

CHUNGKING PAMPHLETS

No. 3

WESTERN INTERESTS

UNDER FIRE

BY JOHN AHLERS

Published by
The China Information Publishing Co.
P.O. Box 107, Chungking, China.

Mr. John Ahlers came in 1937 to China as correspondent of the *Neue Zürcher Zeitung* (Zürich), and the *Allgemeen Handelsblad* (Amsterdam).

Mr. Ahlers is at present financial editor of *The Shanghai Evening Post & Mercury*.

There are many books to Mr. Ahlers' credit, most of them on finance and trade. He has in the past three years made an intensive study of the economic and financial aspects of the present Sino-Japanese War, of which he is now an acknowledged authority.

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By JOHN AHLERS

I. Introduction

Western interests in China have been under fire throughout the three years of the present Sino-Japanese war. Few of them have managed to escape unscathed. Most of them to-day, as compared with their pre-war state, find themselves substantially reduced and encroached upon. In some instances, in areas still under the control of the Chinese National Government, those interests have expanded. In Japanese-occupied territory, on the other hand, non-Nipponese business has experienced enormous losses and curtailments. In occupied China the extent and value of Western trade, and Western industrial and financial activities to-day are far below the level of three years ago. Huge Western investments are either badly compromised or totally lost.

The war damages which Western interests have suffered accidentally, as an inevitable result of the Sino-Japanese war, are but slight when compared with the damages inflicted deliberately. These interests for three years have been one of the chief targets of the Japanese. Soon after the Sino-Japanese war it became obvious that Japan's invasion of China pursued a two-fold aim. That offensive was

calculated not only to subdue and expropriate the Chinese but also to reduce and, as far as possible, to oust non-Japanese interests from the country. The efforts of Western countries to protect their China interests achieved partial success only in the foreign concessions and settlements. They were ineffective in the vast interior of the Nippon-controlled areas.

The various Western countries, confronted with the Nipponese invasion of China, adopted different policies. Some opposed the Japanese all along the line, protesting and threatening retaliation. Others tried to cope with the Japanese by a wavering policy of partial concessions and opposition. Still others completely subordinated their China interests to full co-operation with the Nipponese. These policies failed to bring about any differentiation in the Japanese attitude to the various Western interests in occupied China. All these interests were treated alike. That some nations suffered more and others less was due rather to the different structure, location and extent of their China interests than to different treatment by the Nipponese. Thus, Germany is among the nations whose China trade suffered most severely at the hands of the Japanese.

Western interests in Japanese-occupied territory all found themselves in the same predicament, though some Western governments still fail to realize this. They were in the same situation again in Free China where the National Government strongly promoted them. In many

respects, they found in Free China easier conditions than before the war. Most Western countries made good by increased business with Free China, at least for some time, part of their commercial losses in the occupied areas. Some even to-day continue to sell in Free China more goods than they sold prior to the Sino-Japanese war. The Japanese, however, have done everything to stop and to prevent this development. The steady expansion of their blockade of the China coast, their seizure of an ever larger number of ports, and their systematic air bombing of all communications and urban areas in China have greatly curtailed Western business expansion in Free China.

In the occupied areas, direct Japanese action against Western interests, as the war went on, was gradually supplemented and superseded by indirect action taken in the name of various pseudo-Chinese puppet regimes sponsored by the Nipponese. Under the nominal responsibility of those regimes is enforced the present system of anti-Western business discrimination in occupied China; discriminatory trade, shipping and exchange control is also being exercised. Exactly as in Manchuria, those regimes form the tools of the Japanese and at the same time shield them. They entirely rely upon the protection of Japanese bayonets, and blindly execute the orders of their Nipponese "experts" and "advisers."

The Japanese officially pretend that they are respecting, and will continue to respect, the

legitimate rights and interests of other foreign nations in China. They reserve to themselves the determination of those rights and interests as either legitimate or illegitimate. Western rights and interests which the Nipponese want to seize, to supersede or to abolish, they interpret, as a matter of course, as illegitimate. Legitimate Western interests in China they conceive merely as subsidiary and supplementary to Japanese interests. The latter, in the eyes of Tokyo and as practised in occupied China, enjoy absolute priority and preference over all and any other rights and interests in China.

II. Japanese Trade Offensive

Non-Japanese trade in China has suffered enormously at the hands of the Japanese. The distributing and purchasing apparatus of many Western concerns in the occupied areas has been destroyed. The Japanese ousted Western business men from most of their territory. Wherever Westerners have stubbornly stayed on (as in Hankow), the Nipponese have paralyzed their activities so that they are unable to transact any business worth speaking of. Chinese agents of Western firms are intimidated and persecuted. In countless instances, Chinese private business men have been compelled to discontinue business relations with Westerners in China, and with Western countries. Large supplies of produce earmarked or purchased for exportation to the West and huge stores of Western goods have been seized or destroyed. Imports from and exports to Western countries

have been artificially restricted, curtailed, or stopped. With the Japanese in monopolistic control of the entire internal communications of the occupied areas, non-Japanese trade in these territories has fallen completely at the mercy of the Nipponese.

Japanese business men, on the other hand, in the wake of the Nipponese armies have spread all over the occupied areas and established themselves wherever their Western competitors have been driven away. In the early spring of 1940, the number of Japanese civilians in occupied China surpassed the 300,000 mark. These Nipponese immigrants represent all strata of the Japanese business world, ranging from bankers and agents of Dai Nippon's mammoth concerns down to medium and small merchants, shopkeepers, barbers and pedlars in narcotics. Many are engaged in regular business activities; many, however, indulge in numerous commercial and financial rackets which mercilessly exploit the helpless Chinese farmers and citizens. All these Japanese form a united front against Western business which they consider and treat as a common enemy. They have built up a formidable, largely monopolist business apparatus entirely dominating all lines of business in the occupied areas. This apparatus would almost hopelessly handicap Western competition even if those areas were re-opened later to non-Japanese foreign business. There are not, however, any serious prospects of a re-opening as long as the Japanese fighting forces remain in China.

Commercial access to Nippon-controlled China on equal terms with the Japanese is barred to Western interests also by an intricate system of anti-Western trade discrimination. The Japanese have enforced a special Customs tariff in these areas as from June 1, 1938. This tariff pretends to be a mere restoration of the former Chinese tariff of 1930. Actually it is not. Numerous exceptions from the 1930 tariff duties have been made in the form of lower import duties for goods the Nipponese are specially interested in. Among these exceptions, made-in-Japan commodities during the past two years have managed to secure more or less complete domination of the China market. No corresponding favours have been granted to Western commodities. In many instances, the Customs tariff of the occupied areas is applied to trade with the Western countries only, while large volumes of Japanese goods, as well as of exports to Japan, are being withheld from Customs registration and duty payment. The Chinese Maritime Customs valued total Chinese exports to Japan during the year 1939 as Ch.\$66,600,000. The Japanese Ministry of Finance on March 11, 1940, informed the Budget Sub-Committee of the Japanese Diet to the effect that the past year's Japanese imports from China aggregated Yen 215,000,000. This is a figure more than three times higher than that of the Chinese Customs, without taking into consideration the fact of the Chinese dollar's exchange value being only one-fourth of that of the Japanese

yen.

The anti-Western and pro-Japanese Customs tariff of the occupied areas has been supplemented, in North China and Inner Mongolia, with numerous trade discriminations. The puppet regimes in Peiping and Kalgan have decreed a large number of special import and export restrictions, as regards foreign trade commodities formerly handled by non-Japanese firms. Exceptions from such restrictions, in many instances, have been granted to Nipponese interests exclusively. In some cases, imports and exports of such commodities are made the monopoly of compulsory business associations in which Japanese firms are given the dominating shares and the largest trade quotas. By this means, much China trade has been taken away from American and European business men, and handed over to their Japanese competitors.

Another severe blow against non-Japanese business in occupied China has been the flooding of the country with worthless puppet currencies linked to the Nipponese yen, and the gradual suppression of the circulation of Chinese currency in the North. The Japanese-sponsored Yen bloc is calculated to include North China and Inner Mongolia together with Manchuria within the economic realm of Japan proper and her colonies, thus separating these areas from free financial intercourse with other countries. As a monetary enterprise, the Yen bloc has been a failure. Commercially, however, it has

been a huge success for the Japanese because it has permitted them to establish and enforce foreign exchange control in North China and Inner Mongolia, and by this means to control the entire financial and commercial intercourse between those parts of China and the non-Japanese world.

North China exchange control is being exercised in the name of the puppet regimes, but actually it is completely in the hands of the semi-official Japanese Yokohama Specie Bank, which has been "appointed" foreign exchange agent of the Japanese-sponsored new "state banks" of the puppet governments in Peiping and Kalgan. All foreign exchange coming from exports from the areas in question has to be given up to the Yokohama Specie Bank which is authorized to permit or to prohibit, without giving reasons, any export deal. The bank seizes such foreign exchange at its official rates which in the spring of 1940 were four times higher than the Peiping puppet dollar's open market value. This means that the banks pay but one-fourth of the amount of puppet currency which foreign exchange would bring in the open market. Exporters are compelled to cover resulting losses on exchange differences, and to organize so-called link transactions with importers who obtained foreign exchange from the Yokohama Specie Bank at official rates. It is in this way that the Japanese bank through exchange control of exports achieves control of imports.

Importers in North China and Inner Mongolia are being allotted foreign exchange only when applying for exchange in connection with exporters simultaneously offering exchange. The importer is supposed to pay the difference in his favour between the Yokohama Specie Bank's official exchange rates and the open market rates to the "linked" exporter, and to compensate the latter for his exchange loss. The Yokohama Specie Bank, however, withholds part of the exchange involved in such transactions, allotting less exchange to the importer concerned than obtained from the exporter. Also, the Bank grants exchange for imports only on some 100 out of the 600 odd items of the Customs tariff, thus making practically impossible any substantial imports under the other 500 tariff items. Besides, the whole system is extremely well suited to spy into the business secrets of Western trade in China. Under the pretext of checking up on proposed link transactions, the Japanese enquire closely into all the business data concerned. Many Western business secrets, in this way, have been betrayed to Nipponese interests which have subsequently managed to paralyze the activities of their American and European competitors.

No such measures as yet have been introduced in Central China. There, however, another system of anti-Western trade discrimination makes business outside the International Settlement and the French Concession

of Shanghai absolutely impossible. The Japanese have closed to foreigners the shipping and trade of the whole of the Yangtze Valley. What little Western trade with the interior still persists in 1940, has been carried on invariably through Japanese middlemen who earn the bulk of the profits involved. The Nipponese fighting forces closely supervise the monopolist commercial racket in the Yangtze Valley, reserving a large series of import markets for made-in-Japan goods and numerous Chinese export products for shipment to Japan only. Similar conditions prevail in the Nippon-controlled territories in South China.

The Japanese continue to pretend that on the Yangtze River they ship military supplies only. It has been proved, however, that their ships carry up and down the river chiefly commercial goods—commodities from Japan as well as exports of Chinese produce to Japan. This Yangtze trade does not have to submit to Chinese Maritime Customs registration. It is chiefly this trade which accounts for the huge discrepancy between Japanese and Chinese figures on recent trade between Dai Nippon and occupied China, with the Japanese figures surpassing the Chinese accounts by over 60 per cent in imports from Japan, and by more than 250 per cent in exports to Japan.

The result is an enormous increase in Japan's share of the foreign trade of China even in the Customs-registered portion of that trade which, as shown above, fails to comprise

a large portion of Dai Nippon's total trade with China. Prior to her continental invasion, Japan's share in China's imports was less than 19 per cent. By January, 1940, her share had increased to 39.86 per cent. This is the more remarkable since during the war Nipponese trade is excluded from access to territories still under the Chinese Government's control. The whole Japanese trade increase in China has been achieved in the occupied areas. There, Japan to-day accounts for over 50 per cent of the total foreign trade. In North China, her trade share was 75 per cent, and in Inner Mongolia is surpassed 95 per cent during the last year. Japanese commercial conquest closely follows in the path of Nipponese military conquest in China.

The following represent the percentage share of the Japanese Empire in the total imports of China in January, 1940: fruits, seeds, vegetables, sugar—92 per cent; fish—83 per cent; animal products, canned goods, groceries—80 per cent; wines, spirits—76 per cent; paper, rayon, timber—70 per cent; metal-ware—55 per cent; machinery—50 per cent; chemicals, pharmaceuticals—49 per cent; cereals—45 per cent; dyes, cotton piece-goods—40 per cent. These percentages apply to all of China, including Free China. Since Japanese trade is restricted to occupied China only, the Japanese import shares are larger for this part of the country. In the interior of Nippon-controlled territory in China, the Japanese to-day dominate

many import markets to the extent of 100 per cent.

The trade of Western nations with China's occupied areas is restricted almost completely to the few sea ports with foreign settlements and concessions. Of these sea ports, Canton and Kulangsu (Amoy) are of little account for non-Japanese trade, and also in Tientsin the Nipponese hold the major share in that port's foreign commerce. In Shanghai, however, the Japanese import share is but 15 per cent, although this one city accounts for half the total foreign trade of China. It is in Shanghai that the remainder of the Western countries' China trade is centred. In the United States exports to China, for instance, Shanghai in January, 1940, accounted for no less than four-fifths. Shanghai remains the last of the strongholds of Western trade on the China coast, the centre of what is left of the China shipping under Western flags, and the centre of non-Japanese foreign industrial and financial enterprise and investments in China.

III. Control of Communications

For decades the Western nations have shared prominently in the financing and construction of China's communications. When the Japanese started their invasion of China proper, Westerners still held a dominating share in China's communications. By far the major portion of China's foreign and coastal shipping was transacted under Western flags. The most important Chinese harbour properties are

Western-owned. Most Chinese railways are mortgaged against huge bond obligations chiefly floated in Europe.

The Japanese have entirely disregarded Western interests in China's communications. They have completely closed to Western shipping the Yangtze River and a number of ports elsewhere. In other ports which they control, they systematically intimidate non-Nipponese shipping by all sorts of chicanery. Western ships are refused free access to most ports, or the most convenient shipping facilities in those ports. They are restricted to the use of the poorest and most expensive anchorages. They are made subject to discriminatory permit systems. They are prevented from loading and unloading at will, and are excluded from carrying certain categories of cargo reserved for Japanese boats. Japanese commercial shipping experiences none of these difficulties but, on the contrary, is being promoted by all means. In many Yangtze Delta ports, Chinese merchants have been compelled, by intimidation and assault, to boycott Western shipping. In North China, the granting of trade and exchange permits is being frequently made dependent upon the reservation of maritime cargo for the Japanese mercantile marine.

The Union Jack enjoyed an overwhelming share in China's coastal and foreign shipping when the Sino-Japanese war started. Early in 1939, the Rising Sun flag managed to surpass the Union Jack in the tonnage of vessels entered

from and cleared for abroad in all Chinese ports. The British flag maintained its lead for another half year in Shanghai, but the autumn of the past year saw the Rising Sun flag take the first place. In numerous instances, the Japanese pirated ships of small European nations engaged in China shipping. An entirely illegal blockade of all ports remaining under the Chinese National Government's control was declared by the Japanese Navy for no other purpose than to kill non-Japanese shipping to such ports. An American shipping firm, William Hunt & Company, was even robbed of ships, dockyards and wharves purchased from Chinese interests prior to the war, under the pretext that the purchase was not "recognized" by the Nippon-sponsored puppet regimes.

Railway communications in Japanese-occupied China have been made a Nipponese monopoly. The Japanese have confiscated all the railway lines which their armies have managed to occupy, not paying any heed to the Western interests involved. They have even seized such lines as the Peiping-Mukden Railway in whose territory there has been no warfare whatsoever. By the spring of 1940, they took possession of some 6,000 kilometres of Chinese railways, mostly mortgaged to European bondholders. They treat these lines, for all practical purposes, as Japanese property, disposing at pleasure of the tracks, stations, workshops and rolling stock. They collect and

dispose of the whole railway revenue. They refuse to Western business the free use of the lines. Nowhere in occupied China can any foreigner freely board trains or deliver freight for transportation without submitting to Japanese permit systems, controls, and financial exactions. Japanese business enjoys absolute preference and priority in commercial transportation on these railways.

The Japanese military, during the first two years of the war, managed the seized railways either themselves or through the South Manchuria Railway Company. A year ago, they entrusted the management of these railways to two newly established companies, the North China Traffic Co. and the Central China Railway Co. The North China Traffic Co. is capitalized at Ch.\$300,000,000, with 90 per cent of the capital shares allotted to Nipponese interests, and a nominal share of 10 per cent given to the Peiping puppet regime. The Central China Railway Co. is organized in the same way. These companies now manage the 6,000 kilometres of Chinese railways without paying the slightest heed to legitimate Western interests, secured by contract and international treaties. Chinese loan obligations in Western countries outstanding on, secured upon, and to be serviced out of revenues of Japanese-occupied railways in China amount to roughly £40,000,000. As a result of the Japanese seizure of railroads and railroad revenues, the service of these loan obligations had to be discontinued.

Western railroad interests in Free China continuously form a preferred object of Japanese air bombing. For over two years Nipponese air forces bombed the western section of the Lunghai Railway, upon which are secured considerable Chinese loans outstanding in France, Belgium, and the Netherlands. The Canton-Kowloon Railway, chiefly representing British interests, has been put out of service and was partly destroyed by Japanese military operations. Since the early winter of 1939-40, the Chinese section of the Haiphong-Kunming Railway, a French property, suffered repeated damage from Japanese bombing. A series of new railway building contracts concluded between the National Government of China and various Western interests cannot be carried out because of the Japanese threat to bomb any new railway enterprise in Free China.

IV. Expropriation of Chinese Industries

Japanese proceedings as regards industries became another source of great losses to Western business men in the occupied areas. Chinese mines (coal, iron ore, and salt), public utilities (power plants, gas works, waterworks), iron and steel industries together with the country's communications and fisheries have been controlled by the Tokyo Government and the Japanese fighting forces. Two huge holding companies, designated as the North China and Central China Development Companies, are entrusted with this task. The two holding companies form some two dozen subsidiary

companies, each of which manages a particular branch of these industries or a particular industrial region. All these companies are either fully Japanese-owned or dominated by Japanese interests and managers.

The bulk of occupied China's manufacturing industries was allotted to Nipponese private interests by the military. Japanese cotton mills secured Chinese cotton mills; Japanese soap factories got Chinese soap factories, etc. The same fate has been reserved for Chinese dockyards, iron works, portland cement factories, alcohol distilleries, rayon plants, oil mills, flour mills, chemical works, sugar refineries, match and paper factories. In some of these industrial plants, the Chinese owners retain a nominal share, usually a minority share, but in every instance the management of the plants has been placed in Japanese hands. The majority of the factories concerned have been expropriated without any compensation to the Chinese owners.

The Japanese originally pretended to hold these Chinese industries in a sort of trusteeship. They boasted the Tokyo Government would raise billions of dollars for the development companies and their subsidiaries, and that Japanese industrialists would sink large sums into these schemes of industrial expansion. Nothing of the sort has happened. The capital of the development companies is paid-up by about one-third only, with but a small portion of the paid-up amounts raised in actual cash. Of

Yen 300,000,000 of special development funds scheduled to be raised by the floatation of debentures before the spring of 1940, not a single yen has been forthcoming. Japanese private industrialists have refrained from investing on any appreciable scale in their industrial acquisitions in occupied China, contenting themselves with the mere exploitation of those acquisitions. In both groups of expropriated Chinese industries, however, complete success has been achieved in the field of suppressing Western business connections with these industries.

During the last two decades China has been making rapid progress in the field of modern industries. Western interests have a prominent share in China's industrialization. For Europeans and Americans in China the equipment of, and the supply of raw materials and half-finished products to those industries steadily increased until, on the eve of Japan's present invasion, Chinese industries had become the Western countries' most important single customer of all branches of China's economy. Naturally, these Western interests were greatly and adversely affected by the Japanese wholesale expropriation of Chinese industries, and especially by the Nipponese policy of discontinuing, as far as possible, business relations between these industries and the West.

The Japanese seized a large number of Chinese factories working with Western machinery and equipment either unpaid or only

partially paid for, and loaded with mortgages in favour of Western firms. The Japanese took over the assets, but refuted the liabilities involved. Not a single case is known of Japanese interests acknowledging and fulfilling such obligations. Numerous examples to the contrary have been established. Japanese expropriators have even refused to pay for Western-owned or mortgaged machinery which they have purloined from Chinese factories for installation elsewhere, or for sale. Under the same system, in many Chinese factories, large stocks of unpaid Western raw materials and half-finished products, or prepaid goods earmarked for exportation to Western countries have been expropriated.

Yet more disastrous to Western interests, in the long run, is the Japanese closure of the "Open Door" to free commercial intercourse with expropriated Chinese industries. The Nipponese semi-official and private corporations to which these industries have been turned over link them as closely as possible with Japanese business. New machinery, raw materials, half-finished products, etc. are being ordered in Japan, or through Nipponese firms. The financial business involved is transacted by Japanese banks. Insurance is being written with Nipponese companies. Shipments of cargo on behalf of these industries are preferentially allotted to the Japanese mercantile marine. For instance, prior to the Japanese conquest Chinese cotton mills not only

purchased the bulk of their machinery in Great Britain, Switzerland and Germany, but also continuously bought large volumes of such accessories as wrapping paper, hessian cloth, roller skins, pickers, pocking bands, V-belts, card-clothing, clearer cloth, etc. from England, France, the United States, India, and Germany. All this business, after the mills were seized by the Nipponese, has been turned over to Japanese industries.

The Japanese also directly assaulted, in many instances, Western-owned industries. In Shanghai and elsewhere, factories owned by Western-registered, especially Hongkong-registered, companies have been confiscated. Some of these plants, following numerous British protests, were released to the rightful owners only a year and more later. In other instances, the Japanese just closed the areas under their occupation to the activities of non-Japanese foreign industries, for example in the field of electric power distribution. All Western-owned industries in the foreign concessions and settlements were deprived of free access to their traditional markets and sources of raw materials in the Nipponese-controlled areas. Competing Japanese industries in China, on the other hand, are favoured with ample supplies of the materials withheld from the Western industries, and are being granted all sorts of facilities in selling in the interior markets.

In their disposal of the Chinese mines, the Nipponese have equally disregarded huge

Western interests. They have allotted the salt deposits of North and Central China to various subsidiaries of their development companies. They have seized enormous stocks of salt and collected the salt revenue. They have refused to pay attention to the fact that China's salt mines are legally pawned to Western interests as securities and sources of revenue for the service of £16,320,171 and US\$61,505,500 of China's foreign loans, as outstanding on June 30, 1939. In this case, too, the Nipponese have seized the assets but have not taken over the liabilities involved. The salt loans in question, just as the Chinese railway loans, consequently had to be defaulted, and Western bondholders concerned have lost their security as well as their revenue. A case of direct Japanese assault against a British mine property is the Tsiaotso coal mines owned by the Peking Syndicate. The assault was delivered in the course of the so-called anti-British campaign staged in connection with the year-long Japanese blockade of the British concession of Tientsin. No compensation has been offered.

The Japanese regard as their monopoly the determination of occupied China's industrial future. Their avowed intention is to promote, under their control, such industries as would be complementary to, but not competitive with Japan Proper's industrial economy. Rules for industrial promotion in Central China announced by the Tokyo Government in February, 1940, also provide that such new industries should not be

dependent upon regular supplies from Dai Nippon, but ought to be based upon the resources of China herself. For North China, the Japanese last year devised a five-year industrialization plan which has not been published and whose application so far is not indicated by any signs. As regards new Western industrial initiative in China, the Japanese will permit only Western participation as creditors and debenture holders in Japanese or semi-Japanese concerns. They are dead set against any new independent promotion of Western interests in China.

V. Financial Control

European and American finance and banking in China have also been hard hit by the Japanese invasion of China. The enormous war devastation in the urban areas as well as the countryside of one-third of China and the ruin of countless Chinese debtors of Western business considerably reduced and inflicted great losses upon Western economic activities in this country.

Western banking in the occupied areas suffered a long series of direct assaults by the Japanese and their minions. The puppet regimes withdrew from the Western banks all business connected with the collection of state revenue, especially Customs revenue, in the occupied areas. All branches of China's economy which passed under Japanese control have discontinued their former connections with European and American banks. In numerous instances, the Japanese have also compelled Chinese merchants and private individuals to withdraw their ac-

counts from the Occidental banks and instead to entrust their money to Japanese banks. Many branch offices of Western banks in the occupied areas have had to close down, and their activities to-day are restricted to Shanghai, Tientsin, Tsingtao, and Peiping. Japanese banks at the same time have spread a dense network of new branch offices all over occupied China and have managed to seize the bulk of the business which their Western competitors have been forced to give up.

European and American investors in China's foreign loans lost heavily from the Japanese policy of seizing Western bondholders' assets and securities, and of withholding the revenues destined for the Chinese loan services in Western countries. The Nipponese proceedings as regards the foreign railway and salt loans have been described already. The Chinese Customs loans suffered the same fate. The Japanese in May, 1938, tricked the British Government into a tentative agreement providing for British acquiescence in a made-in-Japan Customs tariff and Japanese Customs duty collection in the occupied areas, on condition that out of that collection was serviced the occupied areas' share in the Chinese Customs loan obligations. Following Chinese protests, the agreement has never been implemented, but the Japanese nevertheless have seized those advantages which the agreement held out to them, while refuting the corresponding obligations. They have introduced their own Customs

tariff and up to the spring of 1940, collected some Ch. \$375,000,000 of Chinese Maritime Customs revenue, which sum was deposited with the Yokohama Specie Bank. Not a penny of this money, however, has been forwarded to the Western holders of Chinese Customs loans, and consequently these loans had to be defaulted. The amounts outstanding in Western countries on these loans on December 31, 1939, were £23,850,569 and US\$22,965,550. The defaulted outstanding amounts of Chinese Customs, railway and salt loans together, whose securities the Japanese have seized and whose revenue they collect, total around £90,000,000 and US\$96,000,000. These loan obligations form almost one-fifth of all foreign investments in China.

Japanese currency measures in occupied China are another bad blow against Western business interests. When the Sino-Japanese war started, China adhered to the Sterling bloc and could boast of a stable, well secured, and freely convertible currency. European and American interests, too, required such a currency in China and, therefore, gave it wholehearted support. The Nipponese, on the contrary, tried every device to ruin China's national currency and to replace it with currencies based on their yen, in order to force China into currency dependence on Japan and to separate the country from the Sterling bloc. It was for this purpose that the Kalgan and Peiping puppet regimes were provided, by means of Japanese bank credits, with so-called "state

banks" of their own, the Bank of Mongolia and the Federal Reserve Bank. These banks soon began to issue bank notes whose circulation was gradually enforced while Chinese national currency was officially suppressed. The new puppet currencies are not secured by bullion or foreign exchange, and since even the Bank of Japan failed to support them with its own exchange reserves, they have been inconvertible into foreign exchange from the start of their dubious careers. The desire to protect the puppet currencies and to maintain their official over-valuation was the chief reason for the introduction of Japanese-managed foreign exchange control.

The commercial aspect of that exchange control has been dealt with in the section on trade, but its effects far surpass the sphere of commerce. The Yokohama Specie Bank's exchange control in North China and Inner Mongolia extends to all transactions involving transfers of foreign exchange across the borders of North China and Inner Mongolia. The whole movement of Western funds into and out of these areas, the home remittance of profits made, and interests to be paid by Western firms, the transfer abroad of individual Westerners' savings—all this comes within the reach of its control. The Japanese thus manoeuvred themselves into a position in which they are able to control, regulate, restrict and suppress the entire financial intercourse of Europe and America with North China

and Inner Mongolia. This control is exercised with anti-Western discrimination, and has proved most disastrous to Western interests.

Yet the Japanese continue to solicit Western credits for their China conquests, in Manchuria as well as in China proper! They have done so for years past, and although they have been completely unsuccessful, they stubbornly pursue their credit hunt. Some day in the future, they still hope, Western resistance to their offers of taking up Western credits will break down. Tokyo publicity frequently refers to this Japanese credit hunt and tries to make out that in their spheres of power in China the Japanese are not really opposed to European and American financial co-operation! Such argumentation simply amounts to hypocrisy. What Western interests want and have a right to enjoy in China is free financial operation fully independent of the Nipponese. The latter, however, do not wish to admit Western capital freely in their new conquests. All they want is Western credits for their own semi-official and other enterprises in China, especially the development companies. They want Western capital to advance them the funds needed for exploiting the wealth of China, because war-strained Japan is unable to raise these funds herself.

VI. . What They Do VS. What They Say

The Japanese continue to give periodical assurances of their desire to respect European and American interests in China. They pretend that all their encroachments upon those interests

are due to "military necessity." These Japanese pretences have no basis in fact. The facts, as related above, point to the existence of a deliberate Japanese policy to restrict, suppress and if possible oust from China all non-Japanese economic and financial activities. Tokyo's vague assurances to the contrary are calculated to forestall, or at least to delay Western defense or retaliation. The Japanese play for time, while they establish in occupied China one anti-Western *fait accompli* after another. By means of such *faits accomplis*, the situation which to-day is being advertised as the "New Order" has been gradually built up.

The Japanese "New Order in China", maintained by the invaders' bayonets, is built upon the ruins of numerous important Western interests in China. Its extension is threatening what remains of those interests in occupied China. Yet the Japanese try to secure Western recognition of that "New Order." They want such recognition primarily because it would mean the Western nations' acquiescence in the losses they have suffered in China at the hands of the Japanese. Besides, the Nipponese hope to cement that "New Order" by means of such Western recognition, since it would indicate to the Chinese that they have been forsaken. The Japanese in reality are not so sure yet as they pretend to be that their "New Order" will stand. They are afraid that, sooner or later, the Western countries may give up their passive attitude to recent events in China and actively

~~circulate~~ To-day the Japanese would very much
~~like to~~ ~~extinguish~~ the fire with which they have
set China ablaze. But Western interests in
China have been under Japanese fire for so long
that rather than give in, they prefer to remain
under fire a little longer and see the ramshackle
building of the "New Order" crumble under
the impact of the impending crisis in Japan.
It is by no means sure that the fire lighted by
the Japanese in China will not consume those
who have committed the arson.

Shanghai, April 1, 1940.