the responsibility for securing the money from Japan. It is unnecessary to point out what a Japanese-controlled port at Tangku would do to Tientsin and to the remains of the Chinese Customs system in the north; or that a Japanese cotton program would affect local administration, banking, transportation, and Chinese mills and distribution; or that the railway to Shihchiachuan will involve a police and military lane to the gates of Shansi, amputating Hopei and Chahar from the rest of China, and focusing more of economic interest under proper control at Tientsin.

Some members of the group around Wu Ting-ch'ang and Chang Kia-ngau are reported to be talking actively with the Japanese on lines of extensive economic cooperation in North China, and are quoted as saying that for the time being North China should be "allowed to become like Canada within the British Empire". That seems to be a faulty rationalization of defeatism (or of "realism", if one prefers the term). On the other hand, Loy Chang is quoted as saying three days ago that the Government was taking a very firm stand all along the line.

Suma: Much more mild and cautious than usual. Interpreted by an experienced foreign correspondent as not knowing what to do next, and unable to maintain the customary bluster. Nevertheless, he repeatedly sneered at the suggestion that the Chinese might fight.

Kung is really sick, aside from being much troubled at the pressure Wu Ting-ch'ang and Chang Kia-ngau continually bring upon him and his adherents.

Chiang Kai-shek is showing a generally firm attitude, without fear of the Japanese. He has given considerable encouragement to Fu Tso-yi in Suiyuan (Fu saw him at Loyang) and to Sung Cheh-yuan. The latter is somewhat bucked up, and is in better touch with Chiang than ever before. But Sung is much embarrassed over the aviation agreement which Chen Chu-chang succeeded in getting him to sign, and even lied about it to intimate messengers. Chiang forgave him, as the basis of a new start in cooperation; and agreed that he should not come south for conference. Han Fu-chu is expected to visit Peiping at the request of the Central authorities,



as part of the generally improving cooperation.

Gunther Stein, who ranks very high indeed in knowledge of Japanese economics and general policy, is convinced that money will not be forthcoming for significant investment in China; and that the program of economic expansion will break into military and political control of Chinese resources. The phrase "canalization of Chinese economy" is frequently used. He also fears action by army groups or navy groups, particularly the latter. Indication of naval boldness is provided in Stein's expectation that if Britain is involved in a European war, the Japanese navy will take the Netherlands Indies.

Stein believes that the Russian question is far greater in Japanese eyes than the Chinese. (Interesting confirmation is provided in Hsü Mo's revelation that more than once the Japanese diplomats have said they required a pledge of cooperation against "international communism".) Therefore they will not bog the army in China. The Japanese were much disturbed by the last big border scrap just a few days before the Mutiny, in which 3,000 men were engaged. The Mongols were running tanks and all sorts of good equipment without any Russians in evidence; which was disturbing to the usual raiding program.

There is all the material for Greek tragedy in Stein's utter pessimism regarding any serious revision of Japanese policy. He considers that their present position is not only economically difficult, but politically impossible. If China really develops herself, Japan's precarious hold on Manchoukuo cannot be maintained, and even Korea and Formosa would be endangered in any conflict. Moreover, the view of China and Russia as two hostile neighbors continually increasing in strength as against Japan's limitations, is full of despair. The only way out is to bring a considerable part of China's potentialities, especially those that might be most easily joined with Russia or most easily used against Manchoukuo, within Japan's control and use. Probably also to strike at Russia in the one moment before "too late" has become hopelessly "past", in connection with the expected German attack. Thus Japan must go on, though she is already beyond true strength and soundness. Stein's opinion is that the Russian war will come during the year July 1937 to July 1938, with timing determined in Europe. (All this is my form of statement, which I hope is fair to Stein's views).

An American observing officer (naval?) is quoted as saying that the Chinese Government has aviation fuel supplies for two weeks of wartime consumption.

Waichiaopu friends insist that Chang Chün stuck firmly to his guns in the seventh interview, though they have no details to disclose.

*A Mitsui director said the industrialists would not put money into lands they expect ultimately to be B. Soviet or Chinese — including Manchoukuo.*