

Feb, 1937

Outwardly the past month has been dull, yet in Government circles there is great activity and perplexity over the issues forced to the front by the Sian revolt. Despite complications and aggravations caused by the troops of Chang Hsueh-liang and Yang Hu-cheng in the Northwest, the real issues lie in the relations of the Central Government with the Communists, and their bearing upon foreign and general policy. The skilful Communist leaders have made the most of the internal and international situation, and offer their cooperation against Japan as patriotic citizens, thus ending the costly and incompletely successful struggle of the Government to crush the red armies.

It is possible to interpret these moves cynically as: (1) the best chance of survival for the weary and exhausted Communist bands, driven into the bleak wastes of the Northwest; and (2) as part of the "United Front" or "People's Front" program, seeking to gain access to the middle classes by cooperation with democratic and popular elements in all countries, under the slogan of resisting fascism and imperialism. However, there is considerable evidence of the sincerity of certain Communist leaders, or at least of their ability to convince Chiang Kai-shek and others of their willingness to make a real compromise. On the other side, in repeated conferences the Communist representatives have learned that Chiang Kai-shek is neither the Japanese agent nor the stupid fascist whom they have long denounced in caricature.

The Central Government is rightly anxious to end the confusion of the Northwest without continued and increased warfare. It also is eager to settle the Communist issue somehow, without opening the country to enlarged radicalism. Thus the main set is both placative and conservative, attitudes not easy to combine in dealing with a red army of revolution. On the whole, we expect a compromise only upon the accepted pledge of the Communists to ~~accept~~ ^{accept} ~~national~~ ^{national} yield to the direction of the Government. There are views well to the right and others far to the left of this one.

One must be sympathetic with the manifold variations of judgment now to be found in Government circles, and must realize how extremely difficult it is to find a workable policy on which a large measure of agreement can be secured. But one cannot be content with the personal and factional rivalries that worsen the national problems. They have burst forth in the opportunities provided by the shocks of the Sian affair, the agitation of the United Front ~~People's~~ (National Salvation Association), and the return of Wang Ching-wei from Europe. There is a fair presumption that the forthcoming Plenary Session of the Central Executive Committee will not see great changes in Government personnel, but many would have it otherwise.

China is perforce interested in the Japanese Government crisis, and naturally is fearful of open military dominance, announced stiffening of foreign policy, guarantee of the vast military and naval budgets, and the apparent crushing of the civilian parties. The military line-up in Suiyuan and the smuggling and drug activities continue with little change. Japanese economic pressure and penetration have not gone so far in North China as was feared, partly owing to the caution of their own capitalists. But many Tientsin enterprises, both old and new, are in Japanese hands; and the bases of extensive developments in railways, mines, and cotton are already

laid down.

Chinese currency and banking have been well handled in the reforms of the past year. However, the budget problem of smuggling on the one side and of unending military charges on the other; the regional resistance in Hopei and in Kwangtung to a really complete centralization of note issue; the pressure of certain theorists and ultra-nationalists toward inflation, with partly military objects; the peril to Chinese currency from the expected devaluation of the Japanese yen; and the continued political uncertainty: all give rise to some anxiety whether the financial reforms will break down before they can be consolidated.

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