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LEAGUE OF NATIONS

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VII. POLITICAL

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Geneva, December 30th, 1931.

LEAGUE OF NATIONS

**CLAIM MADE BY THE FINNISH GOVERNMENT WITH REGARD TO
FINNISH VESSELS USED DURING THE WAR BY THE GOVERNMENT
OF THE UNITED KINGDOM.**

Note by the Secretary-General:

The Secretary-General has the honour to communicate to the Council and the Members of the League of Nations a Memorandum which was transmitted to him by the Permanent Delegate of Finland to the League of Nations, in reply to the British Memorandum of September 17th, 1931.

MEMORANDUM OF THE FINNISH GOVERNMENT
in reply to the
British Memorandum dated September 17th, 1931.

(Document C.573.M.231.1931.VII.)

EXHAUSTION OF LOCAL REMEDIES.

1. Like the British Memorandum, to which the present document is a reply, the following observations are confined to the question of the exhaustion of local remedies in this case, and, in the first place, it is desired to say a few words as to the nature and scope of the rule of international law under discussion. The British Memorandum (paragraph 2) formulates the rule in the most absolute and categorical terms. It says:

“The individuals concerned must have exhausted all their remedies under the municipal law of the country concerned as a condition precedent to the right of the Government, whose nationals the claimants are, to take up the claim and make it its own and present it through the diplomatic channel . . . unless and until this condition precedent has been fulfilled, the claimant's Government has no right to take up the case diplomatically at all . . . Until this condition has been fulfilled, such a claim cannot assume an international character at all.”

It is submitted that this statement is too sweeping, and does not represent the true character of the rule as established by international law and practice.

2. Some light as to the scope of the rule is derived from international conventions such as the General Act and the Locarno Arbitration treaties where all that is required as a condition of an international claim is a municipal decision having the force of *res judicata*. Certain authorities on international law go further and consider that resort to local remedies is unnecessary, where the State itself has previously taken up a claim (see LIMBURG, “Académie de Droit international”, *Recueil* 1929, Volume V, page 334). But, even according to the strict view generally held in Anglo-Saxon countries, the rule is admittedly one of substance and not merely of form. The question to be decided in considering its application in a given case is whether or not the municipal law of the State concerned does, in substance and in fact, afford to the injured individuals redress commensurate with the loss or injury they have suffered.

“The rule that local remedies must be exhausted before diplomatic interposition is proper is subject to the important condition that the local remedy sought is obtainable and effective in securing redress. If this condition is absent it would be futile and an empty form to require the injured individual to resort to local remedies” (BORCHARD, “Diplomatic Protection”, page 821).

Again, the Institute of International Law, in 1927, formulated the rule as follows:

“No demand for reparation can be brought through diplomatic channels of a State so long as the wronged individual has at his disposal effective and sufficient means to obtain

for him the treatment due to him. Nor can any demand for reparation take place if the responsible State places at the disposal of the wronged individual an effective means of obtaining the corresponding damages."

See also the reply of the British Government to point XII of the questionnaire of the Codification Committee preparatory to the Hague Conference of 1930.

3. It is obvious that the existence of local remedies in this sense must, in many cases, be a matter of opinion, and, accordingly, the operation of the rule cannot be automatic. It is no doubt the duty of a State to consider the question of local remedies when deciding whether or not to take up the claims of its nationals, but the decision in the particular case is necessarily a matter within the discretion of the claimants' State in the first instance. If that State decides to adopt the claim and make it the subject of diplomatic representations, it is no doubt open to the other State to raise the objection that local remedies have not been exhausted and to decline altogether to discuss the matter through diplomatic channels, and, in the absence of any authority to decide the preliminary question, an *impasse* may thereby be reached; but, if the respondent State does enter into diplomatic negotiations, it is submitted that the dispute undoubtedly assumes an international character, even if the objection in question is one of the points in issue, and, *a fortiori*, if it is not raised. In actual practice, there are numerous examples of successful diplomatic intervention in cases where existing local remedies had not been exhausted or even resorted to, as well as of submissions to international arbitration in the same circumstances. It has already been explained (Finnish representative's statement, Council Minutes, September 14th, 1931, page 3) that, in the present case, throughout a diplomatic correspondence extending over a period of several years, the British Government never raised this objection, and it is submitted that it is impossible now to suggest that the controversy so dealt with is not an international dispute in the proper sense of the term and, as such, suitable for an international procedure of settlement.

4. Further, it is submitted that the Covenant of the League does not, in any event, contemplate or authorise the objection put forward by His Britannic Majesty's Government. The only conditions laid down by Article 15 are that the dispute should be (a) "between Members of the League" and (b) "likely to lead to a rupture". Point (b) calls for separate discussion, but the history of the present case demonstrates beyond question that condition (a) exists and has indeed existed for several years past. Once a dispute "between Members of the League", "likely to lead to a rupture", has been submitted to the Council, the Council is bound to deal with the matter as provided in Article 15, and the only ground upon which it can be divested of its powers and obligations is the objection under paragraph 8, which, is, of course, not applicable here.

5. It is now proposed to turn to the question of the local remedies available to the Finnish shipowners under English law and, in dealing with this subject, it is important to distinguish between the two aspects of the matter raised by the British Government: (a) recourse to the ordinary courts; (b) appeal from the judgment of the Admiralty Transport Arbitration Board.

6. As to (a), the Finnish Government submits that it is plain that the shipowners have not now and never have had any right to take proceedings in the ordinary English courts. It must be observed at the outset that this point, no less than point (b), depends primarily upon the Indemnity Act, a fact which does not emerge from the British Memorandum. This Statute was enacted on August 16th, 1920, for the express purpose of restricting legal rights arising out of the prosecution of the war. The text of the Act is annexed and it will be seen that Section 1 (1) provides that no legal proceeding whatsoever shall be instituted in any court of law for, or on account of, or in respect of, any act, matter or thing done within His Majesty's dominions during the war before the passing of the Act if done in good faith and done, or purported to be done, in the execution of his duty, or for the defence of the realm, or the public safety, or otherwise in the public interest, by a person holding office under the Crown in any capacity, or by any other person acting under the authority of a person so holding office.

Now whatever view may be taken of the facts of the present case, it is clear that the shipowners' claim against the British Government must necessarily be based upon an "act, matter, or thing" within the above provision, so that, if the Indemnity Act had stopped there, all means of redress would have been barred. The Act goes on, however, to lay down certain exceptions from the general prohibition:

" Provided that, except in cases where a claim for payment or compensation can be brought under Section 2 of this Act, this section shall not prevent

.....
" (b) The institution or prosecution of proceedings in respect of any rights under, or alleged breaches of, contract if the proceedings are instituted within one year from the termination of the war or the date when the cause of action arose, whichever may be the later."

Sub-section (2) of Section 1 provides that a petition of right (which is the special form of procedure under English law for suits against the Crown) shall be deemed to be a legal proceeding.

The first comment to be made is that, if there had existed any contract upon which the shipowners could have based a claim, their right to do so would have expired long ago by reason of clause (b). But in fact, of course, there never was such a contract and the Finnish Government has never intended to suggest the contrary.

7. It is desirable in this connection to return once more to the argument in the first Finnish Memorandum (document C.470.M.200.1931.VII), which appears to have given rise to so much misunderstanding (see British Memorandum, document C.519.M.218.1931.VII, paragraphs 18 and 22; Finnish representative's statement, Council Minutes of September 14th, 1931, page 3 (end) to page 4; British Memorandum, document C.573.M.231.1931.VII, paragraph 5 (a)). The passage in question, which must be read in its context, was as follows (Finnish Memorandum, document C.470.M.200.1931.VII, paragraph 32):

“ A distinction must be drawn between the contention of His Britannic Majesty's Government that, under agreements alleged to have existed between itself and the Russian Government, the character of an exercise of Russian sovereign authority was of necessity imposed in advance upon the requisition of Finnish ships in British harbours, and the contention that, by virtue of such agreement, the terms were prescribed, as between the two contracting Governments, upon which the British Government were to become liable to pay for the maritime services procured. It cannot be admitted that any such contractual regulation of the terms of hire was, in fact, concluded. But if, contrary to the present submission, it were to be established as a fact that, by virtue of an agreement or agreements with the Russian Government, the liability incurred by the British Government in respect of the use and loss of the ships was contractual in character, it would be submitted that the rights corresponding to such liability accrued, in the first instance, to the owners. ”

The argument intended to be expressed here was that if there was a contract between the two Governments stipulating how much the British Government was to pay to the Russian Government for these ships—and, therefore, necessarily an express contract—these payments being intended for the benefit of the shipowners could, under the principles of international law, be regarded as accruing to them, and were therefore recoverable by the Finnish Government on their behalf from the British Government (there was never any question of a contract between the British Government and the shipowners).

8. As stated by the Finnish representative before the Council on September 14th, 1931 (Minutes, page 4), English case-law negatives the possibility of any claim by the shipowners before the English courts in such circumstances. In *Rustomjee v. The Queen* (1876) (L.R. 1, Q.B.D. 487, 2, Q.B.D. 69), a petition of right was brought by a British subject claiming a sum of money under a treaty between Great Britain and China. The treaty provided that the Emperor of China should pay Her Britannic Majesty three million dollars as the amount of debts due to British subjects, of whom the suppliant was one, by Chinese merchants, and this sum was duly paid to the British Government by the Chinese Government, but the courts held that the suppliant had no right to recover the money from the Crown. In the Court of Appeal, Lord Coleridge said (page 74):

“ She (the Queen) acted throughout the making of the treaty and in relation to each and every of its stipulations in her sovereign character, and by her own inherent authority; and as in making the treaty, so in performing the treaty she is beyond the control of municipal law and her acts are not to be examined in her own courts. It is a treaty between herself as sovereign and the Emperor of China as sovereign, and though he might complain of the infraction, if infraction there were of its provisions, her subjects cannot. . . . In all that relates to the making and performance of a treaty with another sovereign the Crown is not, and cannot be, either a trustee or an agent for any subject whatever. ”

That case was, of course, far stronger than any case the shipowners could have put forward if there had been a contract or treaty between Great Britain and Russia; for they would have had to claim, not that the Crown should merely pay over money already received from the foreign sovereign, but that the Crown should itself carry out a substantive obligation under the treaty.

The principle laid down in the above decision has been applied in several other cases, the most recent of which is the *Civilian War Claimants Association v. The King* (47 “ *The Times Law Reports* ”, 102, confirmed in the House of Lords; *The Times*, No. 20, 1931), and it is concisely expressed in HALSBURY'S *Laws of England*, Volume 23, page 308, in the proposition that:

“ Treaties entered into by the British Government confer no right enforceable by action upon any private individual, British or alien. ”

The British Memorandum (paragraph 5 (a)) draws attention to the “ well-accepted principle of English law that international law is part of the law of England ”, but the limits within which

English courts actually apply international law are narrow, and they always decline to enforce inter-state obligations for the benefit of individuals. This is illustrated by the following passage in the judgment of the Judicial Committee of the Privy Council in *Cooch v. Sprigg* (1899), A.C.572, page 578:

“ It is a well-established principle of law that the transactions of independent States between each other are governed by other laws than those which municipal courts administer. It is no answer to say that, by the ordinary principles of international law, private property is respected by the sovereign which accepts the cession and assumes the duties and legal obligations of the former sovereign with respect to such private property within the ceded territory. All that can properly be meant by such a proposition is that, according to the well-understood rules of international law, a change of sovereignty by cession ought not to affect private property, but no municipal tribunal has authority to enforce such an obligation. And if there is either an express or a well-understood bargain between the ceding potentate and the Government to which the cession is made that private property shall be respected, that is only a bargain which can be enforced by sovereign against sovereign in the ordinary course of diplomatic pressure. ”

This reasoning applies equally to the ground of claim under discussion.

9. The British Memorandum (paragraph 5 (a)) mentions “ another case, where the circumstances were very analogous, relating to Russian ships ” in which “ the shipowners did bring proceedings, based upon implied contract, by petition of right against His Majesty’s Government before the ordinary courts ”. It is presumed that the case referred to is *Russian Volunteer Fleet v. The Crown*, which is reported in *Lloyd’s List Law Reports*, Volume 15, pages 33, 74; Volume 17, page 52, and which was tried in April 1923. The claim there arose of the use of certain vessels of the Russian Volunteer Fleet by the British Government in and after March 1918, and it is quite true that the facts appear to have been in some respects analogous to those of the present case, although the discussion turned mainly upon a different point—namely, the legal nature of the body known as the “ Russian Volunteer Fleet ” and its relation to the Russian Government. The claim made by the suppliants, who purported to be or to represent the Russian Volunteer Fleet, was for: (1) the return of the vessels, (2) a declaration that the vessels belonged to them as a separate entity and as distinguished from the Russian Soviet Government and (3) compensation for the use of the vessels by the British Government. As to (3), which is the relevant point for the purpose of the present case, the Crown objected that the court has no jurisdiction by reason of the Indemnity Act and the judgment of the court of first instance states that:

“ The plea of the Indemnity Act is a complete answer and prevents my dealing with it in this court. If there is any claim for compensation at all to which anybody is entitled, it must be proceeded with before the tribunal which is set up by the Indemnity Act of 1920 ” ((15) “ *Lloyd’s List Law Reports* ”, Volume 15, page 75).

As to the other points, the British Government did not dispute its liability to return the ships to whoever was entitled to them, and the court made a complicated declaration as to the legal position of the Russian Volunteer Fleet, which, as already indicated, was the main question in dispute. An appeal was instituted, but the parties at the suggestion of the court of appeal agreed to a settlement which was embodied in a consent order (17 *Lloyd’s List*, 52). It is submitted that the only effect of this case is to confirm the view that the ordinary courts were not open to the Finnish shipowners.

10. Although it is hoped that the foregoing observations suffice to show this, it may be well to refer to one or two further decisions upon the Indemnity Act in illustration of the scope of that statute. Attention has been drawn to Section 1 (1) of the Act, and it will be remembered that exception (b) is preceded by the general proviso:

“ Provided that, *except in cases where a claim for payment or compensation can be brought under section two of this Act*, this section shall not prevent

“(b) Proceedings in respect of contracts.”

Section 2 is, of course, the action giving, *inter alia*, the right to claim compensation before the Admiralty Transport Arbitration Board in respect of the requisition of ships.

In *Attorney-General v. Royal Mail Steam Packet Co.* (1922), A.C. 279, a petition of right was brought for the value of a steamship, sunk by enemy action, which had been requisitioned by the Admiralty but in respect of which a charter party had also been entered into between the shipowners and the Admiralty. The Crown pleaded the Indemnity Act and the House of Lords upheld the objection and dismissed the petition of right. The Law Lords pointed out that the general words of Section 1 (1) include claims for breach of contract, and that, if, notwithstanding the existence of a contract, the claim can be brought under section 2, then proceedings before the ordinary courts are barred and the only remedy is before the special tribunals there referred to.

This decision shows, as is indeed plain from the actual terms of the statute, that, whenever the cause of action is “ an act, matter or thing ” within Section 1 (1), the Indemnity Act applies.

The “act, matter or thing” may be a contract or breach of contract. If so, proviso (b) applies and a petition of right may be brought in the ordinary courts within the time stated, *unless* the claim can be brought under Section 2, in which case, proceedings under Section 2 are alone permissible.

11. In *Brocklebank Ltd. v. The King* (1925), 1 K.B. 52, a petition of right was brought to recover back money demanded by the Shipping Controller as a condition for granting a licence to the suppliants to sell one of their ships. They based their claim upon an implied contract to repay the money and relied upon proviso (b) in Section 1 of the Indemnity Act, but the court of appeal held that the petition of right was barred by Section 1 and, by a majority, that the proviso had no application to implied contracts. Lord Justice Bankes (page 65) said:

“It appears to me that, what the Legislature is intending to preserve under the proviso, is the case where parties have actually entered into a definite contract and one of them is seeking to enforce it, and not to a case where the law will allow a remedy arising out of an assumed contract.”

Lord Justice Sargant (page 76) said:

“I cannot think that the saving by subhead (b) of ‘rights under, or alleged breaches of, contract’ extends to anything but definite substantive contracts, or includes rights arising from implications of contract under legal fictions, particularly when these implications arise incidentally from transactions which, in themselves and primarily, constitute torts and are, in that regard, dealt with by the Act and rendered non-actionable.”

It is submitted that this case shows that the Finnish shipowners could not have framed any claim before the ordinary courts based upon an implied contract or obligation resulting from the use of the ships by the British Government (*cf.* British Memorandum, paragraph 5 (a), page 3). Whichever way the matter is considered, one is always brought back to the fact that the only possible claim was the one under Section 2 (a) of the Act. This view is further confirmed by the case of *Commercial and Estates Company of Egypt v. The Board of Trade* (1925), 1 K.B. 271, which is referred to in a different connection at the end of the British Memorandum. The claimants there relied upon exercise by the Crown of the right of angary in respect of some timber, and the court of appeal upheld their claim to compensation, but it is to be observed that the claim was not, and it is submitted could not have been, presented to the ordinary courts. It was a claim made under Section 2 (b) of the Indemnity Act before the War Compensation Court (N.P.). If, as the Admiralty Transport Arbitration Board held, the present case did not come within Section 2 (a) of the Act, the consequence is that the shipowners were debarred from any remedy at all under the municipal law of England.

12. With regard to (b)—the question of appeal from the judgment of the Admiralty Transport Arbitration Board—it may be convenient in the first place to mention that, under Order LV (B), Rule 41, of the Rules of the Supreme Court, the time for appeal to the court of appeal was twenty-one days from the date of the Board’s decision.

13. It is common ground that there was no appeal on questions of fact; and the nature of the right of appeal under the Indemnity Act is clearly stated by the court of appeal in *Elliott Steam Tug v. Shipping Controller* (1922), 1 K.B. 127, pages 133 and 134:

“By Section 2 (1) (i), of the Act, the right of appeal is strictly limited to any direction or determination of the tribunal on any point of law. . . . The jurisdiction of this court is therefore strictly limited and we must be careful not to pass the limits there laid down.”

The British Memorandum (paragraph 5 (b)) contends that “the point at issue was entirely one of law. The question whether these ships were requisitioned by His Majesty’s Government is one which depends (a) upon the determination of the facts as to what actually took place—a question of fact—and (b) upon the legal deduction to be drawn from the facts so found—*i.e.*, whether they constituted a requisition or not—which is a question of law”—and goes on to state that none of the important facts were really in dispute. The Finnish Government, whilst admitting that the legal deduction to be drawn from facts is a question of law, dissents from the view that the facts in this case were not in dispute and submits that the findings of facts arrived at by the tribunal were, in substance, conclusive of the claim under the Indemnity Act.

14. It must not be forgotten that the basis, and the only basis, for a claim under Section 2 (1) (a) of the Act is a requisition “in exercise or purported exercise of any prerogative right of His Majesty or of any power under any enactment relating to the defence of the realm, or any regulation made or purporting to be made thereunder”. It is not sufficient merely that there should have been a requisition by the British Government, although this is essential—it must be a requisition in exercise or purported exercise of the rights or powers mentioned. This distinction was clearly present to the mind of the tribunal as appears from the following passage in the judgment (British

Memorandum, document C.519.M.218.1931.VII, pages 16 and 17) which is also referred to in the British Memorandum under reply (paragraph 5 (b)):

“ Counsel for the claimants contended that a requisition is constituted by ‘ taking ’ and ‘ using ’ and nothing more is necessary to establish a claim under the Indemnity Act. Taking and using are no doubt elements in the requisition of a ship, but they are not the sole elements. In order to bring the case within the Indemnity Act, it must be a taking in exercise or purported exercise of a prerogative right or statutory right of His Majesty the King. ”

The tribunal thereupon refers to the agreement of May 1916 between the British and Russian Governments, recognises that it does not in terms cover the user of these ships to France, etc., but refers to the evidence given by Sir Basil Kemball Cook to the effect that there were subsequent modifications and enlargements of the written agreement under which these ships were taken over and used. The judgment then states (document C.519.M.218.1931.VII, page 17): “ That this was so we have no doubt ”, and, a little lower down, “ the one thing that is clear throughout is that the British authorities never during this period intended to requisition these ships ”.

It is plain that the findings (1) that there were modifications of the agreement between the two Governments covering these ships and (2) that there was no intention to requisition, are findings of fact, and it is submitted that these findings were to all intents and purposes conclusive of the question in issue under Section 2 (1) (a) of the Indemnity Act. The Finnish Government, of course, disputes the correctness of both findings, but it would not have been competent for the court of appeal to review them and, that court being bound by those findings, it would have been futile to expect it to hold that, notwithstanding that those were the facts, yet there was a requisition in exercise or purported exercise of a prerogative or statutory right of His Majesty.

The British Memorandum (page 4) contends that “ it was clearly open to the claimants to appeal to the court of appeal upon this question of law ” but, for the reasons stated, the Finnish Government submits that, even if the shipowners had a technical right of appeal in this respect, it was purely formal and wholly illusory.

15. Further, as already mentioned before the Council, the conclusions of the Admiralty Transport Arbitration Board are summed up in the statement that:

“ We find as facts:

“ (1) That these steamers were not, nor was either of them, requisitioned by or on behalf of Great Britain;

“ (2) That they were each of them requisitioned by or on behalf of the Government of Russia. ” (Document C.519.M.218.1931.VII, page 17.)

This, at any rate, indicates what the tribunal itself thought of the character of its decision, and the Finnish Government ventures to think that anyone considering the question of an appeal, including the shipowners at the time, were bound to attach decisive weight to such a pronouncement.

16. It is quite true, as stated in the British Memorandum (page 4) that there have been a number of appeals to the court of appeal from decisions of the Admiralty Transport Arbitration Board and the War Compensation Court under the Indemnity Act, but it is noteworthy that, so far as it has been possible to ascertain, there is not a single instance of an appeal relating to the question of “ requisition ” under Section 2 (1) (a). The two cases cited in the British Memorandum — *Moss Steamship Co. v. Board of Trade* (1924), E.C. 133, and *Commercial and Estate Company of Egypt v. Board of Trade* (1925), 1 K.B. 271 — were both appeals from the War Compensation Court under Section 2 (1) (b), and do not throw any light upon the question whether the findings of the Admiralty Transport Arbitration Board in the present case were final and conclusive.

17. The Finnish Government finally desires to call attention to another point in connection with the exhaustion of local remedies which is not dealt with in the British Memorandum. As shown at the beginning of the present Memorandum, the rule in question is subject to the condition that the local remedies open to the claimants are really adequate and effective. In other words, there can be no objection to an international claim (1) where the municipal law does not permit of full compensation being obtained or, (2) *a fortiori*, where the limitations inherent in the nature of municipal law even prevent a claim from being entertained. It is submitted that both conditions existed here.

In regard to (1) attention is called to Part I of the Schedule to the Indemnity Act whereby the compensation for the use of a ship which can be awarded by the Admiralty Transport Arbitration Board is defined and limited.

As to (2), the Finnish Government again refers to the observations made by the Finnish representative before the Council (Minutes of September 14th, 1931, page 7) relating to the purely international claim that arises as between the Finnish and British Governments on the hypothesis of a Russian requisition and a contract of treaty between the British and Russian Governments

in regard to the payment for the use of these ships. It is hardly necessary to repeat that this is a matter quite outside municipal law, being a claim by the Finnish Government, as such, against the British Government directly and exclusively based upon international law and international agreements. As already indicated, the right of the Finnish Government to put forward such a claim was referred to and reserved before the Admiralty Transport Arbitration Board (Shorthand Note, sixth day, pages 2 to 11, particularly pages 2 and 3, 7 and 8; seventh day, pages 45, 54). Upon this aspect of the case, at any rate, the question of exhaustion of local remedies does not arise at all.

18. For the foregoing reasons, the Finnish Government submits in conclusion:

(1) That the shipowners never had the right to make any claim except under the Indemnity Act;

(2) That exception (b) in Section 1 (1) of the Act did not apply and, therefore, the shipowners were precluded from making any claim in the ordinary courts;

(3) That there was no effective right of appeal from the judgment given by the Admiralty Transport Arbitration Board;

(4) That the amount of compensation recoverable under municipal law was, in any event limited and inadequate;

(5) That the claim of the Finnish Government to recover from the British Government the sums payable by the latter under any agreement between the British and Russian Governments falls entirely outside the scope of municipal law.

Appendix.

INDEMNITY ACT, 1920.

10 and 11 Geo. 5, c. 48. AN ACT TO RESTRICT THE TAKING OF LEGAL PROCEEDINGS IN RESPECT OF CERTAIN ACTS AND MATTERS DONE DURING THE WAR, AND PROVIDE IN CERTAIN CASES REMEDIES IN SUBSTITUTION THEREFOR, AND TO VALIDATE CERTAIN PROCLAMATIONS, ORDERS, LICENCES, ORDINANCES, AND OTHER LAWS ISSUED, MADE, AND PASSED, AND SENTENCES, JUDGMENTS, AND ORDERS OF CERTAIN COURTS GIVEN AND MADE DURING THE WAR.

(August 16th, 1920.)

BE IT ENACTED as follows:

Restrictions on the taking of legal proceedings against persons acting in good faith.

1. (1) No action or other legal proceeding whatsoever, whether civil or criminal, shall be instituted in any court of law for or on account of or in respect of any act, matter or thing done, whether within or without His Majesty's dominions, during the war before the passing of this Act, if done in good faith, and done or purported to be done in the execution of his duty or for the defence of the realm or the public safety, or for the enforcement of discipline, or otherwise in the public interest, by a person holding office under or employed in the service of the Crown in any capacity, whether naval, military, air force, or civil, or by any other person acting under the authority of a person so holding office or so employed; and, if any such proceeding has been instituted whether before or after the passing of this Act, it shall be discharged and made void, subject in the case of a proceeding instituted before the twentieth day of July, nineteen hundred and twenty, to such order as to costs as the court or a judge thereof may think fit to make:

Excepted proceedings.

Provided that, except in cases where a claim for payment or compensation can be brought under Section 2 of this Act, this section shall not prevent:

By Government Department.

(a) The institution or prosecution of proceedings on behalf of His Majesty or any Government department.

Contracts.

(b) The institution or prosecution of proceedings in respect of any rights under, or alleged breaches of, contract, if the proceedings are instituted within one year from the termination of the war or the date when the cause of action arose, whichever may be the later.

Negligence.

(c) The institution or prosecution of civil proceedings founded on negligence in respect of damage to person or property elsewhere than in a foreign country.

Damage to person or property abroad in certain cases.

(d) The institution or prosecution of civil proceedings in respect of damage to person or property in any foreign country, or of the requisitioning of property in any foreign country, if the consent of the Attorney-General (or in Scotland of the Lord Advocate) to the institution or prosecution of the proceedings is obtained, but such consent shall not be given if the person seeking to institute or prosecute the proceeding would have had no remedy if the act complained of had been done in the United Kingdom, or if other provision has been made by treaty or convention for the settlement of claims of the class in question.

Patents.

(e) The institution or prosecution of proceedings respecting the validity or infringement of a patent.

Petition of right a legal proceeding.

(2) For the purposes of this section, a petition of right shall be deemed to be a legal proceeding and the proceeding shall be deemed to be instituted at the date on which the petition is presented.

Certificate of Government Department evidence of authority.

(3) For the purposes of this section, a certificate by a Government Department that any act, matter, or thing was done under the authority of a person so holding office or so employed as aforesaid, or was done in the execution of a duty, shall be sufficient evidence of such authority or duty and of such act, matter, or thing having been done thereunder, or in execution thereof, and any such act, matter, or thing done by or under the authority of a person so holding office or so employed as aforesaid shall be deemed to have been done in good faith unless the contrary is proved.

Final judgments not prejudiced.

(4) Nothing in this section shall prejudice or prevent the institution or prosecution of proceedings for giving effect to a final judgment given before the passing of this Act by any court of final resort or by any other court where the judgment at the passing of this Act is not then the subject of a pending appeal.

2. (1) Notwithstanding anything in the foregoing section restricting the right of taking legal proceedings, any person not being the subject of a State which has been at war with His Majesty during the war and not having been a subject of such a State whilst that State was so at war with His Majesty:

Right to compensation for acts done in pursuance of prerogative and other powers.

Compensation to shipowner.

(a) Being the owner of a ship or vessel which or any cargo space or passenger accommodation in which has been requisitioned at any time during the war in exercise or purported exercise of any prerogative right of His Majesty or of any power under any enactment relating to the defence of the realm, or any regulation or order made or purporting to be made thereunder, shall be entitled to payment or compensation for the use of the same and for services rendered during the employment of the same in Government service, and compensation for loss or damage thereby occasioned; or

Compensation to others for direct loss to property or business in the United Kingdom.

(b) Who has otherwise incurred or sustained any direct loss or damage by reason of interference with his property or business in the United Kingdom through the exercise or purported exercise, during the war, of any prerogative right of His Majesty or any power under any enactment relating to the defence of the realm, or any regulation or order made or purporting to be made thereunder, shall be entitled to payment or compensation in respect of such loss or damage.

Assessment by tribunal.

Such payment or compensation shall be assessed on the principles and by the tribunal hereinafter mentioned, and the decision of that tribunal shall be final:

Provided that:

Procedure of tribunal and appeals on point of law.

(i) The provisions as to the statement of a case in any enactment relative to arbitrations shall not apply to any such tribunal, but, if either party feels aggrieved by any direction or determination of the tribunal on any point of law, he may, within the time and in accordance with the conditions prescribed by rules of court, appeal to the court of appeal or as respects

Scotland to either division of the court of session, and the decision of the court of appeal or court of session on any such appeal shall, with the leave of that court but not otherwise, be subject to appeal to the House of Lords;

Notice of claim must be given.

(ii) Nothing in this section shall confer on any person a right to payment or compensation unless notice of the claim has been given to the tribunal in such form and manner as the tribunal may prescribe within one year from the termination of the war or the date when the transaction giving rise to the claim took place, whichever may be the later.

Principles of assessment.

(2) The payment or compensation shall be assessed in accordance with the following principles:

Claims under a regulation or order.

(i) Where under any regulation or order made or purporting to be made under any enactment relating to the defence of the realm, any special principle for assessment of any payment (including any price to be paid) or compensation or the rate thereof, is contained in the regulation or order, such payment or compensation shall be assessed in accordance with that principle or rate;

Circumstances may be considered.

Provided that nothing in this provision shall prevent the tribunal in assessing the payment or compensation from taking into consideration any circumstances which, under the regulation in question, it would have been entitled to take into consideration.

Claims under Section 2 (1) (a).

(ii) Where the payment of compensation is claimed under paragraph (a) of subsection (1) of this section, it shall be assessed in accordance with the principles upon which the Board of Arbitration constituted under the proclamation issued on the third day of August, nineteen hundred and fourteen, has hitherto acted, which principles are set forth in Part I of the schedule to this Act.

Other cases.

(iii) In any other case, compensation shall be assessed as follows:

Claims under legal rights which would have existed apart from this Act.

(a) If the claimant would, apart from this Act, have had a legal right to compensation, the tribunal shall give effect to that right, but in assessing the compensation shall have regard to the amount of the compensation to which, apart from this Act, the claimant would have been legally entitled, and to the existence of a state of war and to all other circumstances relevant to a just assessment of compensation:

Indirect loss.

Provided that this subsection shall not give any right to payment or compensation for indirect loss.

Claims where no legal right would have existed.

(b) If the claimant would not have had any such legal right, the compensation shall be assessed in accordance with the principles upon which the Commission appointed by His Majesty under Commissions dated the thirty-first day of March, nineteen hundred and fifteen, and the eighteenth day of December, nineteen hundred and eighteen, (commonly known as the Defence of the Realm Losses Commission), has hitherto acted in cases where no special provision is made as to the assessment of compensation, which principles are set forth in Part II of the schedule to this Act.

Claims made before April 15th, 1920.

(3) Where before the fifteenth day of April, nineteen hundred and twenty, any claim for payment or compensation has been made and disposed of by award or agreement, or has been rejected, or any payment (other than a payment expressed to be made on account) has been accepted in respect thereof, no claim for payment or compensation or further payment or compensation under this section shall be brought without the leave of the tribunal, and the tribunal shall not grant such leave except on proof of a material change of circumstances or new evidence not previously available being adduced.

The tribunal.

(4) The tribunal for assessing payment or compensation shall, where by any of the Defence of the Realm Regulation any special tribunal is prescribed, be that tribunal, and in cases where the claim is made under paragraph (a) of subsection (1) of this section be the said Board of Arbitration, and in any other case be the said Defence of the Realm Losses Commission.

War Compensation Court.

(5) A judge of the High Court of Justice, or, in cases where the claim is in respect of interference with property or business in Scotland, a judge of the court of session, shall be

president of the Defence of the Realm Losses Commission, which Commission shall hereafter be styled and known as the War Compensation Court.

Witnesses may be compelled.

(6) A person may be compelled to attend and give evidence or produce documents in proceedings before the said Board of Arbitration or War Compensation Court in like manner as in proceedings before an arbitrator and the board or War Compensation Court shall have power to require any person appearing before them to give evidence on oath and to authorise any person to administer an oath for that purpose and the board or court shall have power to award and assess such sums by way of costs as they in their discretion may think just.

Division of the War Compensation Court.

(7) The War Compensation Court may sit in more than one division at the same time, and in any such case anything which may be done to, by, or before the court may be done to, by, or before any such division of the court.

Savings.

3. Nothing in the foregoing provisions of this Act shall:

(a) Affect or apply to proceedings in any prize court as respects any matter within the jurisdiction of the court; or

(b) Affect the application of the Defence of the Realm (Acquisition of Land) Act, 1916 (b), or the Acquisition of Land (Assessment of Compensation) Act, 1919 (c), or the Corn Production (Amendment) Act, 1918 (d), in any case where apart from this Act any of those Acts would apply;

(c) Affect the application of section 16 of the Regulation of the Forces Act, 1871 (e), or of section eight of the Military Transport Act, 1919 (f).

Validation of Customs, proclamations,
etc.

4. Any proclamation or Order-in-Council issued or purporting to be issued under section 43 of the Customs Consolidation Act, 1876 (g), during the war and before the fifteenth day of April nineteen hundred and twenty prohibiting or restricting the importation of any goods into the United Kingdom, and any licence granted in pursuance of any such proclamation or order, shall be, and shall be deemed always to have been valid, but nothing in this section shall be construed as rendering valid the continuance in operation after the fifteenth day of April, nineteen hundred and twenty, of any such proclamation or Order-in-Council.

Validation of sentences.

5. Any sentence passed, judgment given, or order made by any military court (other than a court martial constituted in pursuance of any statute) in connection with the war, or by any court established by the authority administering any territory in the occupation of any of His Majesty's forces during the war for the administration of justice within such territory, whether passed, given or made during such occupation, or after such occupation has determined until the court has been abolished or superseded by such lawfully constituted authority as may hereafter be established for the administration of such territory, shall be deemed to be and always to have been valid, and to be and always to have been within the jurisdiction of the court;

Petition to Judge-Advocate-General.

Provided that any petition from a person upon whom a sentence has been passed by any such military court shall be submitted to the Judge-Advocate-General for his opinion and report in like manner and in the like cases as if the sentence were a sentence passed by a court martial under the Army Act.

Validation of laws made in occupied
territories.

6. All laws, ordinances, proclamations and other legislative acts made, issued, or done by the authority for the time being administering any territory in the military occupation of any of His Majesty's forces during the war for the peace, order, or good government of such territory shall be deemed to be and always to have been valid and of full effect, both during such occupation and after the determination thereof until repealed or superseded by such lawfully constituted legislative authority as may hereafter be established for that territory, notwithstanding that any such legislative act may have repealed or been inconsistent with the law previously in force in such territory.

Short title.

7. (1) This Act may be cited as the Indemnity Act 1920.

Extent.

Application outside United Kingdom.

(2) His Majesty in Council may, by order, apply this Act to any part of His Majesty's dominions outside the United Kingdom, except the self-governing dominions—that is to say, the Dominion of Canada, the Commonwealth of Australia (including for the purposes of this Act the territory of Papua) and Norfolk Island, the Dominion of New Zealand, the Union of South Africa and Newfoundland:

Modification for adapting the Act outside
the United Kingdom.

Any such Order-in-Council applying this Act to any part of His Majesty's Dominions may apply it subject to such modifications and exceptions as may appear to His Majesty necessary for adapting this Act to the circumstances of that part, and in particular any such Order-in-Council made in respect of India, may validate any laws made for the purposes of the war by the Indian Legislature or the Governor-General, and nothing done under any laws so validated or any rule made thereunder shall be invalid by reason only of the provisions of subsection (2) of section 32 of the Government of India Act, 1915.

Interpretation: "the war".

(3) In this Act, "the war" means the war declared against Germany, Austria-Hungary, Turkey and Bulgaria on the fourth day of August, the twelfth day of August and fifth day of November, nineteen hundred and fourteen, and the fifteenth day of October, nineteen hundred and fifteen respectively.

Section 2.

SCHEDULE.

Part I. — Principles on which the Board of Arbitration has hitherto acted.

Compensation shall be based on rates in
Blue-Book reports or on a liberal
estimate of profits.

The payment or compensation to be awarded for the use of a ship, or vessel, or cargo space, or passenger accommodation therein, and for services rendered shall be based on the rates and conditions contained in the *Blue-Book* reports, or in cases of a class where those rates and conditions have not been applied on some other liberal estimate of the profits which the owner could have made if there had been no war, and shall be assessed without taking into account any increase on market values of tonnage or of rates of hire due to the war, together with, in cases where damage to or loss of the ship or vessel directly due to such use has occurred, a sum by way of compensation in respect of such loss or damage, so, however, that nothing shall be awarded for any other damage or loss incidentally caused to the owner or to other persons.

"*Blue-Book* reports."

For the purposes of this part of this schedule, the expression "*Blue-Book* reports" means the reports as to rates and conditions published in October, nineteen hundred and fourteen, by the Sub-Committee of the Board of Arbitration, subject to such increases or modifications thereof as may have been agreed to before the first day of January, nineteen hundred and twenty.

Part II. — Principles on which the Defence of the Realm Losses Commission has hitherto acted.

Compensation awarded only for direct
loss resulting from direct interference.

The compensation to be awarded shall be assessed by taking into account only the direct loss and damage suffered by the claimant by reason of direct and particular interference with his property or business, and nothing shall be concluded in respect of any loss or damage due to or arising through the enforcement of any order or regulation of general or local application, or in respect of any loss or damage due simply and solely to the existence of a state of war, or to the general conditions prevailing in the locality, or to action taken upon grounds arising out of the conduct of the claimant himself rendering it necessary for public security that his legal rights should be infringed, or in respect of loss of mere pleasure or amenity.

Geneva, January 25th, 1932.

LEAGUE OF NATIONS

**CLAIM MADE BY THE FINNISH GOVERNMENT WITH REGARD TO
FINNISH VESSELS USED DURING THE WAR BY THE GOVERNMENT
OF THE UNITED KINGDOM.**

Note by the Secretary-General.

The Secretary-General of the League has the honour to communicate to the Council and the Members of the League a memorandum which has been received from the United Kingdom Delegate on the Council.

**MEMORANDUM BY THE UNITED KINGDOM DELEGATE ON THE
COUNCIL PRESENTED IN REPLY TO THE MEMORANDUM OF
THE FINNISH GOVERNMENT OF DECEMBER 1931.**

1. The present memorandum is presented in reply to the second memorandum of the Finnish Government of December 1931. It is confined to dealing with points raised in that memorandum and to certain observations made in the statement of the Finnish representative on the Council on September 14th, 1931, which were not dealt with in the memorandum of the United Kingdom delegate of September 17th, 1931, and on which the right to reply was reserved in paragraph 1 of that memorandum (C.573.M.231.1931.VII).

2. In paragraphs 1 to 3 of the Finnish memorandum of December 1931, the rule of international law with regard to the exhaustion of municipal remedies is discussed. The delegate of the United Kingdom maintains that the legal position is correctly set out in paragraph 2 of his memorandum of September 17th. The position is, in short, that, until the municipal remedies have been exhausted (and the exhaustion of municipal remedies includes the exhaustion of rights of appeal), it is impossible to establish that there has been any international delinquency upon which a foreign Government can base a claim. Reference to the authorities quoted in Appendix I of this memorandum will, it is thought, fully bear out the correctness of this statement of the position under international law.

3. At the end of paragraph 3 of the Finnish memorandum of December 1931, it appears to be contended that His Majesty's Government in the United Kingdom, even if they originally possessed the right in the present case to insist that municipal remedies should be exhausted, have now precluded themselves from putting forward this contention on the ground "that throughout a diplomatic correspondence extending over a period of several years they never raised this objection". His Majesty's Government in the United Kingdom do not contend that it is impossible for a State to waive its right to require that municipal remedies shall be exhausted before a diplomatic claim is entertained. On the contrary, a case before the Permanent Court of International Justice (the case of the *Serbian* bonds, Publications of the Court, Series A, Nos. 20-21) shows an instance where this has been effectually done. In order to constitute such a waiver, however, something definite and unequivocal is required—*viz.*, a definite agreement to submit the matter to international arbitration, or to pay compensation, etc.

4. The course of events in the present case affords no evidence whatever of any such waiver on the part of His Majesty's Government. The Finnish Government originally made claims for compensation in 1920, through their Minister in London, which were rejected. The question was again raised in 1922 by the Finnish Government in connection with some commercial treaty negotiations, but His Majesty's Government refused to deal with it in these negotiations. In 1925, the Finnish shipowners did proceed to have recourse to their municipal remedies in submitting the case to the Admiralty Transport Arbitration Board, and when the Finnish Minister in London in this same year suggested international arbitration to His Majesty's Government, His Majesty's Government replied that there could be no question of international arbitration, as the case was about to be dealt with by the Admiralty Transport Arbitration Board. In 1926, after the Board had given its decision against the Finnish shipowners, the Finnish Minister in London again proposed international arbitration, and, in November 1926, a memorandum was sent to him

explaining the reasons why His Majesty's Government would not agree to international arbitration in which the following passage occurs: " The findings as to values were made because the claimants had a right to appeal to the Court of Appeal, and from the Court of Appeal to the House of Lords, and it was therefore necessary for the tribunal, as would be the case with any other court of first instance, to find the facts, in case their judgment on other matters was upset on appeal. The Finnish shipowners did not appeal to the Court of Appeal and have accepted the judgment of the tribunal, and there seemed no valid reasons for referring the claim, which has been exhaustively dealt with by the Admiralty Transport Arbitration Board, to any other tribunal. "

5. It is clear, therefore, that His Majesty's Government consistently rejected the Finnish claim, and refused to agree to its submission to any form of international arbitration. Further, so far were they from waiving any of their rights to insist that municipal remedies should be exhausted, that, in 1925, they pointed out that the existence of the remedy before the Admiralty Transport Arbitration Board precluded any consideration of international arbitration, and, in 1926, definitely stated to the Finnish Government that the failure of the Finnish shipowners to exhaust their remedies by appealing from the Board to the Court of Appeal made the judgment of the Board final.

6. In paragraph 4 of the Finnish memorandum of December 1931, it appears to be argued that, as between Members of the League, the provisions of the Covenant in some way involve the abrogation or supersession of this well-known international rule. His Majesty's Government cannot help observing that this contention is somewhat startling, and that few Members of the League can have contemplated, when they accepted the Covenant, that the result was that the machinery of the League could be used to take the place of the municipal courts as a means by which the claims of foreigners, in respect of matters within the jurisdiction of those courts, should be adjudicated.¹

The Finnish argument is based upon Article 15 of the Covenant, and is to the effect that when a dispute (a) " between Members of the League ", (b) which " is likely to lead to a rupture ", has been submitted to the Council, the Council are bound to deal with the matter, as provided by Article 15, and Article 15 contains no provision to the effect that the Council should refuse to deal with a dispute if it finds that it relates to a matter in respect of which municipal remedies have not been exhausted. In reply to this contention, it must be observed, in the first place, that this case has not been expressly referred to the Council under Article 15 of the Covenant by the Finnish Government, and it is not claimed by the Finnish Government that the essential condition upon which the application of Article 15 depends is fulfilled in this case—namely, that the dispute is one which is " likely to lead to a rupture ".² Article 15 of the Covenant is, of course, part of the machinery of the League for the prevention and avoidance of wars and its provisions are not relevant in respect of disputes of another character.

Finally, if a dispute were properly referred to the Council under Article 15, which arose out of a matter in respect of which municipal remedies had not been exhausted, there is nothing whatever in Article 15 to suggest that the Council should ignore this fact in dealing with the matter. Indeed, the fact that municipal remedies have not been exhausted might itself form a valid ground on which the Council might find that the case was one which came within the provisions of paragraph 8 of Article 15, and decline to make any further recommendation on this ground.³

7. In paragraphs 6 to 11 of their memorandum of December 1931, the Finnish Government, in reply to the arguments in paragraph 5 (a) of the memorandum of September 1931, contend that " it is plain that the shipowners have not now and never have had any right to take proceedings in the ordinary English courts ". This contention is based upon a summary of the effect of the Indemnity Act, 1920, which, the United Kingdom delegate is advised, does not set out the position entirely accurately or with sufficient clarity. This being so, it will, perhaps, be desirable in the first place to set out the true position, as the United Kingdom delegate conceives it to be.

8. Before the passing of the Indemnity Act, 1920, any person, whether the subject of His Majesty or of a friendly foreign Power, had the right of proceeding in the ordinary courts of justice by Petition of Right against the Crown in respect of any contract, expressed or implied, as well as in respect of the taking of property and other matters. During the war, His Majesty's Government, although under no legal obligation to do so, granted compensation as a matter of grace to persons whose business had been interfered with through the exercise during the war of any prerogative rights of His Majesty or of any powers under any enactments relating to the defence of the realm. And, for the purposes of assessing such compensation, a tribunal, known as the Defence of the Realm (Losses) Commission, was set up. Furthermore, a special tribunal, known as the Admiralty Transport Arbitration Board, was set up to deal with claims for compensation by shipowners whose vessels had been requisitioned.

The establishment of these tribunals had resulted in the existence of considerable doubt and difficulty as to when a person was entitled to proceed with his claim in the ordinary courts of law and when he should have recourse to these special tribunals, and the opportunity was taken in the Indemnity Act, 1920, to establish these tribunals upon a statutory basis. The Act, so far from

¹ The contention is no less startling in connection with the Treaty of Locarno or the General Act (see paragraph 2 of the Finnish memorandum of December 1931).

² See the Minutes of the Council, September 1931, page 5. Statement of Baron Yrjö-Koskinen.

³ No attempt is made in the present memorandum to deal with the general question of the applicability to the present case of the Articles of the Covenant under which the Finnish Government have purported to bring it before the Council, upon which the United Kingdom delegate reserves his right to offer further observations if necessity arises, while referring to his statement before the Council on September 14th, 1931.

depriving individuals of their rights, actually conferred upon them legal rights to compensation which they did not previously possess, notably the right to compensation for interference with property or business which, as previously stated, had merely been granted during the war as an act of grace.

It was quite obvious that the conferring of these rights and the establishment by statute of the tribunals mentioned in Section 2 of the Act, with their varying jurisdictions, would cause some overlapping of remedies unless their jurisdictions were, in some way, dovetailed into the existing rights of proceeding in the ordinary courts of law. In other words, what the Indemnity Act really did was to give a legal right to claimants to compensation for interference with their property or business during the war and, at the same time, to rationalise all legal remedies in respect of claims arising out of the war, whether created by that statute or existing apart from that statute.

9. Turning now to the Indemnity Act itself, Section 1 restricts the taking of legal proceedings—that is to say, proceedings in the ordinary courts of law—in respect of any act, matter or thing done by officers of the Crown in the execution of their duty for the defence of the realm. But the proviso to Subsection (1) of that Section excepts from this restriction a number of classes of claim, including claims in respect of rights under, or alleged breaches of, contract, if the proceedings in respect thereof are brought within the limited time therein stated, unless such claims can be brought under Section 2 of the Act, in which case recourse must be had to the special tribunals therein referred to.

This Section, therefore, does not in any way restrict proceedings which could be taken by Petition of Right against the Crown on a contract, unless the rights under the contract, or the alleged breach of the contract, could be said to be an act, matter or thing done by an officer of the Crown in the execution of his duty within the meaning of Subsection (1) of Section 1.

If the rights under, or the alleged breaches of, contract cannot be said to be an act, matter or thing done by an officer of the Crown in the execution of his duty or for the defence of the realm, then the right is not affected, and it may be pursued in the ordinary courts and subject to the ordinary limitation of time. But if, on the other hand, the rights under, or the alleged breaches of, contract could be said to be such an act, matter or thing, then proceedings by Petition of Right may still be brought in the ordinary courts, but the time within which they could be brought was further limited to one year from the termination of the war or the date when the cause of action arose, whichever was the later (unless the claim came under Section 2, but it seems hardly possible that any claim based on contract or implied contract could be brought within the terms of Section 2).

It is, of course, immaterial that the periods of limitations (whichever they may be) have *now* expired. The question is not what remedies the Finnish shipowners have now, but what they had at the material time.

That this is the true position is clearly shown by the case of the *Manchuria Steamship Company the King*, reported in *Lloyd's List Reports*, Vol. 18, page 390.

10. Turning now to Section 2 of the Indemnity Act, that Section created two statutory tribunals:

(1) The Admiralty Transport Arbitration Board, with jurisdiction to deal with claims by owners of ships which had been requisitioned during the war in exercise of any prerogative rights of His Majesty, etc.,

and

(2) The War Compensation Court, which had jurisdiction to award compensations to persons (other than shipowners whose vessels had been requisitioned) who had sustained direct loss or damage by reason of interference with their property or business in the United Kingdom by reason of the exercise, during the war, of any prerogative rights of His Majesty or any powers relating to the defence of the realm.

The position of a claimant after the passing of the Indemnity Act was as follows:

(1) If his claim was a claim under a contract he still had his legal rights, enforceable by a Petition of Right, in the ordinary courts provided that:

(a) If the rights which he claimed depended upon any act, matter or thing done by an officer of the Crown in the execution of his duty for the defence of the realm, a time-limit was imposed within which that Petition of Right must be brought, and

(b) If his claim could be brought under Section 2 of the Act, he must proceed under that Section, and bring his claim before the special tribunals and not before the ordinary courts;

(2) If he claimed, as the owner of a vessel which had been requisitioned, then his claim must go to the Admiralty Transport Arbitration Board; and

(3) If his claim was not in respect of the requisitioning of a ship, his claim for direct loss by reason of interference with his property or business in the United Kingdom lay to the War Compensation Court.

And, with regard to this latter tribunal, it is important to note that provision is made in Subsection (2) (iii) (a) of Section 2 that, where the claimant would, apart from the Act, have a legal right to compensation, the tribunal shall give effect to that right in the assessment of that compensation. In other words, in so far as Section 1 of the Act restricted the taking of legal proceedings and transferred the claim to the War Compensation Court, that court had to deal with the claim in accordance with the legal rights to compensation which the claimant had.

11. The Finnish shipowners in this case made their claim to the Admiralty Transport Arbitration Board because they based it upon a requisition of the vessels by the Government of the United Kingdom, and they failed because they were unable to prove that the vessels were so requisitioned. It therefore follows that, while they had failed before the one tribunal which they had selected, the other tribunals—namely, the Courts of Law and the War Compensation Court—were open to them if they could make good another claim. For instance, the shipowners, having a decision of the Admiralty Transport Arbitration Board to the effect that there had been no requisition, might have claimed before the War Compensation Court that there had, nevertheless, been an interference with their property in the United Kingdom. Further, if, as His Majesty's Government at first supposed, the claim was made that His Majesty's Government were bound to pay compensation for the ships under some implied contract between themselves and the shipowners arising out of their user on any other implied contract, this contractual right could, as has already been pointed out, be enforced by proceedings in the ordinary courts by Petition of Right. (It is true that it is now stated in paragraph 7 of the Finnish memorandum of December 1931 that this supposition is erroneous. The manner in which this claim is now formulated will be discussed later in paragraph 17.) As it has been repeatedly stated, His Majesty's Government do not agree that the remedy by Petition of Right was removed by the Indemnity Act, but, even if this view is wrong, the Finnish Government seem to be under the impression that, therefore, there was no other means for enforcing any claim right to compensation. They have completely overlooked the existence of the War Compensation Court, which not only had jurisdiction to award compensation, but was also bound by statute to award it upon a legal basis where the claim was based upon a legal right.

12. In support of their view of the position created by the Indemnity Act, the Finnish Government have referred in their last memorandum to a number of English authorities, and it is now proposed to deal with these cases and to endeavour to show that these cases support the view of the position stated above in paragraphs 8 to 11 of this memorandum.

The case of the *Russian Volunteer Fleet v. The King*, referred to in paragraph 9 of the Finnish Government's memorandum, is, as is supposed, the case which was referred to in paragraph 5 (a) of the United Kingdom delegate's memorandum of September 1931. The Russian Volunteer Fleet, in the first instance, based their claim to compensation upon an agreement under which the vessels were taken over. That being so, a Petition of Right was, in the view of His Majesty's Government, the proper remedy, and the case proceeded upon those lines with their assent. The Russian Volunteer Fleet, however, *before the hearing of the case, amended their claim, basing it upon a requisition of the vessels*. Thereupon it was obvious that the Indemnity Act applied, and this point was taken by His Majesty's Government successfully at the hearing.

The point of the reference to this case was therefore that, if a claim is based upon a contract, the remedy by Petition of Right is the proper one, whereas, if the claim is based upon the requisition of a ship, the remedy is that expressly conferred by Section 2 (1) (a) of the Indemnity Act.

13. The next case referred to in the Finnish memorandum (paragraph 10) is the *Attorney-General v. The Royal Mail Steam Packet Company*. In that case, there had been a requisition of the ship followed by a contract in which terms as to user and payment of hire had been agreed between the parties. There was, however, no provision in the contract dealing with compensation if the ship were lost. All that that case decided was that, in those circumstances, the claim being a claim in respect of a total loss of a requisitioned ship and there being no term of the contract covering the particular claim, the proper remedy was, under the Indemnity Act, recourse to the Admiralty Transport Arbitration Board, who had express jurisdiction by statute to assess compensation in respect of damage to or loss of any requisitioned ship.

14. The next case which is mentioned is that of *Brocklebank Limited v. The King* (paragraph 11), and this case is cited as authority for the proposition that the Finnish owners could not have framed any claim before the ordinary courts based upon an implied contract or obligation resulting from the user of the ships by His Majesty's Government. In support of this contention, certain dicta of the judges are relied upon, but, if the facts of the case are examined, it will be seen quite clearly that those dicta do not in any way support the proposition put forward by the Finnish Government. In *Brocklebank's* case, an officer of the Crown had exacted money from Messrs. Brocklebank in good faith but illegally, and, in an endeavour to base their claim upon a contract, Messrs. Brocklebank resorted to a legal fiction whereby they waived the tortuous act of the officer and endeavoured to sue the Crown for money had and received. The dicta referred to by the Finnish Government make it clear that the judges referred to were careful in their choice of the language to show that they were not intending to cover a contract by implication of law as distinct from a contract which is the creature of a legal fiction. The case merely decides that the claimants could not escape the restrictions in Section 1 of the Indemnity Act by relying upon a fictitious contract. But, of course, it is important to remember that the result of that judgment is, not that the claimant gets no rights at all, but that his claim is merely transferred from the ordinary courts to the statutory tribunal set up by the statute. Similarly, with regard to the case of the *Commercial Estates Company of Egypt v. The Board of Trade*. There the claim was based upon requisition under the right of angary, which clearly was an exercise of a prerogative right in defence of the realm. The result was that compensation was assessable by the statutory tribunals and not by the ordinary courts of law.

15. If any authority is needed for the proposition that contractual rights, even though there has been a requisition or other interference with the claimant's property, were enforceable in the ordinary courts by a Petition of Right, it is sufficient to refer to the case of *Brooke v. The King*

reported in 1921 (2 K.B., page 110). The truth is that a large number of contracts made during the war were enforced by a Petition of Right against the Crown, and the Indemnity Act only applies to take away that right in those cases in which compensation is properly assessable under Section 2 of that Act before the two statutory tribunals thereby established.

16. To summarise the position created by the Indemnity Act and the cases to which reference has been made, this position is that, even if the Finnish owners accepted the judgment of the Admiralty Transport Board that that tribunal had no jurisdiction to grant compensation because the vessels were not requisitioned by His Majesty's Government, they were still able to bring their case either in the ordinary courts by Petition of Right or in the War Compensation Court, based upon interference with their property in the United Kingdom. In either of those alternatives, if they were able to prove their claim, they were entitled to have their compensation assessed in accordance with their legal rights.

17. The alternative ground of claim, which the Finnish Government state has given rise to so much misunderstanding, is now formulated at the end of paragraph 7 of the memorandum of December 1931 in the following terms:

“ If there was a contract between the two Governments (*i.e.*, the Russian Imperial Government and His Majesty's Government) stipulating how much the British Government was to pay for these ships, these payments, *being intended for the benefit of the shipowners, could, under the principles of international law, be regarded as accruing to them*, and were therefore recoverable by the Finnish Government *on their behalf* from the British Government. (There was never any question of a contract between the British Government and the shipowners.) ”

This formulation of the claim does, however, not appear to differ very substantially from the statement of it in paragraph 5 (*a*) (second sub-paragraph, last sentence) of the United Kingdom delegate's memorandum of September 1931. Though it is not intended to discuss the merits of the case, it may be observed:

(1) That the statement that these payments were “ intended for the benefit of the shipowners ” is not in accordance with the facts. The Russian Government was going to pay the shipowners at rates and on conditions which were not the same as those which governed the payments by His Majesty's Government to the Russian Government (see paragraph 3 of His Majesty's Government's memorandum of September 1st, 1931, C.519.M.218). The payments were not intended for this purpose at all.

(2) That if the words “ could, under the principles of international law, be regarded as accruing to them ” (*i.e.*, the shipowners) mean that *under* international law, or under the international agreement referred to, the *shipowners* acquired rights to these payments, the proposition is certainly contrary to the generally accepted view of international law as a law regulating the rights and duties of States *inter se* and creating no rights and imposing no duties on individuals—a view which the Permanent Court of International Justice appears to have definitely adopted. (See the case of the *Danzig Railway Officials*, Publications of the Court, Series B, No. 15, page 17: “ It may readily be admitted that, according to a well-established principle of international law, the *Beamtenabkommen*, being an international agreement, cannot as such create direct obligations for private individuals ”.)

(3) Further, if the words “ recoverable by the Finnish Government *on their behalf* ” mean, as they appear to do, that the Finnish Government would be recovering the payments on behalf of the shipowners in the sense that the payments so recovered would belong to the shipowners in international law, the statement is hardly consistent with the legal position, when a State makes an international claim in respect of injuries to its nationals as laid down by the Permanent Court of International Justice. (See the *Mavrommatis* case, Publications of the Court, Series A, No. 2, page 11, and the *Chorzow Factory* case, Publications of the Court, Series A, No. 17, page 26.)

The natural construction of the passage quoted seems to give the meaning stated but, if this is not the meaning intended, and the real meaning is that, there having been contractual obligations between His Majesty's Government and the Imperial Russian Government under which His Majesty's Government were liable to pay certain sums to the Russian Government in respect of the use of certain Finnish (then Russian) ships and the shipowners having become in the interval nationals of a new State (Finland), His Majesty's Government become bound under international law towards the Finnish Government to make these payments to the Finnish shipowners (although *ex hypothesi* they were not bound to pay these sums to the *shipowners* while the Imperial Russian Government continued internationally to represent Finland), the claim is, it is submitted, an unprecedented one. But, supposing it to be good, it is founded on the accrual of certain contractual rights to the shipowners as against His Majesty's Government. In spite of the statement to the contrary at the end of the passage quoted, it is clear that the relationship *is contractual* or quasi contractual.

The Finnish Government do not apparently contend that a claim by the shipowners on this ground would be affected by the Indemnity Act, but they do contend that it is a claim which would not be enforceable in the English courts. The United Kingdom delegate does not think that such a claim could succeed in the English courts but for the reason that there is not the slightest foundation for it in international law. If it were good in international law, then the

presumption referred to in paragraph 5 (a) of the United Kingdom delegate's memorandum of September 17th holds (*i.e.*, that in default of a decision to the contrary, English law is such as to enable His Majesty's Government's obligations under international law in respect of individuals to be recognised by the courts).

It is contended, however, that it is clear from the decisions of the English courts in *Rustomjee v. The Queen*, *The Civilian War Claimants' Association v. The King* and *Cook v. Sprigg* are such decisions to the contrary.

The claims in those cases, which were rejected, were not based on the same facts, but even if those decisions were held to cover this case and, assuming for the purposes of argument that this is not a claim of a kind which could be entertained by the English courts at the suit of the Finnish shipowners, it is still impossible for the Finnish Government to establish that the shipowners exhausted all municipal remedies open to them and that, therefore, the present claim is not barred by the well-known international rule, for the reasons explained in the following paragraphs.

18. In paragraphs 12 to 14 of the Finnish memorandum of December 1931 an attempt is made to meet the argument set out in paragraph 5 (b) of the memorandum of the United Kingdom delegate of September 17th, 1931, that the points at issue between the parties in the litigation before the Admiralty Transport Arbitration Board were points which involved a question of law upon which an appeal lay to the Court of Appeal, and that, consequently, it was impossible to maintain that the right of appeal to the Court of Appeal was illusory on the ground that all the points at issue were questions of fact upon which no appeal lay.

The United Kingdom delegate (to avoid repetition) would desire to refer to what is stated in paragraph 5 (b) of his previous memorandum of September 1931, the conclusions of which he submits are in no way weakened by the arguments in paragraphs 12 to 14 of the last Finnish memorandum. The argument in this last memorandum is summed up in the passage at the end of paragraph 14 in the words:

"It is plain that the findings (1) that there were modifications of the agreement between the two Governments covering these ships, and (2) that there was no intention to requisition, are findings of fact, and it is submitted that these findings were to all intents and purposes conclusive of the questions at issue under section 2 (1) (a) of the Indemnity Act."

The two points (1) and (2) referred to in this quotation will be taken separately.

"(1) The finding that there were modifications of the agreement between the two Governments."

The issue here (as a reference to the proceedings before the Admiralty Transport Arbitration Board will show) was not so much as to what actually took place between the British Ministry of Shipping and the Russian Committee. The claimants were, in any case, hardly in a position to dispute the evidence given by Sir B. Kemball Cooke on this point. The claimants contended, however, through Sir Robert Aske, counsel for the owners of the s.s. *Tammerfors*, "that the modifications of the agreement of May 1916 between the British authorities and the Russian Committee not having been reduced to writing and approved and signed by the Ambassador of Russia were of no authority" (see the Judgment of the Board, page 17 of the memorandum of September 1st).

The same contention was made before the Council on September 14th by Baron Yrjö Koskinnen. "It is," he said, "significant that the agreement of May 5th, 1916, was officially confirmed and signed by the British Secretary of State for Foreign Affairs and by the Russian Ambassador in London . . . If this solemn form was necessary for the validity of the agreement, why was it not equally so for the agreement to which the British Government refers . . ." ¹

The Board held that the agreement had been modified by these informal arrangements, but this is a decision on a question of law. It is essentially a question of law whether an agreement in solemn diplomatic form can be modified by informal arrangements between subordinate officials, and on this question an appeal lay from the Board to the Court of Appeal.

"(2) The finding that there was no *intention* to requisition."

It is submitted that even if the question of *intention* is a question of fact, a finding on it was perfectly immaterial. The material question was not whether His Majesty's Government *intended* to requisition but whether what they actually did amounted in law to a requisition or not, and this question is clearly a question of law (see paragraph 5 (b) of the memorandum of September 17th). Even if the Board had itself expressed its judgment in a manner which indicated the decision was one of fact, the Court of Appeal could review that decision.

19. In paragraph 16, the Finnish Government state that, although they admit that there have been a number of appeals to the Court of Appeal from the decision of the Admiralty Transport Arbitration Board, it is noteworthy that there is not a single instance of an appeal relating to the question of "requisition" under Section 2 (1) (a), but this is not in accordance with the facts. *The Bombay and Persia Steam Navigation Company v. The Shipping Controller* (reported in *Lloyd's*

¹ The answer to this point is, of course, that solemn form was not necessary for the original agreement. It was in fact adopted but it was not essential. The modification was accepted by both Governments and no question was, or could have been, raised as to its validity.

List Reports, Vol. 7, page 226), is such a case. The Admiralty Transport Arbitration Board had held that certain acts done by the Shipping Controller did not amount to a requisition, and an appeal was entered against this decision. The Court of Appeal confirmed the decision, and a reference to the report of this case will show that the Court of Appeal did not consider that they were bound by the decision of the Board on this point as a decision on a question of fact but treated the question as one of law on which an appeal lay. This case is direct authority for the proposition, put forward in the memorandum of September 17th (paragraph 5 (b)) that the question whether or not there was a requisition is a question of law, and the decision of the tribunal thereon is consequently subject to an appeal to the Court of Appeal.

20. In paragraph 17 of the Finnish memorial, an argument is put forward in the endeavour to show that the international rule with regard to the exhaustion of municipal remedies as a condition precedent to diplomatic action does not apply to this case, which may be shortly summarised as follows:

The Finnish Government contend that they have two claims in the present case: (a) the claim (as now formulated at the end of paragraph 7 of this last Finnish memorandum) which has been referred to and discussed in paragraph 17 above, and (b) the claim that, in fact, the Government of the United Kingdom requisitioned the Finnish ships, and are consequently liable to pay for their use.

As regards (a), the Finnish Government contend that there is no means by which this claim can be enforced in the English courts at all. (His Majesty's Government do not admit this contention, but it will be convenient for the purposes of the argument here to assume that it is correct.) Further, the Finnish Government contend as regards (b) that although there was a remedy in the English courts under the Indemnity Act, yet the compensation which could have been obtained by the use of that remedy (assuming that the court had admitted the claim in principle) was strictly limited and defined, and would not satisfy the obligations of His Majesty's Government under international law, including their obligations under heading (a).

The Finnish Government contend in paragraph 17 of the memorandum that the rule with regard to the exhaustion of municipal remedies does not operate to preclude an international claim (1) "where the municipal remedy does not permit of full compensation being obtained", or (2), "*a fortiori*, where the limitations inherent in the nature of municipal law even prevent a claim from being entertained".

The United Kingdom delegate would be prepared to admit that the rule with regard to the exhaustion of municipal remedies would not apply so as to preclude a claim in a case where it was clearly established that this remedy was purely illusory, and could produce no substantial redress whatever, but he maintains that there is not the slightest authority for the view that the rule does not preclude an international claim, where a municipal remedy may produce compensation which is substantial, whether or not the compensation which could be so obtained is equal in amount to that which may be claimed under the principles of international law. If it should be the case that the municipal remedy is capable of producing substantial compensation, but nevertheless compensation less than that which could be claimed under international law (His Majesty's Government do not admit that in the present case it is less), the municipal remedy must be exhausted to secure all the compensation which can be obtained under it, before an international claim can be made. In such a case, the international claim can only be made for the balance, and, until municipal remedies have been exhausted, it is impossible to ascertain what the balance is, or, indeed, if there is any such balance, and, consequently, whether there is, in fact, any international delinquency of which the claimant Government can complain.

In the present case, His Majesty's Government contend that, with regard to claim (b), it is clear (for the reasons given in paragraphs 18 and 19 above) that the right of appeal to the Court of Appeal from the Admiralty Transport Arbitration Board was not an illusory right of appeal, as the question under dispute was substantially a question of law. Further, even if it be the case that the compensation which the Admiralty Transport Arbitration Board could have given under the Indemnity Act was limited, yet it is not even contended that it was not substantial. Such a contention would, in fact, be absolutely impossible, in view of the fact that the Board, in view of the possibility of an appeal, assessed the compensation for the loss of three vessels at figures which were extremely substantial. It cannot, moreover, be assumed that such compensation would not have been more than sufficient to satisfy the international obligations of His Majesty's Government under headings (a) and (b).

21. In conclusion, the United Kingdom delegate, in this and the immediately following paragraph, will, in the exercise of the right reserved in his memorandum of September 17th, make a few observations on certain points raised by the statement of the Finnish representative before the Council on September 14th. He desires, in the first place, to correct a mistake (to which Baron Yrjö-Koskinnen called attention) in paragraph 26 of His Majesty's Government's memorandum of September 1st. No evidence was given by Russian lawyers before the Admiralty Transport Arbitration Board. His Majesty's Government had obtained opinions from Russian lawyers to the effect stated in that paragraph; but the evidence was not produced in the proceedings before the Board.

22. The following observations are made with reference to the passage (too long to be quoted conveniently) in Baron Yrjö-Koskinnen's statement, which appears on page 6 of the Minutes of the meeting of September 14th, beginning: "As regards (2) it is quite impossible . . ."

It was thought that the position of the Government of the United Kingdom was made clear in the letters quoted in the Appendices to the first memorandum of His Majesty's Government of September 1st. Indeed, that position can be summarised by reference to the concluding paragraph of the letter of September 5th, 1916, which appears in Appendix 1 (b) of that

memorandum. It is very clearly stated that the British Admiralty could not be liable in any way to the Finnish owners nor was it concerned with the terms which the Russian Government made with the owners for the hire of the vessels.

It is also apparent from the correspondence that the Finnish owners appointed their own agents in London, as did the Russian Government Committee, and it is therefore natural that communications with the Finnish owners should be made to their London agents by the Russian Government Committee through the London agents of that Committee—namely, Messrs. Gellatly, Hankey and Company.

This arrangement explains why the British Ambassador in Petrograd was not acquainted in detail with the tripartite arrangement which had been made between the Finnish owners, the Russian Government as charterers, and the Government of the United Kingdom as sub-charterers.

The fact that, owing to confusion and incompetence in Petrograd, the Russian Government failed to implement their obligations or to conclude formal charter parties with the Finnish shipowners is a matter which in no way concerns the Government of the United Kingdom.

23. In the interests of accuracy, it may be desirable, with reference to the statement (page 7, end of paragraph 1 of the Minutes of the Council of September 14th) that " certain credits in respect of hire were not entered in the Russian Government's account until after the revolution ", to place on record that the only case in which hire was not paid or accredited until after the Russian revolution was that of the *Tammerfors*, the amount in that case being £4,270.

Appendix I.

QUOTATIONS FROM BORCHARD'S " DIPLOMATIC PROTECTION OF CITIZENS ABROAD "

Page 332.

" On the other hand, it is to be noted that as a general rule the exhaustion of local remedies is considered a necessary condition precedent to recourse to diplomatic interposition. Only when these remedies have been exhausted, and a denial of justice established, does formal diplomatic espousal of a claim, as opposed to the use of good offices, become proper. Claimant Governments dispense with the requirement of exhausting local remedies when those remedies appear insufficient, illusory or ineffective in securing adequate redress. It may be noted, however, that before a denial of justice has actually been perpetrated, and while the case is still pending, foreign Governments may use their good offices to see that their citizens abroad receive the benefits of due process of law, in order that a denial of justice may be avoided.

" It has already been observed that the State is not responsible for the mistakes or errors of its courts, especially when the decision has not been appealed to the court of last resort. Nor does a judgment involving a *bona fide* misinterpretation by the court of its municipal law entail, on principle, the international liability of the State. Only if the court has misapplied international law, or if the municipal law in question is in derogation of the international duties of the State, or if the court has wilfully and in bad faith disregarded or misinterpreted its municipal law, does the State incur international liability. "

Page 817.

" Almost daily the Department of State has occasion to reiterate the rule that a claimant against a foreign Government is not usually regarded as entitled to the diplomatic interposition of his own Government until he has exhausted his legal remedies in the appropriate tribunals of the country against which he makes claim . . . Thirdly, the home Government of the complaining citizen must give the offending Government an opportunity of doing justice to the injured party in its own regular way, and thus avoid, if possible, all occasion for international discussion . . . it is a logical principle that where there is a judicial remedy it must be sought. Only if sought in vain and a denial of justice established, does diplomatic interposition become proper . . . The application of the rule that local remedies must be exhausted before an international claim may properly be instituted has served to dismiss many cases brought before international tribunals. "

Page 821.

" The rule that local remedies must be exhausted before diplomatic interposition is proper is in its application subject to the important condition that the local remedy sought is obtainable and is effective in securing redress. If this condition is absent, it would be futile and an empty form to require the injured individual to resort to local remedies . . . So, where the local tribunals are of such a nature that no confidence may be placed in them and no hope may be entertained of obtaining justice from them, or where there are no duly established courts to which resort is ' open and practically available ', it is unnecessary to exhaust local remedies . . . Where recourse to or the prosecution of an appeal before the local courts appears useless or impracticable in affording a claimant relief, he has been excused from appealing to or exhausting his local remedies. This has been held in cases where the local courts were prohibited from entertaining jurisdiction of suits against the State; where the judges were menaced and controlled by a hostile mob; where the payment of a possible judgment was entirely a matter of discretion with the defendant Government; or where an appeal to the highest court from the circumstances of the case appeared

impracticable. In these cases the resort to local courts would not have resulted in an effective remedy. In a few prize cases, it has been held that in face of a uniform course of decisions in the highest courts, a reversal of the condemnation being hopeless, an appeal was excused; but this rule was most strictly construed, and if a substantial right of appeal existed, failure to prosecute an appeal operated as a bar to relief."

EXTRACT FROM BORCHARD'S "DIPLOMATIC PROTECTION OF CITIZENS ABROAD".

Page 339.

"When feasible and where an effective remedy seems probable, all modes of appellate revision must be exhausted before diplomatic interposition becomes proper."

II.

EXTRACT FROM MOORE'S "DIGEST OF INTERNATIONAL LAW," VOLUME 6.

Page 652.

"It is not necessary to affirm that a Government is not responsible in any case to a foreign Government for an alleged erroneous judicial decision rendered to the prejudice of a subject of said foreign Government. But it may be safely asserted that this responsibility can only arise in a proceeding where the foreigner, being duly notified, shall have made a full and *bona fide*, though unavailing, defense, and, if necessary, shall have carried his case to the tribunal of last resort. If, after having made such defense and prosecuted such appeal, he shall have been unable to obtain justice, then, and then only, can a demand be with propriety made upon the Government."

III.

LEAGUE OF NATIONS CONFERENCE FOR THE CODIFICATION OF INTERNATIONAL LAW.

BASES OF DISCUSSION FOR THE CONFERENCE DRAWN UP BY THE PREPARATORY COMMITTEE.

(Extracts from League document C.75.M.69.1929.V.)

Basis of Discussion No. 5.

Page 48.

"A State is responsible for damage suffered by a foreigner as the result of the fact that:

- "1. He is refused access to the courts to defend his rights.
- "2. A judicial decision which is final and without appeal is incompatible with the treaty obligations or other international obligations of the State.
- "3. There has been unconscionable delay on the part of the courts.
- "4. The substance of a judicial decision has manifestly been prompted by ill-will toward foreigners as such or as subjects of a particular State."

Basis of Discussion No. 27.

Page 139.

"Where the foreigner has a legal remedy open to him in the courts of the State (which term includes administrative courts), the State may require that any question of international responsibility shall remain in suspense until its courts have given their final decision. This rule does not exclude application of the provisions set out in Bases of Discussion Nos. 5 and 9."

Reply of the German Government.

Page 171.

"Our opinion on this subject has already been given in connection with Nos. IV and V. We have said that, generally speaking, the responsibility of the State under international law can only commence when the persons concerned have availed themselves of all remedies open to them under the internal laws of the State in question. In principle, therefore, a claim can only be made in respect of a decision of the highest tribunal having jurisdiction under the municipal law. Special circumstances may, however, justify exceptions to this rule. The exhaustion of all remedies could not be insisted upon when, for special reasons, it would be impossible to insist that the State concerned should await the final judgment: when, for instance, further damage is likely to occur or when, the clauses of a contract having been violated on a point of principle, there is some danger of the offence being repeated. In these circumstances, the State which has been injured in the person of its national should be permitted to urge its claims immediately."

Reply of the British Government.

Page 206.

" In general, the answer to point XII is in the affirmative. As was said by His Majesty's Government in Great Britain in the memorandum enclosed in a note to the United States Government, dated April 24th, 1916:

" ' His Majesty's Government attach the utmost importance to the maintenance of the rule that, when an effective mode of redress is open to individuals in the courts of a civilised country by which they can obtain adequate satisfaction for any invasion of their rights, recourse must be had to the mode of redress so provided, before there is any scope for diplomatic action. '—(*American Journal of International Law*, 1916. Special Supplement, page 139.)

—" and the note goes on to point out that this is the only principle which is correct in theory and which operates with justice and impartiality between the more powerful and the weaker nations.

" If a State complies with the obligations incumbent upon it as a State to provide tribunals capable of administering justice effectively, it is entitled to insist that before any claim is put forward through the diplomatic channel in respect of a matter which is within the jurisdiction of those tribunals and in which they can afford an effective remedy, the individual claimant (whether a private person or a Government) should resort to the tribunals so provided and obtain redress in this manner.

" The application of the rule is thus conditional upon the existence of adequate and effective local means of redress. Furthermore, in matters falling within the classes of cases which are within the domestic jurisdiction of the State, the decisions of the national courts in cases which are within their competence are final unless it can be established that there has been a denial of justice. "

IV.

EXTRACTS FROM EAGLETON: " THE RESPONSIBILITY OF STATES IN INTERNATIONAL LAW ".

Page 95.

" It will be seen that in cases in which an alien, and in many of those in which the State itself, is injured, no international delict is established, and therefore no responsibility, until the State's own machinery of justice has failed to function properly, or a denial of justice is apparent."

Page 95.

" Procedurally, the rule that local remedial measures must be fully tested before diplomatic interposition is permissible is the most important rule in the application of the doctrine of State responsibility. "

Page 96.

" This protective system the State is obliged by international law to have; and, before it, the alien is required to seek relief for an injury done to him. Until he has done so—until he has exhausted local remedies—he cannot appeal to diplomatic action. This rule is thoroughly established in the practice of nations. It has often been asserted in the diplomatic correspondence of States."

Page 98.

" Some difficulty arises from the double function served by local remedies. They may be regarded, on the one hand, as a means of repairing a breach of international law for which responsibility is already existent; and, on the other hand, as a duty whose improper execution will itself bring responsibility upon the State. It cannot be said that responsibility appears only when local remedies have failed. The responsibility of the State may have been called into existence as a result of a previous illegality, in which case the failure of local remedies serves only to justify an appeal to diplomatic interposition. If, however, the local measures of redress operate regularly to afford the alien the reparation which the law of the land permits, responsibility is thereby discharged. Again, if the alien has received an injury which is not in itself internationally illegal, his failure to secure proper redress from the State may at this point, for the first time, engage the responsibility of the State. Whether the State has an anterior responsibility or not, it must usually be permitted to use its own agencies of redress where it has provided them; and the failure of these agencies may either create an original responsibility where none has existed hitherto, or serve to carry the case on to diplomatic procedure if responsibility was already engaged."

[Communicated to the Assembly,
to the Council and the Members
of the League.]

Official No.: **A. [Extr.] 1.** 1932. VII.

Geneva, February 29th, 1932.

LEAGUE OF NATIONS

**APPEAL FROM THE CHINESE GOVERNMENT
UNDER ARTICLE 15 OF THE COVENANT**

**STATEMENT COMMUNICATED BY THE CHINESE DELEGATION
IN CONFORMITY WITH ARTICLE 15, PARAGRAPH 2.**

Note by the Secretary-General.

The Secretary-General has the honour to circulate a letter from the Chinese Delegation, dated February 22nd, 1932, to which is attached a statement of the Chinese Government's case.

Geneva, February 22nd, 1932.

To the Secretary-General.

Referring to my letter of February 9th, 1932, I have the honour to submit herewith a more complete statement of the Republic of China with respect to the Sino-Japanese dispute, of which the Council has been seized under Articles 10, 11, and 15 of the Covenant of the League of Nations and which has now been referred to the Assembly by virtue of the Council resolution of February 19th, 1932, the duty of the Council to continue its work for the maintenance of peace in accordance with the Covenant remaining, however, unaffected by the transference of the said dispute to the Assembly.

In submitting the enclosed statement, I beg leave to reserve the right to submit hereafter other statements of papers which my Government may deem necessary and appropriate. As to the statements and papers heretofore made and submitted by my Government in the proceedings of the Council in the said controversy, I have the honour to state that my Government considers them as comprising part of the relevant facts and papers of the case as it did in my note to you of January 29th, 1932.

(Signed) YEN.

STATEMENT SUBMITTED BY THE REPUBLIC OF CHINA IN
COMPLIANCE WITH PARAGRAPH 2 OF ARTICLE 15 OF THE COVENANT
OF THE LEAGUE OF NATIONS.

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I. INTRODUCTION.

The Sino-Japanese dispute in its entirety has now been submitted to the League of Nations by formal invocation of its powers and authority under Articles 10, 11 and 15 of the Covenant. The Council has already indicated that the procedure under Article 11 is in no way suspended or superseded by the invocation of other Articles. The problem created by the Japanese aggression against China is therefore squarely before the League in all its aspects.

The gravity of the issue thus presented can hardly be exaggerated. A great country with a population of approximately 400,000,000 inhabitants is here virtually staking its national existence on the practical application and enforcement of the League's Covenant. The supreme test of the effectiveness of the League in a capital emergency is at hand.

Naturally, it is for the League itself in the first instance to construe and apply its own fundamental law. As M. Tardieu, representing France, frankly stated in his address to the Disarmament Conference on February 8th, "the tendency in the past, when interpreting the Covenant, has been that it has been constantly interpreted along the line of least resistance, and that there has been in this respect a definite lack of boldness". Unfortunately, the line of least resistance, which has been followed thus far in this as in other matters, has been closed by the march of events. Nothing short of a courageous and firm stand now seems possible if the Covenant is henceforth to command respect.

It is perhaps useful at the outset to distinguish between the fundamental task of adjusting Sino-Japanese relations, with particular reference to the North-Eastern Provinces of China, so as to lay the bases of permanent peace in the Far East, on the one hand; and the immediate and urgent business of stabilising the situation, in the sense of the Council's resolutions of September 30th and December 10th, so as to permit the final settlement to be made.

The first of these operations is one of wide envergure and necessarily will require time. Inevitably there must be long and attentive negotiations. There are vast complexities and treaty rights and interests, extending even beyond those of the parties to the dispute, to be considered. On this branch of the subject, two positions maintained by China from the very beginning should be kept in mind: (1) negotiations between China and Japan under pressure of military occupation of any part of the former's territory by the latter cannot, for obvious

reasons, be contemplated; (2) any ultimate adjustment of Sino-Japanese relations with a view to permanent peace must not only safeguard all rights of third parties, but also be in strict accord with the principles laid down in the Covenant, the Pact of Paris, and the Nine-Power Treaty. Both of these points will be hereinafter dealt with in detail.

The emergency part of the undertaking—to stop the fighting and loss of life, to liquidate the Japanese occupation, and, in general, to re-establish the *status quo ante* permitting a consideration of the main problem—is of course the one demanding instant attention. We are dealing, not with something which is done and finished, but with an uncontrolled and continuing military aggression by one nation on the territory of another.

The Council has long recognised that the situation is intolerable and brooks of no delay. To stress its extreme urgency from every point of view is quite unnecessary. It is probably no exaggeration to say that there has been no comparable international crisis since 1914. On the threshold of the enquiry lies the question of the proper significance and effect to be attributed to the Japanese aggression as an indisputable fact. That Japan launched the attack, that her armed forces have relentlessly advanced for nearly five months, and that they are now in occupation of a vast extent of Chinese territory in two widely separated parts of the country cannot be controverted. A formidable invasion with all the terrible concomitants of war has taken place and is going on. The scale of the operation and the period of time over which it has persisted have removed all possibility of characterising it as casual, or incidental.

Article 10, the very corner-stone of the Covenant, is being shattered. That Article reads:

“ The Members of the League undertake to respect and preserve as against external aggression the territorial integrity and existing political independence of all Members of the League. In case of any such aggression or in case of any threat or danger of such aggression, the Council shall advise upon the means by which this obligation shall be fulfilled. ”

Japan is a Member of the League of Nations solely by virtue of the fact that she has acceded “ without reservation ” to this as well as the other Articles (see Article 1).

China points to the forcible occupation of 200,000 square miles of her territory, to the attack on Shanghai, to the bombing of Nanking, her capital, and to numerous other specific acts of armed violence as constituting external aggression (and not merely the threat or danger of it) against her territorial integrity and political independence in plain violation of Article 10. The proposition appears so axiomatic as not to fall within the domain of argument.

But Japan asserts that these acts complained of do not constitute such aggression: because, in her opinion, Japan's nationals in China were not receiving fair treatment and in some cases their lives and property were in danger; because Japan conceives it her duty to establish and maintain law and order in Manchuria, at Shanghai and elsewhere; because the Chinese people are refusing to buy goods of Japanese origin; because the Chinese have not welcomed the invading army and it has had to advance in self-defence in order to protect the positions it has occupied; and finally because, after all, Japan has no design to keep the territory which she has taken, and intends to give it up when, in her judgment, the safety of her nationals permits, when the boycott is abandoned, and when China, by direct negotiation (under pressure of the occupation), settles all outstanding disputes with Japan to the latter's satisfaction.

While all of these pretexts and excuses are discussed in the following pages, there is a certain risk of confusion, if one does not keep in mind the primary issue of whether any pretext, however persuasive, can be entertained as a justification for resort to armed force, instead of peaceful means, for the settlement of international differences. The alleged grievances referred to by Japan are all obviously susceptible of arbitration and judicial settlement—which China has proposed.

The basic feature of Japan's plea which calls for notice at this point is the extraordinary contention that the sending of an army to take forcible possession of the territory of a foreign State is divested of all aggressive import if the invading Power issues a simple disclaimer of permanent territorial ambitions and of any intention to stay longer than seems to itself necessary. This position cannot be ignored because it strikes at the root of the whole matter. The League must either reject the Japanese contention or write its Covenant down to a pious declaration that aggression depends upon the self-asserted state of mind of the aggressor, thus converting the Covenant from a guarantee of peace into an invitation to war.

II. — HISTORICAL BACKGROUND.

The region popularly designated as Manchuria, but known to the Chinese as “ The Three Eastern Provinces ”, is a large fertile area with enormous possibilities of economic development. An idea of its size may be gained by recalling the fact that it is somewhat greater than France and Germany combined as they appear on the map of Europe. From time immemorial, Manchuria has belonged to the Chinese national domain; historically, ethnically and politically, it is an integral

part of China. From the name usually given to these Chinese Provinces collectively, it has been sometimes mistakenly assumed that they are the land of the Manchus, who are said to be in no way allied to the rest of the Chinese by blood. The truth is that China is made up of five races, of which the Manchu is one. Moreover, the population of the region to-day—some thirty millions—is, ethnically speaking, strictly and overwhelmingly Chinese.

That Manchuria is territorially and administratively an integral part of China has repeatedly been recognised by the international circle in all treaties bearing upon the subject, notably those entered into by the Powers at the Washington Conference in 1921-22. The suggestion was never made at that Conference, even by the Japanese, that Manchuria did not fall within the purview of pledges then made guaranteeing China's sovereignty, independence and territorial and administrative integrity. Among the latest definite and official reiterations of this position is the reply of Sir Austen Chamberlain, then British Foreign Secretary, to a question in the House of Commons on July 13th, 1928,¹ when he declared that Great Britain considered Manchuria as part of China. Mr. Kellogg, the American Secretary of State, in a statement to the Press on May 21st, 1928,² said that, so far as the United States of America was concerned, Manchuria was essentially Chinese soil.

Furthermore, on January 1st, 1926, Baron Shidehara, then Foreign Minister of Japan, addressed the Japanese Diet, in opposition to the "Positive Policy" in Manchuria at that time advocated by the followers of Baron Tanaka, in the following terms:

"No doubt the complete tranquillity of the whole region of the Three Eastern Provinces, undisturbed by any scourge of war, is very much to be desired in the interest of the native population, as well as of the Japanese residents. It is, however, a responsibility that properly rests upon China. The assumption of that responsibility by Japan without just cause would be manifestly inconsistent with the fundamental conception of the Washington Treaties, and with the repeated declarations of the Japanese Government. By taking such course we would forfeit our national honour and pride once for all. In no case, and by no means, can we be party to so improvident an action."³

The advent of Japan in the arena of Asiatic continental affairs is comparatively recent. Her attention was first directed to the little Kingdom of Korea, over which China had exercised an age-long suzerainty. The Sino-Japanese war of 1894-95 was the result. By the Treaty of Peace signed at Shimonoseki on April 17th, 1895, China was compelled "to recognise definitely the full and complete independence and autonomy of Korea"; and was also forced to cede to Japan in full perpetuity and full sovereignty portions of the Liaotung Peninsula, including Port Arthur and Dalny, and to pay an indemnity of 200,000,000 Kuping Taels.

Subsequently, at the insistence of Russia, France and Germany, who regarded the cession of Liaotung as injurious to their interests and menacing to the peace of the Far East, Japan was induced reluctantly to retrocede the said Peninsula to China in return for an additional indemnity of 30,000,000 Kuping Taels.

Russia at once took advantage of the opportunity to gain a foothold in Manchuria by extorting from China the concessions for the Chinese Eastern Railway with a branch down to the sea at Dalny and Port Arthur; and, later, acquired for herself the lease of the Liaotung Peninsula.

Japan's turn to advance her ambitious projects on the mainland of Asia came again in 1905, when she declared war upon Russia. The war was fought almost entirely on Chinese territory, and it will be remembered that peace was largely brought about through the good offices of Theodore Roosevelt, then President of the United States of America.

By the Treaty of Portsmouth, signed September 5th, 1905, Japan and Russia mutually engaged: to evacuate completely and simultaneously Manchuria, except the territory affected by the lease of the Liaotung Peninsula; to restore entirely and completely to the exclusive administration of China all portions of Manchuria then occupied by their troops respectively, with the exception of said Peninsula; and "not to obstruct any general measures common to all countries which China might take for the development of the commerce and industry of Manchuria". Both parties further declared, in Article 3, that they had not "in Manchuria any territorial advantages or preferences or exclusive concessions in impairment of Chinese sovereignty or inconsistent with the principle of equal opportunity".

The Treaty then provided for the transfer from Russia to Japan (with the consent of China, which the parties undertook mutually to secure) of the lease of Port Arthur and Dalny, as well as the southern branch of the Chinese Eastern Railway from Changchun to Port Arthur, now known as the South Manchuria Railway.

China's consent to these transfers from Russia to Japan was given in the Sino-Japanese Treaty signed at Peking (now Peiping) on December 22nd, 1905. That was the sole *raison d'être*

¹ London Times, July 14th, 1928, page 13.

² United States Daily, May 22nd, 1928, page 2.

³ Peking Leader, January 24th, 1928.

of the Peking Treaty, which contained but two substantive Articles, the first of which recorded the consent to the transfer of the leased territory and to the assignment of the railway concession involved.

Article 2 embodied a specific engagement by Japan that, as regards the leased territory and the concessions to be taken over, she would, "so far as circumstances permit, conform to the original agreements concluded between China and Russia"; and that, in case any question arose in the future on these subjects, it would be decided in consultation with the Chinese Government.

Simultaneously with the Peking Treaty, a so-called Additional Agreement was signed by Japan and China with the declared purpose of regulating for their guidance certain questions in which they were both interested in Manchuria. By Article 1, China agreed, as soon as possible after the evacuation by Japan and Russia of their forces, that she would herself open up "as places of international residence and trade" sixteen designated towns. In Article 2, Japan agreed, as soon as tranquillity had been re-established in Manchuria and China was able to afford full protection to the lives and property of foreigners, to withdraw her railway guards simultaneously with Russia.¹ In passing, it may be noted here that, since 1917, Russia has withdrawn her railway guards from the Chinese Eastern Railway areas, while Japan still retains hers, thereby increasing the friction between the Chinese and the railway authorities, especially when the said railway guards outstepped their bounds and attempted to exercise jurisdiction in areas under Chinese control on the pretext of arresting bandits and apprehending criminals.²

Article 6 gave Japan the right to maintain and work the military railway line constructed between Antung and Mukden and to improve the same "so as to make it fit for the conveyance of commercial and industrial goods of all nations". This right was conceded for a period of fifteen years from the date of the completion of the improvements and, at the expiration of that term, the railway was to be sold to China at a price to be fixed by foreign expert appraisal.

It will be observed that none of these Treaties and Agreements conferred upon Japan any special or exclusive right to finance or construct railways in South Manchuria. Such a grant, it goes without saying, would have been inconsistent with the principle of the Open Door and Equal Opportunity, which Article 3 of the basic Treaty of Portsmouth reaffirmed. It is equally apparent that Japan's subsequent demands that the lease be extended to 99 years and that China should be precluded from building railways in the area in question, even with her own capital, contravene these Treaties of 1905. Either the principle laid down in the Portsmouth Treaty had to be adhered to or China must be deemed to have been released from her undertakings in the Treaty of Peking which was based upon it.

Nevertheless, from the date of the signature of the Peking Treaty and the Additional Agreement to the present day, Japan has contended that attached to these documents were secret protocols wherein China agreed not to construct, prior to her recovery of the said railway, any main line in the neighbourhood of and parallel to the South Manchuria Railway, or any branch line which might be prejudicial to the interest of that railway. No reliable evidence of the existence of such alleged secret protocols has ever been produced. No official copy has ever been published, nor was anything purporting to embody their terms filed with the United States Government in conformity with the eleventh resolution of the Washington Conference dealing with Far-Eastern affairs. What actually took place in 1905 was that an agreement that China should not parallel the Japanese railway was sought by the Japanese and the matter was discussed. What was mentioned in the Minutes was that China would not construct parallel lines *in the vicinity* of the South Manchuria Railway. The first time the subject came up between China and Japan was in 1907 when the Chinese Ministry of Railways decided to extend the Peking-Mukden Railway from Hsinmin to Fakumen and from thence to Taonan and Heilungkiang. The Japanese Minister in Peking protested and the Chinese Foreign Office replied as follows:

"You must know that, when the Minute was discussed, the Chinese plenipotentiaries pointed out that 'parallel' was very vague and therefore the number of miles must be stated. The Japanese objected by saying that, if this was done, the other Powers might think that Japan was trying to obstruct Chinese railway development. The Chinese wanted European and American precedents to be followed in such a matter, and the Japanese reply was that precedents were not identical. Finally, the Japanese declared that Japan would never obstruct measures on the part of China to develop Manchuria. As we regard that he was speaking in all sincerity and was inspired by feelings of friendship, what he said should be obeyed by both parties."

Nebulous as is this undertaking concerning parallel lines, Japan has used it frequently to block the railway development of Manchuria by China with her own as well as with foreign capital. The two best-known instances are: the case of the projected Hsinmin-Fakumen Railway in 1907-8, when the construction under arrangement with a British firm was frustrated; and the case of the Chinchow-Aigun Railway in 1909-10, when the execution of a contract concluded with an Anglo-

¹ See Appendix VI.

² See Appendix VII.

American company was similarly blocked. Japan in each instance invoked her alleged treaty rights with the practical result of defeating this development—this notwithstanding the provisions of the Portsmouth Treaty above quoted.

In view of later developments, and of the fact that the whole structure of Sino-Japanese treaty relations affecting Manchuria is founded, according to the Chinese contention, upon the 1905 Treaties and Agreements, it is important to note that the lease of the Liaotung Peninsula to Russia was for a period of twenty-five years, dating from 1898, and therefore expired in 1923; and that, by the terms of the Chinese Eastern Railway contract (which is applicable to the present South Manchuria Railway), it is provided that the whole enterprise should revert to China free of charge after a period of eighty years from the date on which the line was completed and opened to traffic. The line having been so opened in 1903, it will revert to China in 1983. There was also in the Railway Contract a clause permitting China to purchase the line on certain terms at the expiration of thirty-six years from the date of completion—that is to say, in 1939.

Japan, however, contends that the 1905 arrangements have been supplemented and modified by an entirely new series of arrangements concluded under duress in 1915. This is the celebrated affair of the Twenty-one Demands which, during the World War, were presented by Japan, not through ordinary diplomatic channels, but to the President of the Chinese Republic in a manner calculated, if possible, to secure extreme secrecy, and accompanied by an ultimatum expressing clear intention to use armed force if the demands were not complied with. The President, Yuan Shi-Kai, was in the circumstances forced to capitulate, virtually at the point of the pistol.

The so-called Agreements extorted in this fashion involved, among other things: extension of the terms of the lease of Port Arthur and Dalny and the terms of the South Manchuria Railway and the Antung-Mukden Railway to 99 years—that is to say, until the year 2002; the cancellation of China's right to redeem the South Manchuria Railway by purchase in 1939; the extension of the term of the Antung-Mukden Railway until the year 2007; the granting of a preference to Japanese capitalists in all negotiations for loans to provide funds for building railways in South Manchuria and Eastern Inner Mongolia; the undertaking by China to negotiate with Japanese capitalists first when making future loans on the security of taxes in the said regions; the undertaking by China to employ first Japanese advisers or instructors on political, financial, military or police matters, when such advisers or instructors are required in South Manchuria; and the undertaking that the Chinese authorities in South Manchuria and Eastern Inner Mongolia shall come to an understanding with the Japanese Consul before enforcing police laws and ordinances and taxation against Japanese subjects.

The 1915 dictated "Agreements" cannot be read as a whole with an eye to their cumulative effect without arriving at the conclusion that they were intended to lead to, if not actually establish, a virtual protectorate over that part of China which they concerned. The Chinese Government and people have characterised them as invalid and of no effect. The Government immediately after their signature issued a formal public statement of protest,¹ disclaiming responsibility for any consequent violation of treaty rights of other Powers and disassociating itself from any such attempted revision of the various international conventions and agreements concluded relating to the maintenance of China's territorial independence and integrity, the preservation of the *status quo* and the principle of equal opportunity with the commerce and industry of all nations in China. The question was raised by China at the Paris Conference in 1919, but no action was taken. At the Washington Conference of 1921-22, China spread upon the records the reservation of the right on all future appropriate occasions to seek a solution of this problem.² Mr. Hughes made a statement summing up the American position.³ Finally, it should be pointed out that the 1915 so-called "Agreements" have never been ratified by the Chinese Parliament as the Constitution of the Republic requires. On the contrary, the Parliament, in January 1923, mindful of the approaching expiration of the original lease of Port Arthur and Dalny, adopted a resolution formally declaring the Treaties of 1915 null and void and calling upon the Government to act accordingly. By a note dated March 10th, 1923, the Chinese Government brought the matter to the attention of the Japanese Government, stating that the Agreements in question should forthwith be abrogated, saving, of course, those regarding which a satisfactory settlement had already been reached. The Japanese Government replied that it was apprised of the position which had been taken by the Chinese Government and reasserted its own position that the Agreements continued in force. Concededly, the treaty situation affecting Manchuria, and indeed the relations between China and Japan as a whole, are complex and difficult. At the same time, it is clear that the issues are all such as to call for arbitration or judicial settlement and cannot on any recognised theory

¹ Appendix I.

² Appendices II and III.

³ Appendix IV.

be held to justify to resort to armed force to resolve them. The Covenant of the League is itself emphatic on this subject. Paragraph 2 of Article 13 reads as follows:

“ Disputes as to the interpretation of a treaty, as to any question of international law, as to the existence of any fact which, if established, would constitute a breach of any international obligation, or as to the extent and nature of the reparation to be made for any such breach, are declared to be among those which are generally suitable for submission to arbitration or judicial settlement.”

With further reference to the 1915 arrangement, it may be recalled that the United States Government, on May 13th, 1915, sent the following identic note to both Japan and China:

“ In view of the circumstances of the negotiations which have taken place and which are now pending between the Government of China and the Government of Japan and of the agreements which have been reached as a result thereof, the Government of the United States has the honour to notify the Government of the Chinese Republic that it cannot recognise any agreement or undertaking which has been entered into or which may be entered into between the Governments of China and Japan impairing the treaty rights of the United States and its citizens in China, the political or territorial integrity of the Republic of China, or the international policy relative to China commonly known as the ‘ Open-Door Policy ’.”

III. — EVENTS SINCE SEPTEMBER 18TH, 1931.

The Japanese Attack.

At 10 o'clock on the night of September 18th, 1931, regular troops of Japanese soldiers, without warning of any kind, suddenly opened rifle and artillery fire upon Chinese troops in the immediate vicinity of the city of Mukden, bombarded and looted the arsenal and barracks of the Chinese soldiers, set fire to the ammunition depot, attacked and disarmed the Chinese troops in Changchun, Kwanchengtse and other places. Within forty-eight hours they were in occupation of these cities, as well as Antung and other places and, by holding the chief strategic points along the railways, were in effective control of an area as large as the British Isles.

Japanese Premeditation and Violence.

The smoothness and swiftness with which this operation was carried out indicated premeditation. This, indeed, was confirmed from many sources, both neutral and Chinese.

The Council has been apprised of some of this evidence. Council document C. 733. 1931, of October 20th, contains the text of a telegram from Mr. Robert Lewis, an American citizen of high standing, containing the following passage:

“ I have proof that on Friday night, September 18th, the Japanese army sent through Antung from Korea into Manchuria seven trains loaded with soldiers. On Saturday night, September 19th, they sent four additional trains loaded with soldiers into Manchuria through the same place. On Sunday, September 20th, they sent eight further trainloads through the same point into Manchuria. These nineteen trains are now part of their occupying force in Manchuria. (Antung is 161 miles from Mukden, on the Korean border.) ”

The Chinese delegate, Dr. Sze, on October 13th, read a telegram addressed to him on October 12th by Mr. Sherwood Eddy, whom he described as an American “ who has devoted his entire life to the promotion of good-will and a better understanding among the nations of the world ”. This telegram reads:

“ I was present at capture Mukden. Evidence of many witnesses interviewed at time and on spot points to premeditated carefully prepared offensive plan of Japanese army without provocation of any Chinese attack producing bitter resentment when China suffering with flood disaster and world preoccupied. Japanese troops not withdrawn but all strategic points Southern Manchuria still held by Japanese and Chinchow bombed. I have testified, under oath sent Nanking and Geneva, to evidence of efforts to establish puppet independence governments Manchuria under Japanese military control. I have forwarded sworn statement of interviews with Chinese leaders Manchuria who testify to repeated pressure of Japanese to induce them to head independence Governments. Universal indignation in China taking

form economic boycott which Government cannot control. Efforts of Nanking Government still peaceful non-resistance which imperil Government if pacific settlement fails. Situation critical grave developments imminent. All Orient looking to League of Nations and Kellogg Pact signatories for action. Asia believe League and Pact are on trial as well as Japan and China. Notable turning towards Soviet Russia as an ally and Communism is developing threatening widespread anarchy if League and Pact fail in this supreme crisis and menace of war."

In connection with the question of premeditation, it may be mentioned as a highly significant circumstance that the semi-official *Japan Times* published on the morning of September 19th an elaborate special supplement on Manchuria, which must have taken some time to prepare. The supplement had a sensational heading asking whether war between China and Japan in Manchuria was inevitable and was devoted to discussing Manchuria as a potential second Korea.

A word must also be said as to the acts of violence and cruelty committed by the Japanese forces in their surprise attack. Council document C.604 of September 24th, 1931 (pages 6 and 7), reports the following:

" Japanese troops at Kungchuling Kirin have launched another attack on Chinese soldiers. Massacre of Chinese in Kirin City even more serious than in Mukden. Chinese civil and military officials were ruthlessly killed; about 200 met their death. . . . Many Chinese civilians in Changchun slain. Chouyuping, director of Changchun Municipal Administration, found lying dead on roadside with seven bullet wounds, fifty-one bayonet cuts; fifteen members of his family were also butchered. When first occupied Changchun Japanese troops bombed city twenty times in five hours, ruining large number of houses."

The practice of savagely bombing from aeroplanes open and undefended towns in peace-time has been introduced by Japan as an innovation in the practice of civilised nations and has been pursued steadily in Manchuria (Changchun, Chinchow and Kowpangtse are cases in point). The deeds perpetrated by Japan's bombing planes over Chapei, one of the most thickly populated sections of the municipality of Greater Shanghai, the incendiary activities of Japanese marines and the refusal to allow the Settlement fire brigades to combat the conflagration are still fresh in every one's mind. On that occasion, thousands of innocent civilians—men, women and children alike—lost their lives. These methods have characterised Japanese activities in Manchuria since September 18th, and are still continuing.

The pretext alleged by the Japanese Government—that one rail had been removed from the sleepers—for the outbreak of September 18th is so trivial and inadequate as scarcely to require comment: but it may be repeated here that the Chinese Government flatly denies that there was any tampering with the railways at any point on the South Manchurian Railway, and that, since the Japanese Government refused the neutral enquiry for which the Chinese Government immediately asked, its version is *prima facie* suspect. The testimony of Mr. Robert Lewis, quoted above, shows that Japanese troop trains were beginning to move north from the Korean frontier before the occurrence of the alleged incident.

China's Appeal and the September 30th Resolution.

The Chinese Government, on September 21st, 1931, invoked Article 11 of the Covenant before the Council (document C.585.1931) and asked that the latter should take immediate steps: (a) to prevent the further development of a situation endangering the peace of nations; (b) to re-establish the *status quo ante*; and (c) to determine the amounts and character of such reparations as may be found due to the Republic of China.

The Government of China added that it was fully prepared to act in conformity with whatever recommendations it might receive from the Council and to abide by whatever decisions the League of Nations might take in the premises.

The upshot of the first phase of the Council's deliberations on this subject was the resolution of September 30th, 1931, in which Japan concurred and by which the Japanese Government is bound. This resolution reads:

" The Council:

" 1. Notes the replies of the Chinese and Japanese Governments to the urgent appeal addressed to them by its President and the steps that have already been taken in response to that appeal;

" 2. Recognises the importance of the Japanese Government's statement that it has no territorial designs in Manchuria;

" 3. Notes the Japanese representative's statement that his Government will continue as rapidly as possible the withdrawal of its troops, which has already been begun, into the

railway zone in proportion as the safety of the lives and property of Japanese nationals is effectively assured and that it hopes to carry out this intention in full as speedily as may be;

“ 4. Notes the Chinese representative's statement that his Government will assume responsibility for the safety of the lives and property of Japanese nationals outside that zone as the withdrawal of Japanese troops continues and the Chinese local authorities and police forces are re-established;

“ 5. Being convinced that both Governments are anxious to avoid taking any action which might disturb the peace and good understanding between the two nations, notes that the Chinese and Japanese representatives have given assurances that their respective Governments will take all necessary steps to prevent any extension of the scope of the incident or any aggravation of the situation;

“ 6. Requests both Parties to do all in their power to hasten the restoration of normal relations between them and for that purpose to continue and speedily complete the execution of the above-mentioned undertakings;

“ 7. Requests both Parties to furnish the Council at frequent intervals with full information as to the development of the situation;

“ 8. Decides, in the absence of any unforeseen occurrence which might render an immediate meeting essential, to meet again at Geneva on Wednesday, October 14th, 1931, to consider the situation as it then stands;

“ 9. Authorises its President to cancel the meeting of the Council fixed for October 14th should he decide, after consulting his colleagues, and more particularly the representatives of the two Parties, that, in view of such information as he may have received from the Parties or from other Members of the Council as to the development of the situation, the meeting is no longer necessary.”

On the occasion of the adoption of this resolution, the President of the Council made a statement to the Assembly on September 29th, 1931, in which he informed the latter body, with the knowledge and approval of the Japanese delegate, in the following terms:

“ I only wish to allude to several essential points: First, the affirmation by the Japanese Government and by its representative that it never had or will have any intention of occupying Manchuria militarily; secondly, the fact that the Japanese Government has on several occasions insisted before the Council on its intention to withdraw as soon as possible the Japanese forces to within the railway zone gradually as the safety of its nationals and their property is effectively guaranteed; thirdly, the fact that this intention has, according to the declaration made yesterday to the Council by the Japanese representative, been, during the last two days, translated into definite action and that outside the railway zone Japanese troops are only stationed in a few localities.

“ The Council has noted these reassuring statements by the Japanese Government. It feels certain that, in this very difficult affair, as in other affairs which have been laid before it, the good-will of the parties and their loyalty to international engagements constitute the best guarantee for the peace of the world.”

The Bombing of Chinchow and the Japanese Army Proclamation.

That the assurances given by the Japanese Government, as quoted above, were very far from corresponding to the facts of the situation was brought home in a painful manner to the Council by the bombing of Chinchow a few days before the October session of the Council was to begin. Chinchow, it should be remembered, was the temporary capital of the Mukden Government, whereof its head was Marshal Chang Hsueh-Liang, and was a long distance from the areas occupied by the Japanese troops. The bombardment was accompanied by much destruction and loss of life. The Chinese Government at the time communicated to the Council the text of the following handbill dropped by Japanese planes over Chinchow:

“ Chang Hsueh-Liang, that most rapacious wanton, stinking youth, is still failing to realise his odiousness and has established a Provisional Mukden Government at Chinchow to plot intrigues in the territories which are safely under the rule of the troops of the Great Japanese Empire, when the heart of the Manchurian mass is no longer with him, his ground is lost and the four provinces of the North East are going to revolt against him. The Imperial Army, which, in accordance with the principles of justice, is endeavouring to safeguard its interests and to protect the masses, will never recognise the Provisional Government of Chang Hsueh-Liang at Chinchow, and therefore it is obliged to take drastic measures to suppress such a government. The people of Chinchow should submit to the kindness and power of the army of the Great Japanese Empire and should oppose and prevent the establishment of Chang Hsueh-Liang's government, otherwise they will be considered as decidedly opposing the army of the Great Japanese Empire, in which case the army will ruthlessly destroy Chinchow. The people of Chinchow are hereby enjoined carefully to consider their situation and to take such decisions as they will deem wise.”

The terms of this proclamation cast a lurid light upon the policy being pursued by the Japanese Army in Manchuria as contrasted with the assurances given by the Japanese Government in Geneva. At the subsequent Council meeting, Lord Cecil declared: "The British Government has been made extremely uneasy by the bombing incidents that have taken place during this dispute and finds it extremely difficult to see how those incidents can be justified by any known principle of international law."

Further testimony was communicated to the Council on October 20th, 1931 (document C.733-1931), by the Chinese Government in the form of a telegram from Mr. Robert Lewis, stating:

"The Japanese Army is feverishly consolidating its hold on all the principal towns of Manchuria, outside the railway zone, northward including Kirin and Taonan, from Korea on the east into Mongolia on the west. They are trying to induce the Mongolian princes to sign away their rights and to set up an independent government under Japanese protection. The Japanese Army is rooting out at all centres the Chinese civil government, who are offering no resistance, and are forcing unwilling Chinese individuals to organise puppet independent governments in all the main areas. They openly refuse to recognise Chinese national and civil authority in Manchuria.

"The Japanese have seized the reserves and deposits of the larger Chinese banks, the records of corporations, and large quantities of both military and industrial supplies. They are feverishly extending their telegraph and power plants and cutting out the Chinese service. They have seized the Chinese short-wave and other radio plants and the Chinese telegraphs and telephone systems; they are now opening mail in the Chinese post offices, including private letters of Europeans. The Japanese are censoring all Press despatches; we have proved instances, including those of neutral pressmen, where the censor has changed the meaning to the exact opposite of that intended.

"The Japanese moved four heavily loaded trains of soldiers from Mukden on the night of October 13th to the west, seized the Peking-Mukden Railway, and now control that line in Manchuria. All other Chinese railways in Manchuria have also been seized by the Japanese. The local police in all the major towns have been re-organised to be under the control of the Japanese Army. On October 14th, they seized the Chinese mining administration, throwing 15,000 men out of employment. While the negotiations in Geneva have been in progress, the Japanese Army has been steadily pushing the seizure and commandeering of Chinese property, including the private residences of high Chinese officials and of civil organisations."

The October 22nd Resolution.

At the October, or second phase, of the League Council's handling of this dispute, the position of both Parties was made perfectly clear when the Members of the Council other than the Parties presented the draft resolution of October 22nd, 1931, which was accepted by the Chinese delegate and rejected by Japan. The text of the October 22nd resolution was as follows:

"The Council, in pursuance of the resolution passed on September 30th, and noting that, in addition to the invocation by the Government of China of Article 11 of the Covenant, Article 2 of the Pact of Paris has also been invoked by a number of Governments:

"(1) Recalls the undertakings given to the Council by the Governments of China and Japan in that resolution, and in particular the statement of the Japanese representative that the Japanese Government would continue as rapidly as possible the withdrawal of its troops into the railway zone in proportion as the safety of the lives and property of Japanese nationals is effectively assured, and the statement of the Chinese representative that his Government will assume the responsibility for the safety of the lives and property of Japanese nationals outside that zone—a pledge which implies the effective protection of Japanese subjects residing in Manchuria;

"(2) Recalls, further, that both Governments have given the assurance that they would refrain from any measures which might aggravate the existing situation, and are therefore bound not to resort to any aggressive policy or action and to take measures to suppress hostile agitation;

"(3) Recalls the Japanese statement that Japan has no territorial designs in Manchuria, and notes that this statement is in accordance with the terms of the Covenant of the League of Nations and of the Nine-Power Treaty, the signatories of which are pledged 'to respect the sovereignty, the independence, and the territorial and administrative integrity of China';

"(4) Being convinced that the fulfilment of these assurances and undertakings is essential for the restoration of normal relations between the two Parties;

"(a) Calls upon the Japanese Government to begin immediately and to proceed progressively with the withdrawal of its troops into the railway zone, so that the total withdrawal may be effected before the date fixed for the next meeting of the Council;

“(b) Calls upon the Chinese Government, in execution of its general pledge to assume the responsibility for the safety and lives of all Japanese subjects resident in Manchuria, to make such arrangements for taking over the territory thus evacuated as will ensure the safety of the lives and property of Japanese subjects there, and requests the Chinese Government to associate with the Chinese authorities designated for the above purpose representatives of other Powers, in order that such representatives may follow the execution of the arrangements;

“(5) Recommends that the Chinese and Japanese Governments should immediately appoint representatives to arrange the details of the execution of all points relating to the evacuation and the taking over of the evacuated territory, so that they may proceed smoothly and without delay;

“(6) Recommends the Chinese and Japanese Governments, as soon as the evacuation is completed, to begin direct negotiations on questions outstanding between them, and in particular those arising out of recent incidents as well as those relating to existing difficulties due to the railway situation in Manchuria. For this purpose, the Council suggests that the two Parties should set up a conciliation committee or some such permanent machinery;

“(7) Decides to adjourn till November 16th, at which date it will again examine the situation, but authorises its President to convoke a meeting at any earlier date should it in his opinion be desirable.”

China's Position.

Dr. Sze, the Chinese delegate, in informing the Council on October 23rd that the Chinese Government was prepared to accept the resolution, did so in a statement from which the following extracts may be quoted:

“In the view of the Chinese Government, the heart of the proposal is contained in the provision that the Council should meet again on November 16th, that it calls upon the Japanese Government to begin its withdrawal immediately, to proceed progressively with that withdrawal, and to complete it before the above date, and requests the Chinese Government to associate with the Chinese authorities designated to make arrangements for taking over the territory thus evacuated and ensuring the safety of the lives and property of Japanese subjects there representatives of other Powers, in order that such representatives may follow the execution of these arrangements.

“The Chinese Government accepts this proposal and declares its readiness to carry out to the full all the obligations it lays upon China. Not only does my Government accept, it is willing to go further and to do everything possible to dissipate the apprehensions of the Japanese representative with regard to the safety of Japanese lives and property in the areas re-occupied by the Chinese authorities. I believe these apprehensions to be entirely unfounded. In the view of the Chinese Government, the insecurity and disorder that have arisen within the area occupied by the Japanese troops have their origin precisely in the Japanese occupation, will grow the longer the occupation continues, and will disappear with its termination. But I wish to state that I owe it to courtesy to declare that I am convinced the Japanese Government's anxiety is genuine, and I would ask my Japanese colleague in return to believe that the Chinese Government is sincerely desirous to remove any possible apprehensions on this score.

“So strong is this desire, indeed, that, not only do I accept the proposal in the resolution to invite neutral officers, but I am prepared to go further and to assure the Japanese representative and other Members of the Council that the Chinese Government is willing to examine in the most conciliatory spirit here and now any proposals for extending the system of neutral officers or, with the help of the League, devising any other arrangements on the spot to guarantee the safety of Japanese lives and property in the re-occupied territory, in order to dispel any apprehensions the Japanese Government may entertain as to the danger to its subjects that might result from compliance with the Council's resolution.

“The terms ‘evacuation’ and ‘taking over of evacuated territory’ in the resolution I understand to include all Japanese forces of a military or quasi-military character, such as gendarmerie, police and aeroplanes of all kinds, the restoration to Chinese possession of all property, real and personal, public and private, which has been seized by the Japanese since the night of September 18th, and the release from all forms of restraint of Chinese authorities and citizens, and banking or other commercial or industrial establishments. In short, that, so far as possible, the *status quo ante* shall be re-established.

“Now I come to one more point, which the Chinese Government regards as crucial. Paragraph 6 of the resolution before us makes it clear that withdrawal is the only subject before the Council at present and that, until withdrawal has been completed, no other issue arises. But I should like to make it quite plain that, in the view of the Chinese Government,

the only immediate issue arising out of the present situation besides withdrawal is the question of responsibility and assessing damages for the events that have occurred since September 18th. The Chinese Government is willing—nay, anxious, and has been from the beginning—to submit to any form of neutral third-party judgment on this issue, in accordance with the League principles and precedents and in conformity with elementary justice.

“ Any attempt to make the military invasion of Manchuria the occasion for pressing for the solution of other claims would be contrary to the spirit of the Covenant and a violation of Article 2 of the Pact of Paris. China will not discuss any subject with any Power under the pressure of military occupation of her territory, nor, what amounts to the same thing, under the pressure of accomplished facts resulting from the use of force during such occupation. This point is vital and goes to the root of the whole controversy before the Council; it is, indeed, the basic principle on which the Covenant and the Pact of Paris are founded. It is because, in the view of the Chinese Government, this point is vital and fundamental that I have stressed it, and it is for the same reason I add that the Chinese Government is assured that, in adopting this attitude, it has, as a matter of course, the full and unqualified moral support of every Member of the League and signatory of the Pact of Paris.

“ It further goes without saying that any discussions between China and any other Power on any subject must take place on the basis of China's rights and obligations under the Covenant and Pact of Paris, and must respect the principles laid down at the Washington Conference of 1922 with regard to the relations between China and other Powers.

“ In this connection, I wish to say very clearly and deliberately that, once this unhappy incident is settled and normal relations restored between China and Japan, the Japanese Government will find us not only willing, but also anxious, to discuss every issue between the two countries in the most friendly spirit. China has but one desire—to live at peace with all countries and particularly so with her neighbours, and hopes that the very magnitude of the shock to the relations of the two countries that has brought them before the League will result in the stubborn resolve on both sides to put these relations on a new and better footing and to lay the foundation for permanent peace in the Far East. It is in this spirit that the Chinese Government welcomes the Council's proposal of a permanent conciliation commission, or similar body, and it is in this spirit, too, that I wish to assure the Council that the Chinese Government, for its part, will not only scrupulously observe all its obligations under international law and practice to promote good relations with Japan, but will do everything in its power to turn the thoughts of its people to peace and amity, forgetfulness of the bitter past, and hope for a better future.” (*Official Journal*, December 1931, pages 2345 and 2346).

Japan's Position.

The Japanese representative, with curious logic, again complained that the presence of Chinese forces on their own territory in proximity to the invading army of Japan constituted a menace, and absolutely declined any arrangement fixing a date for evacuation. “ That does not mean to say, in any way,” he went on, “ that it is not the Japanese Government's firm intention to bring them back, nor does it mean that it has any desire to leave them where they are in order to secure from China further concessions or special privileges of whatsoever kind there is no question of our attempt to wrest concessions or privileges from China.” He proceeded with the statement that his Government had carefully thought out a number of fundamental points upon which normal relations between China and Japan should be based; but he still failed to disclose what these points were (*Official Journal*, December 1931, pages 2347 and 2348). The Japanese representative concluded by suggesting counter-proposals, which in substance invited the Council to take the position that the withdrawal of Japanese forces should not take place until there had been a previous agreement between China and Japan on the mysterious fundamental principles.

The Council's View.

The Council pressed the Japanese representative to state the nature of the principles to which it was asked to subscribe, and he maintained his demand that the Council should sanction them in ignorance of their character. In the course of the discussion, the President, M. Briand, said:

“ There is one point with regard to which I should like to ask our Japanese colleague for further explanation, for I think it is the crucial point.

“ There are two ways in which the two Governments can engage in conversations; these conversations—or negotiations, if you like to call them negotiations—may bear upon two very different subjects or groups of subjects.

“ The first group relates to the statements made by the Parties and repeated to-day, regarding the conditions of security which must first be established in order to enable the

Japanese Government to withdraw its troops in satisfactory circumstances—for example, with the certainty that the Japanese nationals and their property in an evacuated area will not be subject to reprisals after the troops have left. In regard to this kind of discussion, the representative of Japan is entirely at one with the Chinese representative.

“ On this point, I therefore believe agreement should be easy, because it concerns police measures, administrative measures, possibly military measures; these are questions which can rapidly be settled.

“ The second group includes questions on which, for a long time past, the two countries have been unable to agree. If, before evacuation, matters which have not been settled for months and even for years must be discussed between the two Governments, obviously the time-limit contemplated by the Council is far too short to enable results to be achieved. On this point there is complete disagreement between the two Parties. The Chinese view is that negotiations of this nature must be postponed to a date when military pressure no longer exists. They are rejected as a condition of evacuation.

“ That is the problem, and I think that agreement depends on the solution of that problem.

“ When reference is made to ‘ fundamental principles ’ in Point 4 of the Japanese text, is there any idea of bringing under this term any of the questions which are to form the subject of the fundamental negotiations, as constituting an element of security? If so, the whole problem, with all its difficulties, is again before us.” (*Official Journal*, December 1931, page 2349.)

The next day, October 24th, the Council once more pressed the Japanese delegate to state whether fundamental principles meant only what the President defined as security—if so, there seemed no good reason why the Japanese representative should not accept the Council resolution; or if, in addition to executive and administrative details of evacuation, he meant discussion of some political questions. “ If so ”, said Lord Cecil, speaking for the British Government, “ I beg him, with all the strength at my command, to say so quite plainly and clearly in order that we may know exactly where we are ”. “ Did Japan desire ”, further asked Lord Cecil, “ to enter into a discussion of treaty obligations with China concerning Manchuria before evacuation? If this was so, let him state the fact plainly. . . .

“ The League could, at any moment, obviously express the view that all treaties ought to be carried out; but that is not the question before us. The treaties hold; but to discuss up to what point they bind the contracting parties would seem to me to be definitely reversing the order of things. Evacuation must take place first. Discussion of the treaties may follow. It is an important matter, but is not one which directly affects the safety of the nationals of Japan, and therefore is not one which ought to be discussed before the Japanese troops retire from the territory which they occupy.” (*Official Journal*, December 1931, page 2354.)

The Spanish delegate, M. de Madariaga, pointed out that the Council had a twofold duty: namely, not only to settle the conflict between the two Powers, but to maintain intact the League of Nations, on which the peace of the world depended. The League of Nations was based on respect for the territorial integrity and political independence of its Members. The idea of security was at the very centre of the life of the League:

“ As representative of a European State, of a State which has to watch over the possibility of disputes, I see a danger in allowing anyone to claim the right to remain on the spot when that party has invaded a territory in which it has no right to be, by stating that there is no security, particularly as in certain respects at least the party is partially responsible for the state of insecurity.

“ That is a first point to which I wish, very respectfully, but very firmly to draw the attention of my Japanese colleague.

“ There is a second point which seems to me still more dangerous and which obliges me to support very strongly the attitude adopted here by the British representative. Do the famous fundamental points really derive from security and nothing but security, from evacuation and nothing but evacuation? If there is anything else, what we really have is a linking up of concepts, a line of reasoning which would allow the conceptions of security to be extended *ad infinitum*.” (*Official Journal*, December 1931, pages 2352 and 2353.)

The President then stated:

“ The Council has two texts before it—the draft resolution prepared and adopted by all the Members of the Council except the two parties to the case, and the counter-proposal submitted by the representative of Japan, which we have already discussed at great length.

“ The fundamental point on which the two texts differ is the measures proposed with a view to ensuring the safety of property and persons, as has been promised by China to enable Japan to withdraw her troops.

“ I must say—and I am sure the representative of Japan will agree with me—that the Council’s text at any rate possesses the merit of being absolutely clear. No part of it has been discussed on the grounds that it might be interpreted in several ways. . . .

“ The text adopted by the Council is based on a desire to ensure respect for treaty obligations, on the undertakings already entered into by the Parties, and, in particular, on the statement by the Japanese representative accepted in the resolution of September 30th—that is to say, before the dispute had become heated, and when therefore matters could be viewed more calmly. This is the declaration made at the time by the Japanese representative:

“ ‘ The Japanese Government will continue, as rapidly as possible, the withdrawal of its troops, which has already been begun, into the railway zone in proportion as the safety of the lives and property of Japanese nationals is effectively assured, and it hopes to carry out this intention in full as speedily as may be. ’

“ This declaration refers, in the matter of safety, to steps which cannot fail to be taken rapidly; otherwise, the Japanese Government would not at that date have commenced evacuation and have promised to complete that evacuation at an early date. When negotiations have to be conducted between Governments regarding the interpretation of treaties and railway questions, it is impossible to be sure that a conclusion will be reached in a short space of time. The Japanese representative, with his long diplomatic experience, knows how difficult it is, when a political case arises between two Governments, to reach a conclusion; how slow the negotiations are, and what patience is required to achieve a result. The Japanese Government therefore intended to refer to precautions for assuring safety, decided upon jointly and with the least possible delay in order to allow rapid evacuation.

Article 10 of the Covenant and Article 2 of the Paris Pact.

“ Article 10 of the Covenant does not call for any commentary. It says that all Members of the League must undertake to respect the territorial integrity of the other Members and refrain from any act which might prejudice the political independence of others.

“ Article 2 of the Paris Pact, which has been invoked here, is also very clear:

“ ‘ The High Contracting Parties agree that the settlement or solution of all disputes or conflicts of whatever nature or of whatever origin they may be which may arise among them shall never be sought except by pacific means. ’

“ This is a dispute which has been laid before the Council. There can be no question of dealing with it by other than pacific means. Japan, who always so scrupulously honours her obligations, could not dream of adopting other means.

“ I do not wish to dwell unduly on this point; but public opinion would not readily admit that a military occupation under these circumstances could be regarded as coming under the heading of pacific means. To prolong this situation would be to perpetuate a state of anxiety which has already lasted too long. . . .

“ It seemed to me that the Japanese Government intended to begin negotiations concerning the substance of certain delicate problems which have long existed. That intention caused me uneasiness. But our colleague has told us: ‘ That is not the case. We quite admit that negotiations should be begun with regard to these great problems after the evacuation ’. I wish to endorse the observation of the Spanish representative that, as clear evidence of the good-will of both countries, these negotiations should be begun on the very day on which evacuation is completed. But the Japanese representative states that the terms of his counter-proposal do not refer to questions of a general nature but only to security. Nevertheless, on this point there has been a hesitancy which it has been impossible to overcome in spite of the good-will displayed on every side this morning. The mere fact that such hesitancy exists shows that it would be better to have a clearer text.

“ What is the essential point? The representative of Japan states: ‘ We are prepared to go; but we do not want our nationals to be the victims of reprisals immediately we have left. We wish to be sure that they will be protected. ’ The Chinese Government recognises that this desire is a natural one and states that it is ready to enter into immediate negotiations in order to regulate the conditions of evacuation and provide the guarantees of safety which Japan desires.

“ That can be done very rapidly. There are precedents. Troops are about to leave a territory which they have administered, in which they have organised municipal service, police and various administrative departments. These various bodies have to be replaced. But that can be settled after a few hours’, or at most a few days’, discussion.”

In spite, however, of these eloquent and cogent appeals and arguments, the Japanese delegate maintained his insistence on preliminary agreement on unnamed fundamental principles between the Chinese and Japanese Governments, to be reached in direct negotiations, as a condition precedent to evacuation. The text of these principles has never been disclosed to this day, although an indication of their general character has been given by the Japanese Government. It was made clear in the course of the discussions at the time of the November-December Council meeting that the Japanese Government regarded these fundamental principles as merely a summary, each with its own chapter of demands, to be disclosed to the Chinese Government when direct negotiations

had begun and to be accepted by the Chinese Government in the form of a treaty or treaties before Japanese evacuation began.

China and Japan's Positions on Arbitration and Respect for Treaty Rights.

In the course of the Council's deliberations, Lord Cecil pointed out:

"The Covenant sets out as one of the main purposes of the League the 'maintenance of justice and a scrupulous respect for all treaty obligations in the dealings of organised peoples with one another'. . . . Of course, it is quite possible that there may be a dispute between the Parties to treaties as to the validity of a treaty or as to the interpretation of a treaty. Fortunately, any such dispute as that can now be settled authoritatively by an appeal to the Permanent Court of International Justice at The Hague, over which, as it happens, a Japanese national at the moment presides. It is certain that any such question would be discussed with absolute fairness and impartiality at The Hague." (*Official Journal*, December 1931, page 2354.)

Immediately after the Council adjourned, the Chinese 'delegate addressed the following communication to the President:

"With reference to the observations on treaty obligations made in the Council this morning by the honourable delegate for Great Britain, with which I am in hearty agreement, I am authorised by my Government to make the following declaration:

"China, like every Member of the League of Nations, is bound by the Covenant to 'a scrupulous respect for all treaty obligations'. The Chinese Government for its part is determined loyally to fulfil all its obligations under the Covenant. It is prepared to give proofs of this intention by undertaking to settle all disputes with Japan as to treaty interpretation by arbitration or judicial settlement, as provided in Article 13 of the Covenant.

"In pursuance of this purpose, the Chinese Government is willing to conclude with Japan a treaty of arbitration similar to that recently concluded with the United States, or to those concluded of recent years in increasing numbers between Members of the League."

When the Chinese representative stated, in the Council meeting of January 29th, 1932, that Japan had violated her obligation under Article 12 of the Covenant, which binds Members of the League to submit disputes to arbitration, judicial settlement or enquiry by the Council, and not to resort to war, the Japanese representative replied:

"The Chinese delegate has stated that Japan has never submitted this conflict to arbitration or to pacific settlement, as is required in accordance with Article 12. That is perfectly true; but it is a well-known fact that Japan is not prepared to accept arbitration with every country irrespectively."

This is a formal admission by the representative of the Japanese Government that his country is violating Article 12 of the Covenant.

The issue was therefore left perfectly clear by the October meeting of the Council and revealed a widening gap between Japan's policy on the one hand and her treaty obligations under the Covenant, the Paris Pact and the Nine-Power Treaty on the other. It also gave the Chinese Government heartening proof that its attitude in refusing direct negotiations under the pressure of military occupation as being incompatible with these treaties was endorsed by the Governments Members of the Council, notably the French Government, represented by its Foreign Minister, M. Briand, who was the President, and by the British Government, represented by Lord Cecil.

China's Position on the Issue of Direct Negotiations.

As this issue, in the view of the Chinese Government, is fundamental and there is unfortunately no reason to believe that Japan has abandoned her intention of dictating a settlement under military pressure, it is desirable to explain China's position a little more fully, with special reference to the analogy that is often drawn between the Japanese position in Kiaochow after the World War and the present situation in Manchuria. At the time of the Washington Conference, the Chinese and Japanese Governments (with Mr. Hughes for the United States of America, and Sir Arthur, afterwards Lord, Balfour for the British Empire, acting as neutral "referees") negotiated an agreement covering the terms on which the latter should evacuate the former German leased territory of Kiaochow in Shantung. The negotiations lasted months and involved a number of political and economic issues.

The False Analogy of Shantung.

But there is a fundamental difference between Japan's position in Kiaochow in 1922 and Japan's position in Manchuria to-day. Whereas Japanese occupation of Kiaochow during the World War might have been justified as an act against Germany, and as such was given political sanction by the Versailles Peace Treaty, the invasion of Manchuria occurred in peace-time and, so far from obtaining any international recognition, is a direct violation of the Covenant, the Peace Pact and the Nine-Power Treaty. The Chinese Government was compelled to bargain with Japan as to the terms on which she would surrender her position in Shantung, but considers that to negotiate with Japan on the basis of the latter's military occupation of Manchuria would be, not only condoning Japanese violation of these treaties, but would also actually amount to a violation of her treaty obligations by China. This view has been flatly endorsed by the United States of America in its Note of January 8th, 1932, to the Chinese and Japanese Governments,¹ and by the President of the Council in the declaration made on January 25th in the name of all the Members of the Council except the Parties.² The Note and the declaration make it clear that any settlement arrived at by means incompatible with the Peace Pact—and the President of the Council on October 23rd last, has pointed out in said declaration that military occupation is not a pacific means of settlement in the sense of Article 2 of the Peace Pact—or any settlement which by its nature is incompatible with the Covenant (particularly Article 10) or the Nine-Power Treaty (particularly Article 1) will not be recognised by the United States of America or endorsed by the League of Nations.

Japan's Disclaimer of Intent to use Armed Pressure and Insistence on the Fundamental Principles.

Soon after the October meeting, the Japanese Government, in a note dated October 26th (document C.764.1931), informed the Council that, "as has been repeatedly emphasised by the Japanese Government, the whole Manchurian affair was occasioned solely by the violent and provocative attack launched by the Chinese army on the railway zone. Certain small contingents of Japanese soldiers still remaining at a few points outside that zone are insistently demanded by the danger to which the large population of Japanese in that region are exposed in life and property. The presence of such a limited number of troops is quite incapable of being represented as a means of dictating to China Japan's terms for the settlement of present difficulties. Nothing is farther from the thoughts of Japan than to bring armed pressure to bear upon China in the course of these negotiations". It then complained of anti-Japanese feeling, which was said to be displayed by text-books used in various schools in China and to be deeply seated in the Chinese mind, and of the agitation against Japan's rights and interests which was said to be going on in China. The risks and dangers to Japanese subjects caused by this situation were so great, the Japanese Government informed the Council, that it could not withdraw its troops without provision being first made to remove national antipathies and suspicion between the two countries, for which reason they should come to an agreement on basic principles which related to the following five matters:

- (1) Mutual repudiation of aggressive policy and conduct;
- (2) Respect for China's territorial integrity;
- (3) Complete suppression of all organised movements interfering with freedom of trade and stirring up international hatred;
- (4) Effective protection throughout Manchuria of all peaceful pursuits undertaken by Japanese subjects;
- (5) Respect for treaty rights of Japan in Manchuria.

In its comments (document C.783.1931) on this note, the Chinese Government expressed its satisfaction at "the emphatic denial of the Japanese Government that it has any intention to bring armed pressure to bear in its negotiations with China. But the Chinese Government feels constrained to point out that, if this be the view of the Japanese Government, the only way to give effect to it is to cease to demand, as a condition precedent to the evacuation of its troops, that China should come to an agreement with Japan on basic principles which are to govern the whole of the future relations of the two countries."

The President of the Council's Views.

On October 29th, the President of the Council sent a reply (document C.776.1931) to the Japanese note, from which the following passages may be quoted:

"Independently of the vote taken at the last Council meeting, which retains its full moral force, we still have before us, from the juridical standpoint, a valid resolution—namely, that which was unanimously adopted on September 30th and which retains its full executory force.

¹ *Vide infra*, page 23.

² *Vide infra*, page 24.

“ In that resolution, the Council noted the statement made by the Japanese representative that the Japanese Government ‘ will continue as rapidly as possible with the withdrawal of its troops, which has already been begun, into the railway zone in proportion as the safety of the lives and property of Japanese nationals is effectively assured and that it hopes to carry out this intention in full as speedily as may be ’. No indication whatever was given at that time by the Japanese representative that matters such as an agreement as to the treaty rights of Japan in Manchuria were in any way connected with the safety of the lives and property of Japanese nationals.

“ It is further to be noted that, in the two draft resolutions submitted to the Council on October 24th, the first three paragraphs are exactly the same, Your Excellency having withdrawn the amendment to paragraph 3 which you had submitted. It may therefore be assumed that these paragraphs express the will of the two Parties. In its declaration of October 26th, the Japanese Government further stated that, when it referred to certain fundamental principles, it had in mind the following:

“ (1) Mutual repudiation of aggressive policy and conduct—Paragraph 2 of the two drafts submitted on October 24th states that ‘ the two Governments are bound not to resort to any aggressive policy or action ’.

“ (2) Respect for China’s territorial integrity. Paragraph 3 of the two drafts records an undertaking to that effect.

“ (3) Complete suppression of all organised movements interfering with freedom of trade and stirring up international hatred. Paragraph 2 of the two drafts declares that the two Governments ‘ are bound to take measures to suppress hostile agitation ’;

“ (4) Effective protection throughout Manchuria in order to allow Japanese nationals to engage there in any peaceful pursuits. Paragraph 1 of both drafts declares that the Chinese Government is pledged to the effective protection of Japanese subjects residing in Manchuria.

“ The fact that, on the one hand, the Chinese representative accepted the terms of the resolution which I proposed on behalf of my colleagues and that, on the other hand, the counter-draft of the Japanese representative contained the three paragraphs to which I have referred, shows that the two Governments are in complete agreement on these four points.

“ There remains only the last point: ‘ Respect for treaty rights of Japan in Manchuria ’.

“ With regard to this point, I would call Your Excellency’s attention to the letter addressed to me by the Chinese representative on October 24th, in which Dr. Sze declares that ‘ China, like every Member of the League of Nations, is bound by the Covenant to a “ scrupulous respect for all treaty obligations ”. The Chinese Government for its part is determined loyally to fulfil *all* its obligations under the Covenant. It is prepared to give proofs of this intention by undertaking to settle all disputes with Japan as to treaty interpretation by arbitration or judicial settlement, as provided in Article 13 of the Covenant ’.

“ It therefore appears to me, and I feel sure that my colleagues on the Council, including, I trust, Your Excellency, will agree that the Chinese Government has given to the Council of the League, on which Japan has a permanent representative, pledges which cover the various fundamental principles raised by the Japanese Government.

“ In these circumstances, I feel confident that the Japanese Government, being desirous of fulfilling the undertaking which is solemnly contracted under the terms of the resolution of September 30th and which, moreover, it repeatedly confirmed by its declarations during the last session of the Council, at the meetings of October 22nd, 23rd and 24th, will continue as rapidly as possible with the withdrawal of its troops into the railway zone and that it will thus be able to carry out that intention to the full in the shortest possible time.”

Japan’s Reply.

The Japanese reply to the President’s note declared that the phrases used in the Council resolution (and incidentally, as the President had pointed out, in the Japanese counter-proposals) were not sufficiently explicit and comprehensive to cover all implications of the Japanese points, and reaffirmed the Japanese Government’s unalterable insistence upon reaching a settlement on the basis of the fundamental principles in direct negotiations as a condition precedent to evacuation (document C.814.1931).

Extension of Japanese Occupation.

Meanwhile, the Japanese army was steadily extending and consolidating its illegal occupation. The driving-out and slaughter of the lawful Chinese authorities was followed by the setting-up of puppet authorities under Japanese control; Japanese advisers and controllers were established in banks, commercial enterprises, municipal administrations and public and private institutions of every kind; the salt revenues were seized by Japanese soldiers and made over to these puppet authorities; Chinese-owned coal-mines were occupied and the land registers and title deeds found in the archives of the provincial capitals were falsified or destroyed on a large scale so as to make over the land to Japanese subjects.

In a note (document C.789.1931) dated November 3rd, the Chinese delegation expressed its concern at these developments in the following terms:

“ The Chinese Government is gravely concerned over the developments in Manchuria since the adjournment of the Council. The attached memorandum, which contains a summary of these developments, shows that, although ten days have elapsed since the adjournment of the Council on October 24th and more than a month since the adjournment of September 30th, not only has there been not the slightest preparation for withdrawal, but, on the contrary, the Japanese Army is steadily extending and consolidating its grip on South Manchuria and is making attempts to penetrate into North Manchuria that are causing anxiety in Moscow.

“ It may be remembered that, in the resolution of September 30th, which was accepted by and is binding upon Japan, it was stated that the Japanese Government ‘ will continue as rapidly as possible the withdrawal of its troops, which has already been begun, into the railway zone in proportion as the safety of the lives and property of Japanese nationals is effectively assured ’. The declaration, made over a month ago, that withdrawal had already been begun is unfortunately not substantiated by the facts. Not only has withdrawal not been begun, but the Japanese Government now refuses to honour the promise it made before the Council and declares that it will not begin withdrawal until it has negotiated an agreement with China on certain ‘ fundamental principles ’. This new policy was set forth in the Japanese Government’s note to the Chinese Government on October 9th, and again before the Council on October 23rd and 24th. This position was reiterated a few days ago, when the Japanese Government refused to appoint representatives to discuss with the representatives of the Chinese Government the details and methods of withdrawal as proposed in the resolution submitted by the Council on October 22nd. The measures proposed in this resolution, which retains its full moral force, are merely indications of how to carry out the policy to which both parties were pledged by the resolution of September 30th. It is this which makes the Japanese Government’s change of attitude and insistence upon an agreement upon ‘ fundamental principles ’, by means of direct negotiations, as a preliminary to withdrawal, so profoundly disquieting.

“ This attitude of Japan, as was pointed out in the Council on October 23rd and 24th, is in violation of Article 10 of the Covenant and Article 2 of the Pact of Paris. The Chinese Government must reiterate its firm determination never, in any circumstances, to agree to negotiations under the pressure of military occupation and confidently looks to the Members of the League and the United States of America not to suffer the Covenant, the Pact of Paris and the Washington Nine-Power Treaty to be trampled underfoot. ”

The November-December Council Meeting.

The opening of the November Council meeting practically coincided with the taking of Tsitsihar, the capital of Heilungkiang, the northernmost of the North-Eastern Provinces. This city is to the north of the Chinese Eastern Railway and hundreds of miles from the nearest point on the South Manchurian line, and the Japanese Government had given pledges in Washington, London and Paris not to take Tsitsihar.

The December 10th Resolution and the Committee of Enquiry.

The outcome of the November-December meeting of the Council was the December 10th resolution, which reads as follows:

“ The Council:

“ 1. Reaffirms the resolution passed unanimously by it on September 30th, 1931, by which the two Parties declare that they are solemnly bound. It therefore calls upon the Chinese and Japanese Governments to take all steps necessary to assure its execution, so that the withdrawal of the Japanese troops within the railway zone may be effected as speedily as possible under the conditions set forth in the said resolution.

“ 2. Considering that events have assumed an even more serious aspect since the Council meeting of October 24th, notes that the two Parties undertake to adopt all measures necessary to avoid any further aggravation of the situation and to refrain from any initiative which may lead to further fighting and loss of life.

“ 3. Invites the two Parties to continue to keep the Council informed as to the development of the situation.

“ 4. Invites the other Members of the Council to furnish the Council with any information received from their representatives on the spot.

“ 5. Without prejudice to the carrying out of the above-mentioned measures,

“ Desiring, in view of the special circumstances of the case, to contribute towards a final and fundamental solution by the two Governments of the question at issue between them:

“ Decides to appoint a Commission of five members to study on the spot and to report to the Council on any circumstance which, affecting international relations, threatens to disturb peace between China and Japan, or the good understanding between them upon which peace depends.

“ The Governments of China and of Japan will each have the right to nominate one assessor to assist the Commission.

“ The two Governments will afford the Commission all facilities to obtain on the spot whatever information it may require.

“ It is understood that, should the two Parties initiate any negotiations, these would not fall within the scope of the terms of reference of the Commission, nor would it be within the competence of the Commission to interfere with the military arrangements of either Party.

“ The appointment and deliberations of the Commission shall not prejudice in any way the undertaking given by the Japanese Government in the resolution of September 30th as regards withdrawal of the Japanese troops within the railway zone.

“ 6. Between now and its next ordinary session, which will be held on January 25th, 1932, the Council, which remains seized of the matter, invites its President to follow the question and to summon it afresh if necessary.”

The President, M. Briand, read an explanatory statement on the resolution in the following terms:

“ It will be observed that the resolution which is before you provides for action on two separate lines: (1) to put an end to the immediate threat to peace; (2) to facilitate the final solution of existing causes of dispute between the two countries.

“ The Council was glad to find during its present sittings that an enquiry into the circumstances which tend to disturb the relations between China and Japan, in itself desirable, would be acceptable to the Parties. The Council therefore welcomed the proposal to establish a Commission which was brought before it on November 21st. The final paragraph of the resolution provides for the appointment and functioning of such a Commission.

“ I shall now make certain comments on the resolution, paragraph by paragraph:

“ *Paragraph 1.* — This paragraph reaffirms the resolution unanimously adopted by the Council on September 30th, laying particular stress on the withdrawal of the Japanese troops within the railway zone on the conditions described therein as speedily as possible.

“ The Council attaches the utmost importance to this resolution, and is persuaded that the two Governments will set themselves to the complete fulfilment of the engagements which they assumed on September 30th.

“ *Paragraph 2.* — It is an unfortunate fact that, since the last meeting of the Council, events have occurred which have seriously aggravated the situation and have given rise to legitimate apprehension. It is indispensable and urgent to abstain from any initiative which may lead to further fighting, and from all other action likely to aggravate the situation.

“ *Paragraph 4.* — Under Paragraph 4, the members of the Council other than the Parties are requested to continue to furnish the Council with information received from their representatives on the spot.

“ Such information having proved of high value in the past, the Powers which have the possibility of sending such representatives to various localities have agreed to do all that is possible to continue and improve the present system.

“ For this purpose, these Powers will keep in touch with the two Parties, so that the latter may, should they so desire, indicate to them the localities to which they would desire the despatch of such representatives.

“ *Paragraph 5.* — Provides for the institution of a Commission of Enquiry. Subject to its purely advisory character, the terms of reference of the Commission are wide. In principle, no question which it feels called upon to study will be excluded provided that the question relates to any circumstances which, affecting international relations, threaten to disturb peace between China and Japan, or the good understanding between them upon which peace depends. Each of the two Governments will have the right to request the Commission to consider any question the examination of which it particularly desires. The Commission will have full discretion to determine the questions upon which it will report to the Council and will have power to make interim reports when desirable.

“ If the undertakings given by the two Parties according to the resolution of September 30th have not been carried out by the time of the arrival of the Commission, the Commission should as speedily as possible report to the Council on the situation.

“ It is specially provided that ‘ should the two Parties initiate any negotiations, these would not fall within the scope of the terms of reference of the Commission, nor would it be within the competence of the Commission to interfere with the military arrangements

of either Party'. This latter provision does not limit in any way its faculty of investigation. It is also clear that the Commission will enjoy full liberty of movement in order to obtain the information it may require for its reports." (Page 71 of the December number of "The League and Manchuria".)

The Japanese representative, on behalf of his Government, accepted the resolution with this single observation of substance:

"With regard to paragraph 2 of the draft resolution, I am happy to accept it on behalf of the Japanese Government, on the understanding that this paragraph is not intended to preclude the Japanese forces from taking such action as may be rendered necessary to provide directly for the protection of the lives and property of Japanese subjects against the activities of bandits and lawless elements rampant in various parts of Manchuria. Such action is admittedly an exceptional measure called for by the special situation prevailing in Manchuria, and its necessity will naturally be obviated when normal conditions shall have been restored in that region."

The Chinese delegate said he accepted the resolution with the following observations and reservations in point of principle:

"I. China must and does fully reserve any and all rights, remedies and juridical positions to which she is or may be entitled under and by virtue of all the provisions of the Covenant, under all the existing treaties to which China is a party, and under the accepted principles of international law and practice.

"II. The present arrangement evidenced by the resolution and the statement made by the President of the Council is regarded by China as a practical measure embodying four essential and interdependent elements:

"(a) Immediate cessation of hostilities;

"(b) Liquidation of the Japanese occupation of Manchuria within the shortest possible period of time;

"(c) Neutral observation and reporting upon all developments from now on;

"(d) A comprehensive enquiry into the entire Manchurian situation on the spot by a Commission appointed by the Council.

"The said arrangement being in effect and in spirit predicated upon these fundamental factors, its integrity would be manifestly destroyed by the failure of any one of them to materialise and be effectively realised as contemplated.

"III. China understands and expects that the Commission provided for in the resolution will make it its first duty to enquire into and report with its recommendations on the withdrawal of the Japanese forces if such withdrawal has not been completed when the Commission arrives on the spot.

"IV. China assumes that the said arrangement neither directly nor by implication affects the question of reparations and damages to China and her nationals growing out of the recent events in Manchuria, and makes specific reservation in that respect.

"V. In accepting the resolution laid before us, China appreciates the efforts of the Council to prevent further fighting and bloodshed by enjoining both China and Japan to avoid any initiative which may lead to further fighting or any other action likely to aggravate the situation. It must be clearly pointed out that this injunction should not be violated under the pretext of the existence of lawlessness caused by a state of affairs which it is the very purpose of the resolution to do away with. It is to be observed that much of the lawlessness now prevalent in Manchuria is due to the interruption of normal life caused by the invasion of the Japanese forces. The only sure way of restoring the normal peaceful life is to hasten the withdrawal of the Japanese troops and allow the Chinese authorities to assume the responsibility for the maintenance of peace and order. China cannot tolerate the invasion and occupation of her territory by the troops of any foreign country; far less can she permit these troops to usurp the police functions of the Chinese authorities.

"VI. China notes with satisfaction the purpose to continue and improve the present system of neutral observation and reporting through representatives of other Powers, and China will from time to time, as occasion requires, indicate the localities to which it seems desirable to despatch such representatives.

"VII. It should be understood that, in agreeing to this resolution, which provides for the withdrawal of the Japanese forces to the railway zone, China in no way recedes from the position she has always taken with respect to the maintenance of military forces in the said railway zone.

"VIII. China would regard any attempt by Japan to bring about complications of a political character affecting China's territorial or administrative integrity (such as promoting

so-called independence movements or utilising disorderly elements for such purposes) as an obvious violation of the undertaking to avoid any further aggravation of the situation.”¹

In adopting this resolution, M. Matos, the delegate of Guatemala, made the following observation:

“ It is obvious, according to existing treaties, that it is inadmissible that disputes arising between States, whatever their nature or origin, should be settled by other than pacific means. Nor is it admissible that the respect for and execution of treaties between countries can depend upon the will of one of the Parties. Such methods would be completely destructive of the international order, and hence of the maintenance of peace . . .

“ I should like to say, however, that it would have been impossible for me to vote for the resolution if it had not embodied the principle proclaimed by M. Briand at the end of our October meeting. This principle is that the military occupation of the territory of a Member of the League cannot be used by another Member of the League to impose direct negotiations on questions that are pending. It is because this great principle has been safeguarded that I cannot oppose the resolution which has been adopted.”

The following reservation made by M. Gonzalez-Prada, the Peruvian delegate, should also be noted:

“ Nothing in the text to which I have given my approval in order not to raise any obstacle to the pacific settlement of a dispute must be interpreted as affecting certain principles without which the existence and the rights of weak countries would not have that security which makes force unnecessary, this being the main purpose pursued by the Covenant of the League.

“ Some of these principles are as follows:

“ 1. No State has the right to effect a military occupation of the territory of another in order to ensure the execution of certain treaties;

“ 2. No State is entitled to oblige another—having invaded its territory—to enter upon direct negotiations on the bearing and legal value of treaties previously existing between the two States;

||| “ 3. The exercise of the right possessed by each State to ensure the protection of the lives and property of its nationals must be limited by respect for the sovereignty of the other State; no State being entitled, in order to provide such protection, to authorise its military forces to penetrate into the territory of the other for the purpose of carrying out police operations.

“ 4. The fact that a State has certain rights, claims, economic concessions, etc., in regard to another State does not entitle the former to effect the military occupation of the territory or to seize the property of the debtor State. Any recovery of debts by compulsion is illicit, in accordance with the principles adopted by the Second Peace Conference (The Hague, 1907).

“ Even if the measures which have been accepted by the two Parties concerned, and which we have adopted exceptionally in the special case of Manchuria, may be justifiable for the immediate purpose of averting war, they must in no case be interpreted as implying a renunciation of the principles of international law which have reference to the defence of the rights and interests of weak countries and which constitute the main safeguard of their independence.”

The Taking of Chinchow.

At the conclusion of the December Council meeting, the Japanese Government gave separate assurances to the Governments of the United States of America, Great Britain and France that the city of Chinchow, which was the last remaining foothold of the lawful Chinese Government in the North-Eastern Provinces, would not be attacked. In his note of December 27th, 1931, to the Japanese Minister of Foreign Affairs, the American Secretary of State said:

“ Your Excellency will remember that, on November 24th, in response to my representations through Ambassador Forbes, you assured me, with the concurrence of the Minister of War and the Chief of Staff that there would be no movement of Japanese troops in the direction of Chinchow and informed me that orders to that effect had been given to the Japanese troops.”

This pledge was in addition to the undertakings given to the Council and embodied in the resolutions of September 30th and December 10th, 1931, to refrain from doing anything to aggravate the situation. The observers in Chinchow of the various Members of the Council reported

¹ *Official Journal*, December 1931, pages 2376 and 2377.

frequently that all was quiet in this sector and that there were no signs of any Chinese troop concentration or activity, nor of any intention to take hostile action. There were practically no Japanese subjects in and around Chinchow, and the neutral observers reported public order fully maintained in the city and its vicinity. Nevertheless, the Japanese army, in spite of the Government's pledges, brushed aside the testimony of the neutral observers on the allegation that they were ignorant or misinformed, and occupied Chinchow with, as usual, the heavy bombing from aeroplanes of the various towns and junctions in its path, entailing much loss of civilian life and destruction of property.

On January 8th, 1932, the United States Government addressed the following note to the Governments of both Japan and China:

“ With the recent military operations about Chinchow, the last remaining administrative authority of the Government of the Chinese Republic in South Manchuria, as it existed prior to September 18th, 1931, has been destroyed. The American Government continues confident that the work of the Neutral Commission recently authorised by the Council of the League of Nations will facilitate an ultimate solution of the difficulties now existing between China and Japan. But, in view of the present situation and of its own rights and obligations therein, the American Government deems it to be its duty to notify both the Imperial Japanese Government and the Government of the Chinese Republic that it cannot admit the legality of any situation *de facto*, nor does it intend to recognise any treaty or agreement entered into between those Governments or agents thereof of which may impair treaty rights of the United States or its citizens in China, including those which relate to the sovereignty, the independence, or the territorial and administrative integrity of the Republic of China or the international policy relative to China commonly known as ‘ The Open-Door Policy ’, and that it does not intend to recognise any situation, treaty or agreement which may be brought about by means contrary to the covenants and obligations of the Pact of Paris of August 27th, 1928, to which treaty both China and Japan as well as the United States are parties. ”

China immediately replied as follows:

“ It is amply evident that the American Government takes the most serious view of the lawless acts of the Japanese military forces in the three Eastern Provinces and that it upholds also the dignity of the international covenants and of the Pact against War. The Chinese Government, from the time that the present events in the North-East began on September 18th, 1931, and up to the present day, has in every respect fulfilled its duties as prescribed in the Pact against War, and the Chinese Government therefore has taken no steps of any nature whatever calculated to aggravate the situation, but has, in accordance with the procedures set forth in the existing international covenants, asked that signatory Powers direct their special attention to these events. The Japanese military forces, on the contrary, following the adoption of the resolution of the League of Nations on September 30th, 1931, and the meeting of the Council on October 24th, 1931, have still continuously extended the field of their invasion, and, even after the passing of the League's resolution on December 10th, 1931, have openly invaded and seized Chinchow, the seat of the Chinese local government. More recently, Japan has occupied Suichung and advanced to Shanhaikwan, and has increased the numbers of the Japanese vessels and troops at Chinwangtao, Tientsin and other places. In addition to this, there are indications of the intention to attack Jehol.

“ Those violations of the Covenant of the League of Nations, the Nine-Power Treaty and the Pact against War, and this disregard of the repeated decisions of the League, are facts which it has not been possible to conceal. The Japanese Government therefore must bear full responsibility for all the events involved.

“ With reference to the notification of Your Excellency's Government that in this matter it does not recognise as legal any situation *de facto*, I have the honour to state that the Chinese Government has repeatedly lodged with the Japanese Government gravest protests against the various invasions and lawless acts perpetrated by the Japanese troops since September 18th, 1931, and has made it known internationally that the Chinese Government accords them no recognition whatever.

“ With regard to the treaties or agreements referred to in the note under reply, I have the honour to state that the Chinese Government, basing its position on its sovereignty and independence and on the principle of territorial and administrative integrity, has absolutely no intention of concluding any treaties or agreements of the categories described.

“ It is the sincere hope of the Chinese Government that Your Excellency's Government will continue to promote the effectiveness of the international covenants in order that their dignity may be conserved. ”

The Council, in its turn, supported the Chinese and American point of view in the declaration read by the President on January 29th, 1932, in the name of all the Governments Members of

the Council except the Parties. In the course of this declaration the President said:

“ In that note, the United States Government called the attention of the two Parties to the treaties which are binding upon them. For our part, we felt bound to assert in the statement that we had prepared that a settlement of the difficulties between the two Governments, Members of the League of Nations, could not be sought in arrangements inconsistent with their international obligations, more especially those arising out of Article 10 of the Covenant, by which they had undertaken to respect the territorial integrity and political independence of all Members of the League, and we concluded the statement which had been prepared in these words: ‘ It would be impossible for the League to endorse a settlement secured by means contrary to the obligations above referred to.’ ”

The Chinese Government understands this declaration to mean that the Members of the Council consider it would be a violation of the obligations of Members of the League under Article 20, paragraph 1, of the Covenant¹ to recognise any treaty or agreement which violates Article 10 or Article 1 of the Nine-Power Treaty, by impairing China’s sovereignty, independence, or territorial or administrative integrity, or which has been concluded by means incompatible with the Paris Pact.

Japan’s reply to the American Government, dated January 16th, 1932, is, both in tone and in substance, almost unique in diplomatic annals. It reads as follows:

“ I have the honour to acknowledge receipt of Your Excellency’s note dated January 8th, which has had the most careful attention of this Government.

“ The Government of Japan was well aware that the Government of the United States could always be relied on to do everything in their power to support Japan’s efforts to secure the full and complete fulfilment in every detail of the treaties of Washington and the Kellogg Treaty for the outlawry of war. They are glad to receive this additional assurance of the fact.

“ As regards the question which your Excellency specifically mentions of the policy of the so-called ‘ Open Door ’, the Japanese Government, as has so often been stated, regard that policy as a cardinal feature of the politics of the Far East, and only regrets that its effectiveness is so seriously diminished by the unsettled conditions which prevail throughout China. In so far as they can secure it, the policy of the ‘ Open Door ’ will always be maintained in Manchuria, as in China proper.

“ They take note of the statement by the Government of the United States that the latter cannot admit the legality of matters which might impair the treaty rights of the United States or its citizens or which might be brought about by means contrary to the Treaty of August 27th, 1928. It might be the subject of an academic doubt whether in a given case the impropriety of means necessarily and always avoids the ends secured, but, as Japan has no intention of adopting improper means, that question does not practically arise.

“ It may be added that the treaties which relate to China must necessarily be applied with due regard to the state of affairs from time to time prevailing in that country, and that the present unsettled and distracted state of China is not what was in the contemplation of the high contracting parties at the time of the Treaty of Washington. It was certainly not satisfactory then; but it did not display that disunion and those antagonisms which it does to-day. This cannot affect the binding character of the stipulations of treaties; but it may in material respects modify their application, since they must necessarily be applied with reference to the state of facts as they exist.

“ My Government desires further to point out that any replacement which has occurred in the personnel of the administration of Manchuria has been the necessary act of the local population. Even in cases of hostile occupation—which this was not—it is customary for the local officials to remain in the exercise of their functions. In the present case, they for the most part fled or resigned; it was their own behaviour which was calculated to destroy the working of the apparatus of government. The Japanese Government cannot think that the Chinese people, unlike all others, are destitute of the power of self-determination and of organising themselves in order to secure civilised conditions when deserted by the existing officials.

“ While it need not be repeated that Japan entertains in Manchuria no territorial aims or ambitions, yet, as your Excellency knows, the welfare and safety of Manchuria and its accessibility for general trade are matters of the deepest interest and of quite extraordinary importance to the Japanese people. That the American Government is always alive to the exigencies of Far-Eastern questions has already been made evident on more than one occasion. At the present juncture, when the very existence of our national policy is involved, it is agreeable to be assured that the American Government is devoting in a friendly spirit such sedulous care to the correct appreciation of the situation.”

¹ “ The Members of the League severally agree that this Covenant is accepted as abrogating all obligations or understandings *inter se* which are inconsistent with the terms thereof, and solemnly undertake that they will not hereafter enter into any engagements inconsistent with the terms thereof. ”

The Attack on Shanghai and the Bombardment of Nanking.

During the January Council meeting and on the eve of the Disarmament Conference, the Japanese Army and Navy attacked the Chinese city of Shanghai amid circumstances of barbarity and horror too well remembered by the Members of the Council to need recapitulation. This further wanton act of aggression reinforced the idea of the Chinese Government that it was necessary, in addition to Article 11 of the Covenant, under which the Council remains seized, to invoke Articles 10 and 15. This was done by the Chinese representative, Dr. W. W. Yen, on January 29th in the following terms:

“ Under instructions from my Government, I have the honour hereby to give notice as follows:

“ 1. A dispute between two Members of the League of Nations—to wit, China and Japan—arising from the aggression of the latter against the territorial and administrative integrity and political independence of the former in violation of the provisions of the Covenant of the League of Nations, exists.

“ 2. This dispute has not been submitted to arbitration or to judicial settlement in accordance with any of the Articles of the Covenant.

“ 3. The said dispute has now reached a state when it is likely to lead to an immediate rupture between China and Japan.

“ 4. China hereby invokes the application (not in derogation of the measures taken, or which may be taken by the League in the exercise of its functions under Article 11, but in addition thereto) both of Article 10 and of Article 15 of the Covenant to said dispute and formally submits the said matter to the Council for all appropriate and necessary action under both of said Articles.

“ 5. For this purpose, China begs leave to refer to, and hereby adopts as and for the statement of its case comprising the relevant facts and papers in relation to said matter, all the statements and papers heretofore made and submitted by China in the proceedings of the Council taken in said controversy under Article 11 of the Covenant from September 18th, 1931, to the date hereof.”

At the meeting of the Council held in the afternoon of January 29th, Dr. W. W. Yen, the Chinese representative, said:

“ My Government is sincerely appreciative of the efforts which the Council of the League of Nations, while proceeding since September 18th last under Article 11 of the Covenant, has made to bring about a satisfactory adjustment of the pending controversy between China and Japan. It is with profound disappointment and regret that China is obliged to recognise that these efforts have thus far proved ineffectual. As the victim of persistent external aggression in one of its most violent forms, China can no longer refrain from seeking remedies under other provisions than those of Article 11. The territorial and administrative integrity of the Republic of China has been destroyed, and its political independence gravely threatened, by external aggression. The fact is not and cannot be challenged. The Covenant is explicit and emphatic on the subject. A specific solemn obligation has been imposed and accepted by us all to respect and *preserve* against external aggression (and even the threat or danger of it) the territorial integrity and political independence of every Member of the League. I beg to quote Article 10:

“ ‘ The Members of the League undertake to respect and preserve as against external aggression the territorial integrity and existing political independence of all Members of the League. In case of any such aggression, or in case of any threat or danger of such aggression, the Council shall advise upon the means by which this obligation shall be fulfilled.’ ”

“ China respectfully submits that the obligation specified in the first sentence of Article 10 has become operative beyond any question, and that it remains only for the Council now to ‘ advise upon the means by which this obligation shall be fulfilled’. As to the means to be employed, the choice is plainly one for the Council to make. It goes without saying that they must be adequate and effective, otherwise the obligation will not be fulfilled.

“ Japan’s disregard of her engagements under the Covenant is flagrant. The use of armed force without submitting the entire matter to arbitration or judicial settlement and without awaiting the outcome of enquiry by the Council is in direct violation, not only of the spirit, but also of the letter of the Covenant.

“ The time has now come when the Chinese Government must, in justice to her cause, take affirmative steps to strengthen the hands of the League by placing the League in possession of this controversy, not only under Article 11, but also under other Articles of the Covenant where her rights and remedies as a Member of the League of Nations are more specifically defined. It was therefore my duty, acting under instructions from my Government, to present this morning the notice which has just been read by the Secretary-General.”

The Council immediately appointed a Committee of Enquiry, composed of the representatives at Shanghai of some of its members, to report on the circumstances and nature of the Japanese

attack. Two reports have to date been submitted. The first was preliminary and dealt only with the events at Shanghai from January 18th to January 28th. It substantially corroborated the information which had been furnished by the Chinese representative. The second report, which arrived on February 14th, states, among other things:

“ Since February 3rd a state of open war exists, any pretence of a truce being abandoned. Firing continues intermittently, both in the Chapei and Woosung area, with the use of artillery and, on the side of the Japanese, by aerial bombardment. The offensive is entirely in the hands of the Japanese, whose declared object is to capture the Woosung forts and drive all Chinese troops a considerable distance from Shanghai. ”

The report further refers to “ numerous excesses committed by the Japanese marines and reservists, probably actuated by a spirit of revenge. A reign of terror resulted. ”

Meanwhile, as the British representative reported to the Council on February 2nd, 1932, the British and American Governments, with which the French, Italian and German Governments associated themselves, presented to both Japan and China a formal request:

“ (1) That all acts of violence and preparations for hostilities shall be brought to an end;

“ (2) That in the Shanghai area both sides shall withdraw their troops and that, as further protection to the International Settlement, a neutral zone shall be arranged;

“ (3) That negotiations shall then be immediately begun to settle outstanding differences in the spirit of the Pact of Paris and the Council resolution of December 9th last. ”

China forthwith accepted these proposals *in toto*. Japan rejected them in all their essential features.

On February 12th, 1932, China exercised her right under paragraph 9 of Article 15 of the Covenant of the League of Nations to request that the dispute be referred to the Assembly. The request was as follows:

“ With regard to the Sino-Japanese dispute, of which the Council has been seized under Articles 10, 11 and 15 of the Covenant of the League of Nations, I have the honour to observe that, according to Article 15, paragraph 9, of the said Covenant, it is within the competence of the Council to refer the case to the Assembly. At the same time, it is also provided that the dispute shall be so referred at the request of either party to the dispute, provided that such request be made within fourteen days after the submission of the dispute to the Council.

“ In view of the time limit imposed, the Chinese Government is constrained hereby to request that the said dispute be referred to the Assembly. If, however, it should be the pleasure and intention of the Council to refer the said dispute at its own initiative to the Assembly or in virtue of the general powers vested in it to summon the Assembly for consideration of the dispute, the Chinese Government will then be prepared to withdraw the request on its part.”

On February 16th, 1932, the following urgent appeal was addressed to the Government of Japan by the President of the Council in the name of all his colleagues with the exception of the representatives of the Parties to the dispute:

“ The President of the Council, on behalf of his colleagues, pointed out on January 29th in an appeal to both Parties, ‘ good relations between States could only be secured by co-operation and mutual respect, and that no permanent solution could be achieved by force, whether military or merely economic, and that the longer the present situation continued the wider the breach between the two peoples would become and the more difficult the solution would be, with all the disasters that would mean, not only to the two nations directly involved, but to the world in general ’.

“ The Members of the Council other than the Chinese and Japanese representatives feel constrained to-day to make a pressing appeal to the Government of Japan to recognise the very special responsibilities for forbearance and restraint which devolves upon it in the present conflict, in virtue of the position of Japan as a Member of the League of Nations and a permanent Member of its Council.

“ The situation which has developed in the Far East during the past months will be fully studied by the Commission appointed with the consent of both Parties. But, since the Commission was set up, there have occurred and are still occurring events at and in the region of Shanghai which have intensified public anxiety, which endanger the lives and interests of the nationals of numerous countries, add to the unexampled difficulties with which the world is faced during the present crisis, and threaten to throw new and serious obstacles in the path of the Disarmament Conference.

“ The twelve Members of the Council are far from disregarding the grievances advanced by Japan and throughout all these months have given her the full confidence which they owed to an associate of long standing who had ever been punctilious in the fulfilment of all her obligations and duties as a member of the community of nations. They cannot but regret, however, that she has not found it possible to make full use of the methods of peaceful

settlement provided in the Covenant and recall once again the solemn undertaking of the Pact of Paris that the solution of international disputes shall never be sought by other than peaceful means. They cannot but recognise that, from the beginning of the conflict which is taking place on her territory, China has put her case in the hands of the League and agreed to accept its proposals for a peaceful settlement.

“ The twelve Members of the Council recall the terms of Article 10 of the Covenant, by which all the Members of the League have undertaken to respect and preserve the territorial integrity and existing political independence of all other Members. It is their friendly right to direct attention to this provision, particularly as it appears to them to follow that no infringement of the territorial integrity and no change in the political independence of any Member of the League brought about in disregard of this Article ought to be recognised as valid and effectual by the Members of the League of Nations.

“ Japan has an incalculable responsibility before the public opinion of the world to be just and restrained in her relations with China. She has already acknowledged this responsibility in most solemn terms by becoming one of the signatories to the Nine-Power Treaty of 1922, whereby the contracting Powers expressly agreed to respect the sovereignty, the independence and the territorial and administrative integrity of China. The twelve Members of the Council appeal to Japan's high sense of honour to recognise the obligations of her special position and of the confidence which the nations have placed in her as a partner in the organisation and maintenance of peace.”

Japan answered this earnest appeal on the part of the twelve Members of the Council with an ultimatum to the Chinese authorities at Shanghai, which was delivered on the very next day at 9.0 p.m. (February 18th), demanding that the Chinese cease hostilities and completely evacuate their first lines by 7.0 a.m. February 20th and the whole area by 5.0 p.m. on the same day to a depth of 20 kilometres beyond the boundaries of the International Settlement. The ultimatum also demanded the permanent dismantling of all fortifications and military works in the evacuated area, including the Woosung Forts, and the cessation of all anti-Japanese manifestations and activities. Failing to comply with these demands, the Japanese commander would take necessary action.

At the request of Dr. W. W. Yen, the Chinese representative, the Council met on the eve of the pending battle (February 19th), to consider the Japanese ultimatum. In opening this extraordinary session, the Chinese representative said:

“ We are on the eve of a great battle, wherein some hundred thousand men, equipped with all the modern weapons of war, and on the side of Japan aided by some forty ships of war, will participate; and why? Because it is the will and pleasure of the Japanese military that our troops who are on their own national territory should withdraw, while the Japanese soldiers are to remain in their position of offensive and provocation. The situation is simply intolerable.

“ I have the honour, therefore, to request that the Council will, in virtue of the powers with which it is invested by the Covenant, consider immediately and put into execution conservatory measures, to the end that the bloodshed which will begin to-morrow through the outrageous demand of the Japanese military, and for which they will be entirely responsible, may be stopped.”

Mr. Sato, the Japanese delegate, as was his wont, rehearsed once again for his country the pleas of self-defence and of the maintenance of peace and order. The Japanese delegate charged that China was in a state of utter disorder and anarchy, and therefore thought that “ the League of Nations could not in the present circumstances apply the Covenant to us rigorously as it would naturally be applied under normal conditions”. He then complained that, in the League of Nations, his country failed to find an effective safeguard of her rights and was therefore compelled to adopt measures similar to those adopted in years past by other countries. Manchuria also took up much of the Japanese representative's time, who gave public approval, contrary to the declared policy of his Government, to the independence movement or what he called the “ Manchuria for the Manchus ” movement, which he said had been supported by Japan.¹

In reply to these remarks and charges of the Japanese delegate, the Chinese representative said in part as follows:

“ While I admit there is a certain amount of disorder, it must be remembered that China is as large as Europe and has a population of four hundred million people. . . that China was an absolute monarchy and was suddenly transformed into a republic. In the process of readjustment, there must be a certain amount of unrest and commotion; but to describe China as being in a state of chaos and of anarchy is a libel of the clearest kind.

“ The Japanese delegate speaks of a well-organised State. I am wondering whether a State like Japan, with the army and navy running amok and out of the control of the Government, is an organised State. When her diplomats come to the Council table and give promises one after another, apparently in sincerity and good faith, and when these same promises are violated the very next day, does that represent a well-organised Government? The Japanese gave solemn promises to the Governments of two or three great Powers not to

¹ Appendix VIII.

go to Chinchow, but in a few days they were there. Does that represent a well-organised Government? Our people have been massacred in Japan itself during the earthquake, and over a hundred innocent Chinese merchants were killed in Korea only in the past year or so in pogroms: Does that represent a well-organised Government?

“ To my mind, however, the Japanese delegate is somewhat contradictory in what he has said. On the one hand, he says China has no organised Government, that there is chaos and anarchy, and, on the other hand, Japan insists on negotiating with that very same Government. If it is a disorganised Government, why should Japan insist on direct negotiations with it? Why not have the matter settled in the League of Nations? That certainly is very difficult for me to understand.

“ I may say at once that, if there has been disorder and civil war in China, a large part of the blame must be put on the shoulders of Japan, because she has subsidised and helped one party against the other from year to year Why is this? It is because Japan does not want to see China united and strong

“ It is to me amusing to hear the Japanese delegate complain that he gets no protection from the League. What kind of protection does he want? I should imagine that, so far from protection, Japan is deserving of some severe punishment. After the setting up of a puppet government in Manchuria, after all the bombardment that has gone on, Japan comes now to the League of Nations and asks for protection. I think that such a request is nothing short of absurdity.

“ Japan has invaded China this time and done it in contradiction to the great virtues which we have always praised. There is, first, benevolence. China was suffering from enormous floods and some forty millions of people were rendered starving and destitute. . . . and yet Japan has taken the opportunity of attacking and invading us in direct contradiction to our conception of the idea of benevolence. Japan is famed for her knightlihood, bravery and courage, and yet she is fighting this moment against China in an undeclared war and refusing to shoulder its responsibilities. Is that bravery? Is that courage?

“ Lastly, Japan, I think, has not acted wisely. I was a friend of Japan, but I must say that, in the present instance, by using force and by using aggression, she is only antagonising our people, who formerly were really keen on becoming friends with Japan. Is that wise? Because I can assure you that no settlement this time with Japan through the use of force and menaces and threats will ever be a permanent settlement, and, if it is not going to be a permanent settlement, it is the height of folly for Japan to act in the way she has done. . . .

“ To speak of Manchuria as the land of the Manchus is absolutely absurd. Manchuria was Chinese a thousand years ago, and with the coming of the Manchus into China the relations between the two parts have become very close and intimate. As you know, China is a Republic composed of five races, so the Manchus are one of the five races of China. But to-day the majority of the Manchus are no longer in Manchuria; they followed their emperors to China and are now scattered all over China. So to-day Manchuria is absolutely and purely Chinese. Manchuria is politically, historically and ethnically Chinese. The attempt of the Japanese delegate to make you believe that Manchuria is Manchu and non-Chinese is not a thing at all to be believed

“ The Japanese delegate said, and he has said it repeatedly, that Japan has no intention to annex Manchuria. I am very much gratified to hear that; but, if my memory does not fail me, I think some years ago I heard the same thing about Korea. Japan was never to annex Korea, and yet to-day, if I am not mistaken, Korea is an integral part of the Japanese Empire. So that these assertions of the Japanese delegate are not always to be taken at their face value

“ We are on the eve of a great battle What is the Council going to do to attempt to put a stop to the bloodshed which is going to begin in about a few hours' time— 7 o'clock to-morrow morning, Shanghai time? That, it seems to me, is the urgent matter which is before us, and I wish sincerely to hear from the Council what its decision is. ”

In view of the impending catastrophe, the Council, other than the Parties to the dispute, made a last-minute appeal to the Japanese Government in the following touching words of M. Boncour, the President:

“ The Japanese delegate said as soon as the operations which are now in preparation have ensured that his nationals shall be safeguarded, then there will be no question of remaining on the ground that will by then perhaps be the field on which a battle has been won. I would urge the Japanese delegate to consider if there is not a terrible contradiction between his territorial disinterestedness and the possibility that the ground which they are going to evacuate as soon as they have attained their object will be the ground that has been strewn with the dead resulting from a great battle. The Japanese delegate has himself indicated rapidly but surely the means by which this may be prevented. He said that afterwards it would be easy to set up a neutral zone and to entrust to neutral authorities the guaranteeing of Japanese rights and the protection of Japanese rights. I would urge most strongly that it is not afterwards that that should be done; surely now is the time when such action should be taken If the delegate of Japan could extend the ultimatum, could prevent

its expiring in a few hours, what an example he would give, what a service he would perform to the League of Nations. I urge this most sincerely with all my deepest conviction."

This appeal again fell on deaf ears. In the words of the Third Report of the Shanghai Committee:

"During the night, February 19th—February 20th, Japanese reinforcements were moved from their base in the International Settlement to the Japanese lines, and, after preliminary reconnaissance which satisfied the Japanese that the Chinese had not evacuated their lines in conformity with the demand, the Japanese opened attack February 20th at 7.30 a.m. in the Kiangwan and Woosung areas. Hostilities continued whole day."

The Council, at its meeting on February 19th, in compliance with China's request of February 12th, also adopted a resolution transferring the consideration of the Sino-Japanese dispute to the Assembly. The text of the resolution reads as follows:

"The Council,

"(1) Considering the request submitted by the representative of China, under the provisions of paragraph 9 of Article 15 of the Covenant, to the effect that the Sino-Japanese dispute should be referred to the Assembly:

"Decides that the said dispute is referred to the Assembly in accordance with Article 15, paragraph 9, of the Covenant.

"2. Considering that delegations from almost every Member of the League are now present in Geneva in order to take part in the Conference for the Limitation and Reduction of Armaments, thereby enabling the Assembly to meet at short notice:

"Decides that a meeting of the Assembly shall be held on March 3rd.

"3. Notes that the measures which have already been instituted in order to obtain information necessary for the consideration of the dispute will be continued.

"4. Requests the Parties to the dispute to use all diligence in communicating to the Secretary-General for the use of the Assembly the statements of their case with all the relevant facts and papers as provided for in Article 15, paragraph 2.

"5. The duty of the Council to continue its work for the maintenance of peace in accordance with the Covenant remains unaffected by the present decision."

IV. — THE REASONS ADVANCED BY JAPAN IN EXCUSE OF HER POLICY.

The preceding recital of events since September 18th rests upon the official records in the proceedings of the Council. The fundamental facts cannot be seriously controverted. Japan's plea, reduced to its lowest terms, is one of confession and avoidance. Unless the obligations assumed by Japan under the Covenant, the Pact of Paris and the Nine-Power Treaty are to be regarded as purely illusory and meaningless, there has been an admitted flagrant violation of the provisions of all three of these multilateral treaties. None of them contains any language which can conceivably be interpreted to permit resort to invasion or armed force on any pretext whatever in order to settle an international dispute. On the contrary, both the letter and the spirit of these instruments call imperatively for the employment of pacific means exclusively in every case without the slightest qualification or exception; no provocation or excuse is recognised. To concede that intervention by armed force can be resorted to *on any ground, however plausible*, is to admit that the treaties can, in specific cases, be set aside by unilateral action, and thus to undermine and destroy the entire peace structure which they support.

Assuming, however, that the plea of confession and avoidance can be listened to at all, let us examine briefly the various excuses which Japan has offered:

(a) The initial pretext was that, on the evening of September 18th, some rails were removed from the South Manchurian line just south of Mukden. China has denied this assertion flatly. Even if the incident occurred, its triviality and inadequacy as a justification for invasion and occupation of 200,000 square miles of Chinese territory is too apparent to require further comment.

(b) Having once embarked upon this enterprise and plunged all of Manchuria into chaos, Japan invoked the plea of self-defence, which is still put forward, strangely enough, to justify the attack upon Shanghai and the bombardment of the capital of China. Nowhere in the Japanese case is cynical disregard for the plain facts more patent than in this shameless and futile attempt to reverse the roles. The invocation of self-defence in behalf of an invading army suddenly launched upon China's territory in a time of profound peace is an affront to intelligence.

The Council has authoritatively stated that the right of self-defence must be interpreted in relation to the obligations under the Covenant. It is clearly not a plea open to the Covenant-breaker.

The British Foreign Minister, Sir Austen (then Mr.) Chamberlain, in his capacity of rapporteur on the Greco-Bulgarian dispute, which began with a local combat between sentries and developed into the penetration into one party's territory of troops of the other, spoke as follows before the Council at its extraordinary session in October 1925:

" I call particular attention to the obligations of Articles 10 and 12 of the Covenant. Such incidents as that which has caused our present meeting have sometimes had very serious consequences in the past, when there was no machinery such as that offered by the League for their peaceful adjustment and for securing justice to both parties; but it would be an intolerable thing—I go so far as to say that it would be an affront to civilisation—if, with all the machinery of the League at their disposal and with the good offices of the Council immediately available, as this meeting shows, such incidents should now lead to warlike operations instead of being submitted at once for peaceful and amicable adjustment by the countries concerned to the Council, which will always have regard to their honour and to the safety and security of their nations."

The President, who at that time, as during the greater part of the Sino-Japanese conflict, was M. Briand, the French Foreign Minister, said:

" He had understood the representative of Greece to indicate that all these incidents would not have arisen if his country had not been called upon to take rapid steps for its legitimate defence and protection. It was essential that such ideas should not take root in the minds of nations which were Members of the League and become a kind of jurisprudence, for it would be extremely dangerous. Under the pretext of legitimate defence, disputes might arise which, though limited in extent, were extremely unfortunate owing to the damage they entailed. These disputes, once they had broken out, might assume such proportions that the Government which started them under a feeling of legitimate defence would be no longer able to control them.

" The League of Nations, though its Council, and through all the methods of conciliation which were at its disposal, offered the nations a means of avoiding such deplorable events. The nations had only to appeal to the Council. It had been shown that the criticisms which had been brought against the League of Nations, to the effect that its machinery was cumbersome and that it found it difficult to take action in circumstances which required an urgent solution, were unjustified. It had been proved that a nation which appealed to the League when it felt that its existence was threatened could be sure that the Council would be at its post ready to undertake its work of conciliation."

These sentiments were endorsed by several Members of the Council. The following passage may be quoted:

" Mr. Austen Chamberlain said that the declaration which the President had made as to the role which the League of Nations could play in cases such as that which had brought about the present meeting, and as to the restraint which nations concerned in unfortunate incidents of this character might be expected to exercise in view of the fact that the Council could be immediately convened and could use its good offices to reconcile disputants, was of such consequence for the position of the League of Nations and for the guidance of nations in future that he would like, on behalf of his Government, to express his complete concurrence in all the President had said and to thank him for having so completely defined the duties of nations and the duties of the League of Nations.

" Viscount Ishii (Japan) said that he entirely agreed with the statement made by the representative of the British Empire endorsing the declaration made by the President."

(c) Japan further alleges the need to protect the lives and property of her subjects. But even the Japanese do not seriously pretend that there was any danger to the lives and property of their nationals before September 18th. It therefore follows that, if the danger they now profess to fear be real, it has been created by their own violence and injustice and so will disappear with its cause. The Chinese Government has from the outset emphasised this fact, pointed to the efficient protection of the lives and property of Japanese nationals in the territory controlled by China, stated that it assumed full responsibility for protecting life and property and restoring and maintaining public order in the areas taken over from the Japanese troops, agreed to accept the suggestion for neutral participation made by the Council in October last, and to go further and co-operate with the Council in devising any measures on the spot with the assistance of the League that would satisfy the Council or its agents of the efficacy of such protection.

(d) A further pretext alleged is the need for suppressing bandits. Here, too, the danger of which the Japanese now complain has, in so far as it is real, been created by their own action. Just as gangs of criminals exist even in the great cities of the most highly civilised countries, it is not surprising to find that, among the agricultural population and nomads of frontier provinces like Manchuria, there are lawless elements who band themselves together and take to the mountains.

But before September 18th, 1931, there were only about 2,000 such bandits throughout the vast area of Manchuria split up into small bands whose area of operations and numbers were known to the Chinese Government and which were incapable of seriously disturbing public order. The present conditions are due to the military occupation itself, which has destroyed every vestige of Chinese administrative authority.

The pretext of banditry should be treated with reserve, as it was part of the propaganda circulated at the end of December last by the Japanese Government to discredit the testimony of the neutral observers in South-West Manchuria and to afford an excuse for the taking of Chinchow in violation of the Japanese Government's pledges. In addition, the Chinese Government has reason to state¹ that the Japanese Army authorities in Manchuria have been arming and encouraging brigands on a large scale, first with the object of creating trouble for the local authorities, and, secondly, in order to furnish a pretext for extending and consolidating the military occupation. So long as the Japanese occupation lasts, so long will every patriotic Chinese in and out of Manchuria deem it his sacred duty to combat the occupation and its puppets by every means in his power.

(e) The Japanese contend that they stand for law and order in Manchuria. It has just been shown that, from a practical and realistic point of view, Japanese attempts to maintain order in Chinese territory are doomed in the nature of the case to produce increasingly acute and disastrous disorder. Commenting on the exactly similar position when the Japanese Army occupied Eastern Siberia and alleged that it did so in self-defence to protect the lives and property of Japanese subjects and to maintain order, the United States Government, in a note dated May 31st, 1931, pointed out that:

“ In its view, continued occupation of the strategic centres in Eastern Siberia and the establishment of a civil administration which inevitably lends itself to misconception and antagonism tend rather to increase than to allay the unrest and disorder in that region. ”

From a moral and legal point of view, Japanese pretensions in the name of law and order have been condemned in advance by no less an authority than the Japanese Foreign Minister, Baron Shidehara, in his address to the Japanese Diet on January 1st, 1926, already quoted.²

To all this may be added the observation that a Government which, like the Japanese, is apparently unable to control its own Army and Navy, with results that have astounded the world, would appear estopped to plead law and order as an excuse.

(f) An even more paradoxical plea advanced by Japan is that she is acting in defence of treaty rights. The extremely controversial nature of many of Japan's alleged treaty rights in Manchuria and the dubious methods by which the Japanese Government seeks to interpret and apply these rights have already been indicated in the first section of this statement. All that need be said about Japan's claim to exercise unlimited violence in repudiation of her undoubted treaty obligations under the Covenant, the Paris Pact and the Nine-Power Treaty in order to enforce her own view of her disputed treaty rights in Manchuria is that, if the claim be admitted, treaties would for all practical purposes cease to exist and lawless force would become the arbiter of international relations.

(g) Still another attempt at justification made by the Japanese Government is that its acts are necessitated by the Chinese people's boycott of Japanese goods and the alleged anti-Japanese agitation.

On this matter the Council may be referred to the statement made before it by the Chinese delegate on October 23rd, 1931:

“ Once this unhappy incident is settled and normal relations restored between China and Japan, the Japanese Government will find us not only willing, but also anxious to discuss every issue between the two countries in the most friendly spirit. . . . The Chinese Government for its part will not only scrupulously observe all its obligations under international law and practice to promote good relations with Japan, but will do everything in its power to turn the thoughts of its people to peace and amity, forgetfulness of the bitter past and hope for a better future. ”

As regards specifically the question of the boycott, the Chinese Government, in a reply (document C.708.1931) to the Japanese memorandum of October 6th, circulated to the Council on October 13th, stated:

“ Freedom to choose one's purchases is an individual right with which no Government interferes, and, while it is the duty of every Government to protect foreign nationals, it is

¹ Cf. documents C.679, C.789, C.868, 1931.

² *Vide supra*, page 5.

bound neither by any recognised standard of governance nor by any principle of international law to prohibit or punish exercise of an elementary right of citizenship. If there be responsibility at all in the matter, it entirely lies with Japan, since the Wanpaoshan incident created this general prejudice against Japanese merchandise."

The boycott is nothing but a natural reaction of the people of China to the acts of aggression of the Japanese Government and its Army and Navy. No Government—no power on earth—can compel the Chinese people to buy Japanese goods so long as Japanese troops are on Chinese soil.

* * *

This brief examination of Japan's pleas shows, not only that each explanation is individually unsound, but also that their very multiplicity and mutual inconsistency render their sincerity suspect. Japan stands condemned as a violator of her solemn treaty obligations; and there is here no question of a merely juristic or technical violation. The appalling moral and material loss which has already been inflicted and the grave threat to general peace are altogether too real to be ignored on any technical considerations.

V. — CONCLUSION.

China comes to the League of Nations as the acknowledged trustee of international order and justice with a case which is classic in its simplicity. She has kept the Covenant; she has offered, and still offers, in the most sweeping terms, to adopt and carry out any programme that may be formulated and applied for the peaceful adjustment of her differences with Japan; she has placed herself unreservedly in the League's hands. China cannot believe that she has committed a blunder in relying upon a Covenant which was brought into existence at the cost of 10,000,000 dead and 30,000,000 wounded, and is now backed by 55 nations.

China asks only to work out her destiny in peace—in the words of the Nine-Power Treaty, "the fullest and most unembarrassed opportunity to develop and maintain for herself an effective and stable government". Is there anything unreasonable in this? And yet one of the signatories of the Covenant, and of the Pact of Paris, and of the Nine-Power Treaty, is to-day ravaging her territory, destroying her territorial and administrative integrity and her political independence, and threatening her very existence as a member of the family of nations. The Shanghai effort is but a continuation of the aggression which started in Manchuria on September 18th, 1931.

The issue presented is unmistakable and urgent. The Right Honourable Mr. Arthur Henderson, President of the Disarmament Conference, in his opening address on February 2nd, did not fail to emphasise the true significance of the crisis in the Far East when he said:

"Before passing on to my main subject, I feel bound to refer to the tragic fact that, at the moment when this Conference, the very purpose of which is to take further steps towards the maintenance of peace, begins its work, we are confronted with a situation of such extreme gravity as that which now exists.

"It is imperative that all of the signatories of the Covenant of the League of Nations and the Pact of Paris should make it their business to ensure the strict observance of these two great safeguards against acts of violence and war."

The intolerable situation was fully realised by the British representative when he stated at the Council's meeting of February 2nd: ". . . it is impossible that the present position in the Far East should be allowed to continue . . . War in everything but name is in progress. To such a state of things the Members of the League of Nations cannot be indifferent. If it is allowed to go on, the Covenant, the Pact of Paris, and the Nine-Power Treaty must inevitably lose the confidence of the world." The British representative did not attempt to state the obvious alternative which must be in the mind of every informed observer. China stands or falls with the entire peace structure which has been so laboriously built up in recent years. The consequences of a collapse cannot be contemplated without the gravest apprehension. Could there be any better way to set the stage for another world war?

Japan stands at the bar of public opinion and at the Council table of the League as the protagonist of an antiquated and barbarous system which has been deliberately and formally discarded by every nation, including Japan. Her appeal to arms cannot be reconciled with the new order of things, recorded in solemn treaties upon which the hope for a civilised and peaceful world now rests. We are at the cross-roads, and the decision to go the way of peace or that of war is squarely

before us all. There is no middle course: if Japan is right in this matter, then militarism and brute force resume their sway over the affairs of nations; if the new order is to be preserved, the hour has struck to defend it.

It is appropriate here, therefore, to reiterate the position of the Chinese Government as contained in the statement filed by it on February 9th, 1932, which reads as follows:

“ The official records of the League of Nations in the proceedings taken before the Council since September 18th last disclose the following undisputed facts:

“ 1. On the evening of September 18th, 1931, Japan without warning launched a violent attack with armed forces upon the territory of China.

“ 2. Notwithstanding the active efforts of the Council, in the exercise of its conciliatory function under Article 11 of the Covenant, this attack has been steadily and consistently developed into a formidable invasion and occupation, not only of Manchuria, but also of other parts of China.

“ 3. Japan has failed to comply with the resolutions of the Council providing for the cessation of her hostile action and the withdrawal of her armed forces. The resolutions of September 30th and of December 9th, consented to by Japan herself, have not been carried out either in letter or in spirit.

“ 4. The efforts of Members of the League acting in collaboration with the United States of America have likewise proved unavailing to bring about a cessation of Japan's armed aggression, which still continues, not only in Manchuria, but also at Shanghai and elsewhere. Nanking, the capital of China, has been bombarded and is threatened with further bombardment; the Government has been obliged to transfer its seat from Nanking to Loyang.

“ 5. The violation by Japan of the League Covenant, of the Pact of Paris and of the Nine-Power Treaty is a fact which has been made so clear as to admit of no dispute.

“ 6. China respectfully submits that the elementary facts of the situation as above stated plainly call for the exercise of the full powers of the League under its Covenant to bring about an immediate cessation of hostile and aggressive action by Japan, the prompt evacuation of China's territory by Japanese forces and the settlement of the entire controversy between China and Japan by peaceful means. ”

(Signed) W. W. YEN.

February 22nd, 1932.

Appendix I.

OFFICIAL STATEMENT BY THE CHINESE GOVERNMENT RESPECTING THE CHINO-JAPANESE NEGOTIATIONS BROUGHT TO A CONCLUSION BY CHINA'S COMPLIANCE WITH THE TERMS OF JAPAN'S ULTIMATUM DELIVERED ON MAY 7TH, 1915.

At three o'clock on the afternoon of May 7th, 1915, His Excellency the Japanese Minister in Peking delivered to the Chinese Government in person an Ultimatum from the Imperial Japanese Government, with an accompanying Note of seven articles. The concluding sentences of the Ultimatum read thus:

“ The Imperial Government hereby again offer its advice and hope that the Chinese Government, upon this advice, will give a satisfactory reply by six o'clock p.m. on the ninth day of May. It is hereby declared that, if no satisfactory reply is received before or at the specified time, the Imperial Government will take such steps as it may deem necessary. ”

The Chinese Government—having received and accepted the Ultimatum—feels constrained to make a frank and plain statement of the facts connected with the negotiations which were abruptly terminated by this drastic action on the part of Japan.

The Chinese Government has constantly aimed, as it still aims, at consolidating the friendship existing between China and Japan, and, in this period of travail in other parts of the world, has been particularly solicitous of preserving peace in the Far East. Unexpectedly, on January 18th, 1915, His Excellency the Japanese Minister in Peking, in pursuance of instructions from his Government, adopted the unusual procedure of presenting to His Excellency the President of the Republic of China a list of twenty-one momentous demands, arranged in five groups. The first four groups were each introduced by a preamble, but there was no preamble or explanation to the fifth group. In respect of the character of the demands in this group, however, no difference was indicated in the document between them and those embodied in the preceding groups.

Although there was no cause for such a *démarche*, the Chinese Government, in deference to the wishes of the Imperial Japanese Government, at once agreed to open negotiations on those articles which it was possible for China to consider, notwithstanding that it was palpable that the whole of the demands were intended to extend the rights and interests of Japan without securing a *quid pro quo* of any kind for China.

China approached the pending conferences in a spirit of utmost friendliness and with a determination to deal with all questions frankly and sincerely. Before negotiations were actually commenced, the Japanese Minister raised many questions with regard to the number of delegates proposed to represent China, the number of conferences to be held in each week, and the method of discussion. The Chinese Government, though its views differed from those of the Japanese Minister, yielded in all these respects to his contentions in the hope of avoiding any delay in the negotiations. The objections of the Japanese Minister to the customary recording and signing of the minutes of each conference, which the Chinese Government suggested as a necessary and advisable precaution, as well as one calculated to facilitate future reference, were also accepted. Nor did the Chinese Government retaliate in any way when, in the course of the negotiations, the Japanese Minister twice suspended the conferences, obviously with the object of compelling compliance with his views on certain points at the time under discussion. Even when delay was threatened owing to the unfortunate injury sustained by the Japanese Minister as a result of a fall from his horse, the Chinese delegates, in order to avert interruption, proposed that the conferences should be continued at the Japanese Legation, which proposal was accepted. Later, when, on March 22nd, the Japanese Government despatched large bodies of troops to South Manchuria and Shantung for the ostensible purpose of relieving the garrison—whose term of service had not then expired—the Japanese Minister stated at the conference, in reply to a direct question as to when the retiring troops would be withdrawn, that this would not be done until the negotiations could be brought to a satisfactory conclusion. Although this minatory step caused much excitement, indignation and alarm on the part of the Chinese people, and made it difficult for the Chinese Government to continue the conferences, it successfully exerted efforts to avert a rupture and thus enabled the negotiations smoothly to proceed. All this demonstrates that the Chinese Government was dominated by a sincere desire to expedite the progress of the conferences; and that the Japanese Government recognised this important fact was made clear on March 11th, when the Japanese Minister conveyed to the Chinese Government an expression of his Government's appreciation of China's frankness and sincerity in the conduct of the negotiations.

From February 2nd, when the negotiations were commenced, to April 17th, twenty-four conferences were held in all. Throughout this whole period the Chinese Government steadfastly strove to arrive at an amicable settlement and made every concession possible.

Of the twenty-one demands originally submitted by Japan, China agreed to fifteen, some in principle and some textually, six being initialled by both parties.

IN THE MATTER OF THE DEMANDS TO WHICH CHINA AGREED:

At the first conference, held on February 2nd, China agreed in principle to the first article of the Shantung group of demands which provides that China should give her assent to the transfer of Germany's rights in Shantung to Japan. The Chinese Government maintained at first that the subject of this demand related to the *post bellum* settlement and, therefore, should be left over for discussion by all the parties interested at the Peace Conference. Failing to persuade the Japanese Minister to accept this view, the Chinese Government agreed to this demand in principle and made certain supplementary proposals.

One of the supplementary proposals was in these terms:

"The Japanese Government declares that, when the Chinese Government gives its assent to the disposition of the rights above referred to, Japan will restore the Leased Territory of Kiaochow to China, and further recognises the right of the Chinese Government to participate in the negotiations referred to above between Japan and Germany."

The provision for a declaration to restore Kiaochow was clearly not a demand on Japan, but only a reiteration of Japan's voluntary statement in her Ultimatum to Germany on August 15th, 1914 (a copy of which was officially transmitted to the Chinese Government for perusal on August 15th), and repeated in public statements by the Japanese Premier. Appreciating the earnest desire of Japan to maintain the peace of the Far East and to cement her friendship with China, as evidenced by this friendly offer, the Chinese Government left the entire question of the conditions of restoration to be determined by Japan and refrained from making any reference thereto in the supplementary proposal. The suggestion relating to participation in the conference between Japan and Germany was made in view of the fact that Shantung, the object of future negotiation between Japan and Germany, is a Chinese Province, and that therefore China is the Power most concerned in the future of that territory.

Another supplementary proposal suggesting the assumption by Japan of responsibility for indemnification of the losses arising out of the military operations by Japan in and about the Leased Territory of Kiaochow was necessitated by the fact that China was neutral *vis-à-vis* the war between Japan and Germany. Had China not inserted such a provision, her position in relation to this conflict might have been liable to misconstruction—the localities in which the operations took place being a portion of China's territory—and might also have exposed herself to a claim for indemnification of losses for which she was in no way responsible.

In a further supplementary proposal, the Chinese Government suggested that, prior to the restoration of the Kiaochow Territory to China, the Maritime Customs, the telegraphs and post offices should be continued to be administered as heretofore; that the military railway, the telegraph lines, etc., which were installed by Japan to facilitate her military operations, should be removed forthwith; that the Japanese troops now stationed outside of the Leased Territory should be first withdrawn, and those within the Territory should be recalled at the time when Kiaochow is returned to China. Shantung being a Chinese Province, it was natural for China to be anxious concerning the restoration of the *statu quo ante bellum*. Although the Chinese Government was confident that the Japanese Government would effect such restoration in pursuance of its official declaration, it was necessary for China, being neutral throughout the war, to place these matters on record.

At the third conference, held on February 22nd, China agreed to the second demand in the Shantung group not to cede or lease to any Power any territory or island or land on the sea border of Shantung.

At the fifth conference, held on February 28th, China agreed to give Japan the preference, provided Germany abandoned the privilege, to supply the capital for the construction of a railway from Chefoo or Lungkow to connect with the Kiaochow-Tsinanfu railway, in the event of China's deciding to build that railway with foreign capital.

At the sixth conference, held on March 3rd, China, in the interest of foreign trade, agreed to open certain important cities in Shantung as trade marts under regulations approved by the Japanese Government, although this was a demand on the part of Japan for privileges additional to any that hitherto had been enjoyed by Germany and was not an outcome of the hostilities between Japan and Germany, nor, in the opinion of the Chinese Government, was its acceptance essential to the preservation of peace in the Far East.

At the eighth conference, held on March 9th, China agreed (1) to the extension of the term of the lease of Dairen and (2) Port Arthur, and (3) of the South Manchurian and (4) Antung-Mukden Railways, all to ninety-nine years.

Owing to the bitter experiences which China sustained in the past in connection with the leased portions of her territory, it has become her settled policy not to grant further leases or to extend the term of those now in existence. Therefore, it was a significant indication of China's desire to meet Japan's wishes when she agreed to this exceptional departure from her settled policy.

At the same conference, the Chinese Government also agreed to refrain from raising objections to the principle of co-operation in the Hanyeh-ping Company, if the latter should arrive at an agreement in this respect with the Japanese capitalists concerned. With reference to this question, it was pointed out to the Japanese Minister that, in the Provisional Constitution of the Republic of China, Chinese subjects are guaranteed the right of protection of their property and freedom to engage in any lawful occupation. The Government was precluded, therefore, from interfering

with the private business of the people and could not find any other solution than the one thus agreed to.

As regards the single article of the fourth group, and the preamble thereto, the Chinese Government held that they were inconsistent with Chinese sovereignty. However, China, at this conference, expressed her readiness to meet the wishes of Japan so far as it was possible without infringing her sovereignty and agreed to make a voluntary pronouncement that she would not alienate any portion of her coast-line.

In connection with the South Manchuria Railway, it is worthy of note that the provision regarding the re-purchase period in the agreement (thirty-six years from 1902) was not mentioned in Japan's original proposal. Subsequently, the Japanese Government, on the ground that the meaning of this provision was not clear, requested China to agree to its cancellation. To this request the Chinese Government acceded, though well aware that the proposed change could only benefit Japan. China thus relinquished the right to re-purchase the railway at the expiration of another twenty-three years.

In connection with the Antung-Mukden Railway, the article, which was originally initialled at the conference, provided for the reversion of the railway to China at the end of ninety-nine years without payment, but, at the subsequent meeting, the Japanese Minister requested that the reference to the reversion without payment be deleted from the initialled article. In acceding to the Japanese Minister's request, China again showed her sincere desire to expedite matters and to meet Japan's wishes even at the sacrifice of a point in her favour, to which Japan had already agreed.

At the eleventh conference, held on March 16th, China agreed to give Japan preference in regard to loans for railway construction in South Manchuria.

At the thirteenth conference, held on March 23rd, China agreed (1) to the amendment of the Kirin-Changchun Railway loan agreement; (2) to give preference to Japan if the revenue of South Manchuria were offered as security for loans; (3) to give preference to Japanese in the event of the employment of advisers for South Manchuria; (4) to grant to Japanese the right of mining in nine specified areas in South Manchuria.

In its original form, the demand with reference to mining in South Manchuria tended to create a monopoly for Japanese subjects, and therefore was entirely inconsistent with the principle of equal opportunity. The Chinese Government explained that it could not, in view of the treaty rights of other Powers, agree to this monopoly, but it readily gave its acceptance when Japan consented to the modification of the demand so as to mitigate its monopolistic character.

In connection with the Kirin-Changchun Railway, the amendment agreed to involves a fundamental revision of the original agreement on the basis of the existing railway loan concluded by China with other foreign capitalists, as well as an engagement on the part of the Chinese Government to extend to this railway any better terms which may be hereafter accorded to other railway concessionaires in China. The capital of this railway was originally 50 per cent Chinese and 50 per cent Japanese. The effect of this undertaking is to transfer the capital originally held by the Chinese, as well as the full control and administration of the railway, to the Japanese.

At the twenty-first conference, held on April 10th, China agreed, in regard to the demands concerning Fukien Province, to give Japan an assurance in accordance with Japan's wishes at a future time.

As regards demands 2 and 3 in the "Manchurian group", relating to the ownership of land for trade, manufacture and agricultural enterprises as well as for the right of settlement in the interior of South Manchuria, the Chinese Government, after discussion at several conferences, agreed to them in principle, but desired to introduce certain amendments concerning the control and protection of the Japanese subjects who might avail themselves of these rights. The course of the negotiations in connection with these amendments will be referred to subsequently.

IN THE MATTER OF THOSE DEMANDS TO WHICH CHINA COULD NOT AGREE:

Of the twenty-one demands there were six, as previously mentioned, to which China could not agree on the ground that they were not proper subjects for international negotiation, conflicting as they did with the sovereign rights of China, the treaty rights of other Powers, and the principle of equal opportunity.

Thus, for example, the second article of the Hanyeh-ping question in the original third group in particular seriously affected the principle of equal commercial and industrial opportunity.

The proposal that there should be joint administration by China and Japan of the police in China was clearly an interference with the Republic's domestic affairs and consequently an infringement of her sovereignty. For that reason, the Chinese Government could not take the demand into consideration. But when it was explained by the Japanese Minister that this referred only to South Manchuria and he suggested that his Government would be satisfied if China agreed to engage Japanese as police advisers for that territory, the Chinese Government accepted the suggestion.

The two articles relating to the acquisition of land for schools, hospitals and temples, as well as to the right of missionary propaganda, would, in the opinion of the Chinese Government, have

presented grave obstacles to the consolidation of the friendly feeling subsisting between the two peoples. The religions of the two countries are identical and therefore the need for a missionary propaganda to be carried on in China by Japanese does not exist. The natural rivalry between Chinese and Japanese followers of the same faith would tend to create incessant disputes and friction. Whereas Western missionaries live apart from the Chinese communities among which they labour, Japanese monks would live with the Chinese, and the similarity of their physical characteristics, their religious garb, and their habits of life would render it impossible to distinguish them for purposes of affording the protection which the Japanese Government would require should be extended to them under the system of extra-territoriality now obtaining in China. Moreover, a general apprehension exists among the Chinese people that these peculiar conditions favouring conspiracies for political purposes might be taken advantage of by some unscrupulous Chinese.

The demand for railway concessions in the Yangtze Valley conflicted with the Shanghai-Hangchow-Ningpo Railway Agreement of March 6th, 1908, the Nanking-Changsha Railway Agreement of March 31st, 1914, and the engagement August 24th, 1914, giving preference to British firms for the projected line from Nanchang to Chaochowfu. For this reason the Chinese Government found itself unable to consider the demand, though the Japanese Minister, while informed of China's engagements with Great Britain, repeatedly pressed for its acceptance.

In respect to the demand for the appointment of influential Japanese to be advisers in political, financial and military affairs, the policy of the Chinese Government in regard to the appointment of advisers has been similar to that which has presumably guided the Japanese Government in like circumstances—namely, the selection of the best-qualified men irrespective of their nationality. As an indication of its desire to avail themselves of the services of eminent Japanese, one of the earliest appointments made to an advisership was that of Dr. Ariga, while later on Dr. Hirai and Mr. Nakayama were appointed to the Ministry of Communications.

It was considered that the demand that Japanese should be appointed in the three most important administrative departments, as well as the demand for the joint control of China's police, and the demand for an engagement to purchase a fixed amount of arms, and ammunition from Japan or to establish joint arsenals in China, so clearly involved the sovereignty of the Republic that the Chinese Government was unable even to consider them.

For these reasons, the Chinese Government, at the very outset of the negotiations, declared that it was unable to negotiate on the demands; but, in deference to the wishes of the Japanese Minister, the Chinese delegates consented to give the reasons for declining to enter into a discussion of them.

IN THE MATTER OF THE QUESTIONS OF DISPUTE INVOLVED IN SOME OF THE FOREGOING DEMANDS.

The demand by Japan for the right of her subjects in South Manchuria to lease or own land, and to reside and travel, and to engage in business or manufacture of any kind whatever was deemed by the Chinese Government to obtain for Japanese subjects in this region a privileged status beyond the terms of the treaties existing between the two nations and to give them a freedom of action which would be a restriction of China's sovereignty and a serious infringement of her administrative rights. Should Japanese subjects be granted the right of owning land, it would mean that all the landed property in the region might fall into their hands, thereby endangering China's territorial integrity. Moreover, residence in the interior was incompatible with the existence of extra-territoriality, the relinquishment of which is necessary to the actual enjoyment of the privilege of inland residence, as evidenced in practice of other nations.

Japan's unconditional demand for the privilege of inland residence accompanied with a desire to extend extra-territoriality into the interior of China and to enable Japanese subjects to monopolise all the interests in South Manchuria was also palpably irreconcilable with the principle of equal opportunity. For this reason, the Chinese Government was, in the first instance, unable to accept this demand as a basis of negotiation. Its profound regard for the friendly relations of the two countries, however, persuaded it to exert its utmost efforts, in spite of all the inherent difficulties, to seek a solution of a question which was practically impossible to solve. Knowing that the proposal made by Japan was incompatible with treaties, it nevertheless sought to meet her wishes within the limits of treaties. Accordingly, it submitted a counter-proposal to open more places in South Manchuria to international trade and to establish Sino-Japanese joint reclamation companies.

This suggestion was made in the belief that the places to which Japanese subjects would desire to resort for purposes of trade could not be other than important localities; if all these localities were opened to commerce, then they could reside, trade, and lease land there for joint reclamation. Thus Japanese subjects might enjoy the essence of the privilege of inland residence and would still be able to reconcile their position with China's treaties and the principle of equal opportunity.

After the Japanese Government declined to accept this suggestion, China withdrew it and replaced it with an amendment to the original articles. It was proposed in this amendment to grant to Japanese subjects the extra-treaty privilege of inland residence with the proviso that Japanese subjects in places outside of trade marts should observe Chinese police regulations and pay taxes in the same manner as Chinese; and that civil and criminal cases involving such Japanese subjects should be adjudicated by Chinese authorities, the Japanese Consul attending merely to watch the proceedings. This suggestion was not an innovation: it was based upon the *modus operandi* now in force as regards the Korean settlers in inland districts in Chientao. But the Japanese Government again declined to accept it.

The Chinese Government thereupon made a third proposal along the line of what constitutes the present practice in Turkey, making a distinction, however, in favour of Japanese subjects, in the exercise of jurisdiction over civil and criminal cases. This was once more objected to by the Japanese Government.

Then the Chinese Government proposed to concede still another step—the fourth endeavour to meet Japan's wishes. They proposed to agree to the full text of Articles 2 and 3 relative to the question of inland residence, except that "the right of owning land" was changed into "the right of leasing land" and to the phrase "cultivating land" was added this clause: "the regulations for which shall be determined separately"; and, further, to add a supplementary article which embodied a *modus operandi* which the Chinese Government had constrained itself to make out of a desire to come to a settlement over this question. The view advanced in this supplementary article was based upon the Japanese Minister's declaration made on March 6th, 1915, that a separate article embodying some compromise might be added to the original Articles 2 and 3 for the purpose of avoiding any conflict with China's sovereignty or the system established by treaties.

These suggestions made by the Chinese Government were not accepted by Japan.

As regards Eastern Inner Mongolia, not only have no treaties been entered into with Japan concerning this region, but also the people are so unaccustomed to foreign trade that the Chinese Government invariably feels much anxiety about the safety of foreigners who elect to travel there. The Chinese Government therefore considered that it would not be in the interest of foreigners to open the whole territory to them for residence and commerce, and on these grounds based their original refusal to place Eastern Inner Mongolia on the same footing as South Manchuria. Still, its desire to meet the wishes of the Japanese Government eventually prompted it to offer to open a number of places in the region to foreign trade.

IN THE MATTER OF JAPAN'S REVISED DEMANDS.

The foregoing is an outline of the negotiations up to April 17th. It was hoped by the Chinese Government that the Japanese Government, in view of the great concessions made by China at the conferences held up to this time, would see a way of effecting an amicable settlement by modifying its position on certain points. In regard to these it had, by this time, become manifest that China would encounter almost insuperable difficulties in making further concessions.

The Japanese Government, however, suspended the negotiations until April 26th, when they surprised the Chinese Government by presenting a new list of twenty-four demands and requested the Chinese Government to accord its acceptance without delay, adding that this was its final proposal. At the same time, the Japanese Minister stated that the Japanese Government would restore the leased territory of Kiaochow to China at an opportune time in the future and under proper conditions if the Chinese Government would agree to the new list of twenty-four demands without modification.

In this new list, although the term "special position" in the preamble of the Manchurian group was changed to "economic relations" and although the character of the articles in the original fifth group was altered from demands to a recital of alleged statements by the Chinese Foreign Minister, four new demands were introduced concerning Eastern Inner Mongolia. In deference to the wishes of the Japanese Government, the Chinese Government gave the revised list the most careful consideration; and, being sincerely desirous of an early settlement, offered new concessions in its reply presented to the Japanese Minister on May 1st.

In this reply, the Chinese Government reinserted the proposal in reference to the retrocession of Kiachow which they advanced at the first conference on February 2nd and which was postponed at the request of the Japanese Minister. This, therefore, was in no sense a new proposal.

The Chinese Government also proposed to agree to three of the four articles relating to Eastern Inner Mongolia. There was some difficulty in determining a definition of the boundaries of Eastern Inner Mongolia—this being a new expression in Chinese geographical terminology—but the Chinese Government, acting upon a statement made at a previous conference by the Japanese Minister that the Japanese Government meant the region under Chinese administrative jurisdiction, and taking note, in the list presented by the Japanese Minister, of the names of places in Eastern Inner Mongolia to be opened to trade, inferred that the so-called Eastern Inner Mongolia

is that part of Inner Mongolia which is under the jurisdiction of South Manchuria and the Jehol circuit; and refrained from placing any limitations upon the definition of this term.

The Chinese Government also withdrew its supplementary proposal reserving the right of making regulations for agricultural enterprises to be undertaken by Japanese settlers in South Manchuria.

In respect of the trial of cases involving land disputes between Japanese only, or between Japanese and Chinese, the Chinese Government accorded to the Japanese Consul the right to depute an officer to watch the proceedings.

The Chinese Government also agreed to accept the suggestion of the Japanese Government to modify the term "police law and ordinances" into "police rules and regulations", thereby limiting the extent of control which the Chinese would have over Japanese subjects.

As regards the Hanyehping demand, the Chinese Government accepted the draft made by the Japanese Government, embodying an engagement by the Chinese Government not to convert the company into a State-owned concern, nor to confiscate it, nor to force it to borrow foreign capital other than Japanese.

In respect of the Fukien question, the Chinese Government also agreed to give an assurance in the amplified form suggested by the Japanese Government that the Chinese Government had not given its consent to any foreign nations to construct a dock-yard or a coaling station, or a naval base, or any other military establishment along the coast of Fukien Province; nor did it contemplate borrowing foreign capital for the foregoing purposes.

Having made these concessions, which practically brought the views of China into line with those of Japan, and having explained in a note accompanying the reply the difficulty for China to make further concessions, the Chinese Government hoped that the Japanese Government would accept its reply of May 1st, and thus bring the negotiations to an amicable conclusion.

The Japanese Government, however, expressed itself as being dissatisfied with China's reply and withdrew the conditional offer to restore Kiachow to China made on April 26th. It was further intimated that, if the Chinese Government did not give its full compliance with the list of twenty-four demands, Japan would have recourse to drastic measures.

Upon receiving this intimation, the Chinese Government, inspired by the conciliatory spirit which had been predominant from the very beginning of the negotiations and desirous of avoiding any possible rupture in the relations of the two countries, made a supreme effort to meet the situation and represented to the Japanese Government that it would reconsider its position and make another attempt to find a solution that would be more satisfactory to Japan in respect to those articles which China had declared could not be taken up for consideration, but to which Japan attached great importance. Even in the evening of May 6th, after the Japanese Minister had notified the Chinese Government that the Ultimatum had arrived in Peking, the Chinese Government in the interests of peace still exerted efforts to save the situation by offering to meet Japan's wishes.

These overtures were again rejected, and thus was exhausted the means at the disposal of the Chinese Government to prevent an *impasse*.

It is plain that the Chinese Government proceeded to the fullest extent of possible concession in view of the strong national sentiment manifested by the people throughout the whole period of negotiations. All that the Chinese Government strove to maintain was China's plenary sovereignty, the treaty rights of foreign Powers in China and the principle of equal opportunity.

To the profound regret of the Chinese Government, however, the tremendous sacrifices which it had shown itself ready to make proved unavailing, and an Ultimatum, was duly delivered to them by the Japanese Minister at three o'clock on the afternoon of May 7th.

As to the allegations made in the Ultimatum against China, the Chinese Government hopes that the foregoing outline of the history of the negotiations constitutes a clear, dispassionate, and complete reply.

In considering the nature of the course they should take with reference to the Ultimatum, the Chinese Government was influenced by a desire to preserve the Chinese people, as well as the large number of foreign residents in China, from unnecessary suffering and also to prevent the interests of friendly Powers from being imperilled. For these reasons the Chinese Government was constrained to comply in full with the terms of the Ultimatum, but, in complying, the Chinese Government disclaims any desire to associate itself with any revision, which may thus be effected, of the various conventions and agreements concluded between other Powers in respect of the maintenance of China's territorial independence and integrity, the preservation of the *status quo*, and the principle of equal opportunity for the commerce and industry of all nations in China.

Appendix II.

BARON SHIDEHARA'S STATEMENT AT THE WASHINGTON CONFERENCE ON FEBRUARY 2ND, 1922, WITH REFERENCE TO THE TREATIES AND AGREEMENTS OF 1915.

At a previous session of this committee, the Chinese delegation presented a statement urging that the Sino-Japanese Treaties and Notes of 1915 be reconsidered and cancelled. The Japanese delegation, while appreciating the difficult position of the Chinese delegation, does not feel at liberty to concur in the procedure now resorted to by China with a view to cancellation of international engagements which she entered into as a free sovereign nation.

It is presumed that the Chinese delegation has no intention of calling in question the legal validity of the compacts of 1915, which were formally signed and sealed by the duly authorised representatives of the two Governments, and for which the exchange of ratifications was effected in conformity with established international usages. The insistence by China on the cancellation of those instruments would in itself indicate that she shares the view that the compacts actually remain in force and will continue to be effective, unless and until they are cancelled.

It is evident that no nation can have given ready consent to cessions of its territorial or other rights of importance. If it should once be recognised that rights solemnly granted by treaty may be revoked at any time on the ground that they were conceded against the spontaneous will of the grantor, an exceedingly dangerous precedent will be established, with far-reaching consequences upon the stability of the existing international relations in Asia, in Europe and everywhere.

The statement of the Chinese delegation under review declares that China accepted the Japanese demands in 1915, hoping that a day would come when she should have the opportunity of bringing them up for reconsideration and cancellation. It is, however, difficult to understand the meaning of this assertion. It cannot be the intention of the Chinese delegation to intimate that China may conclude a treaty, with the thought in mind of breaking it at the first opportunity.

The Chinese delegation maintains that the treaties and notes in question are derogatory to the principles adopted by the Conference with regard to China's sovereignty and independence. It has, however, been held by the Conference on more than one occasion that concessions made by China *ex contractu*, in the exercise of her own sovereign rights, cannot be regarded as inconsistent with her sovereignty and independence.

It should also be pointed out that the terms "twenty-one demands", often used to denote the treaties and notes of 1915, is inaccurate and grossly misleading.

It may give rise to an erroneous impression that the whole original proposals of Japan had been pressed by Japan and accepted *in toto* by China. As a matter of fact, not only "Group 5", but also several other matters contained in Japan's first proposals were eliminated entirely or modified considerably, in deference to the wishes of the Chinese Government, when the final formula was presented to China for acceptance. Official records published by the two Governments relating to those negotiations will further show that the most important terms of the treaties and notes, as signed, had already been virtually agreed to by the Chinese negotiators before the delivery of the ultimatum, which then seemed to the Japanese Government the only way of bringing the protracted negotiations to a speedy close.

The Japanese delegation cannot bring itself to the conclusion that any useful purpose will be served by research and re-examination at this Conference of old grievances which one of the nations represented here may have against another. It will be more in line with the high aim of the Conference to look forward to the future with hope and with confidence.

Having in view, however, the changes which have taken place in the situation since the conclusion of the Sino-Japanese Treaties and Notes of 1915, the Japanese delegation is happy to avail itself of the present occasion to make the following declaration:

1. Japan is ready to throw open to the joint activity of the international financial consortium recently organised the right of option granted exclusively in favour of Japanese capital, with regard, first, to loans for the construction of railways in South Manchuria and Eastern Inner Mongolia and, second, to loans to be secured on taxes in that region; it being understood that nothing in the present declaration shall be held to imply any modification or annulment of the understanding recorded in the officially announced notes and memoranda which were exchanged among the Governments of the countries represented in the consortium and also among the national financial groups composing the consortium, in relation to the scope of the joint activity of that organisation.

2. Japan has no intention of insisting on her preferential right under the Sino-Japanese arrangements in question concerning the engagements by China of Japanese advisers or instructors on political, financial, military, or police matters in South Manchuria.

3. Japan is further ready to withdraw the reservation which she made, in proceeding to the signature of the Sino-Japanese Treaties and Notes of 1915, to the effect that group 5 of the original proposals of the Japanese Government would be postponed for future negotiations.

It would be needless to add that all matters relating to Shantung contained in those Treaties and Notes have now been definitely adjusted and disposed of.

In coming to this decision, which I have had the honour to announce, Japan has been guided by a spirit of fairness and moderation, having always in view China's sovereign rights and the principle of equal opportunity.

Appendix III.

CHINESE STATEMENT AT THE WASHINGTON CONFERENCE.

The Chinese delegation has taken note of the statement of Baron Shidehara made at yesterday's session of the Committee with reference to the Sino-Japanese Treaties and Notes of May 25th, 1915.

The Chinese delegation learns with satisfaction that Japan is now ready to throw open to the joint activity of the banking interests of other Powers the right of option granted exclusively in favour of Japanese capital with regard, first, to loans for the construction of railways in South Manchuria and Eastern Inner Mongolia and, second, to loans secured on taxes in that region; and that Japan has no intention of insisting upon a preferential right concerning the engagement by China of Japanese advisers or instructors in political, financial, military or police matters in South Manchuria; also that Japan now withdraws the reservation which she made to the effect that group 5 of her original demands upon China should be postponed for future negotiations.

The Chinese delegation greatly regrets that the Government of Japan should not have been led to renounce the other claims predicated upon the Treaties and Notes of 1915.

The Japanese delegation expressed the opinion that abrogation of these arguments would constitute "an exceedingly dangerous precedent", "with far-reaching consequences upon the stability of the existing international relations in Asia, in Europe and everywhere".

The Chinese delegation has the honour to say that a still more dangerous precedent will be established, with consequences upon the stability of international relations which cannot be estimated if, without rebuke or protest from other Powers, one nation can obtain from a friendly but, in a military sense, weaker neighbour, and under circumstances such as attended the negotiation and signing of the Treaties of 1915, valuable concessions which were not in satisfaction of pending controversies and for which no *quid pro quo* was offered. These treaties and notes stand out, indeed, unique in the annals of international relations. History records scarcely another instance in which demands of such a serious character as those which Japan presented to China in 1915 have, without even pretence of provocation, been suddenly presented by one nation to another nation with which it was at the time in friendly relations.

No apprehension need be entertained that the abrogation of the agreements of 1915 will serve as a precedent for the annulment of other agreements, since it is confidently hoped that the future will furnish no such similar occurrences.

So exceptional were the conditions under which the agreements of 1915 were negotiated that the Government of the United States of America felt justified in referring to them in the identic note of May 13th, 1915, which it sent to the Chinese and Japanese Governments. That note began with the statement that, "in view of the circumstances of the negotiations which have taken place and which are now pending between the Government of China and the Government of Japan and of the agreements which have been reached as the result thereof, the Government of the United States has the honour to notify the Government of the Chinese Republic (Japan) that it cannot recognise any agreement or undertaking which has been entered into between the Governments of China and Japan impairing the treaty rights of the United States and its citizens in China, the political or territorial integrity of the Republic of China, or the international policy relative to China commonly known as the 'Open-Door Policy'."

Conscious of her obligations to the other Powers, the Chinese Government, immediately after signing the agreements, published a formal statement protesting against the agreements which she had been compelled to sign, and disclaiming responsibility for consequent violations of treaty rights of the other Powers. In the statement thus issued, the Chinese Government declared that, although it was "constrained to comply in full with the terms of the (Japanese) ultimatum" it nevertheless "disclaims any desire to associate itself with any revision, which may be thus effected, of the various conventions and agreements concluded between the other Powers in respect of the maintenance of China's territorial independence and integrity, the preservation of the *status quo* and the principle of equal opportunity for the commerce and industry of all nations in China."

Because of the essential injustice of these provisions, the Chinese delegation, acting in behalf of the Chinese Government and of the Chinese people, has felt itself in duty bound to present to this Conference, representing the Powers with substantial interests in the Far East, the question as to the equity and justice of these agreements and therefore as to their fundamental validity.

If Japan is disposed to rely solely upon a claim as to the technical or juristic validity of the agreements of 1915, as having been actually signed in due form by the two Governments, it may be said that, so far as this Conference is concerned, the contention is largely irrelevant, for this gathering of the representatives of the nine Powers has not had for its purpose the maintenance of the legal *status quo*. Upon the contrary, the purpose has been, if possible, to bring about such

changes in existing conditions upon the Pacific and in the Far East as might be expected to promote that enduring friendship among the nations which the President of the United States spoke of in his letter of invitation to the Powers to participate in this Conference.

For the following reasons, therefore, the Chinese delegation is of the opinion that the Sino-Japanese Treaties and Exchange of Notes of May 25th, 1915, should form the subject of impartial examination with a view to their abrogation:

1. In exchange for the concessions demanded of China, Japan offered no *quid pro quo*. The benefits derived from the agreements were wholly unilateral.
2. The agreements, in important respects, are in violation of treaties between China and the other Powers.
3. The agreements are inconsistent with the principles relating to China which have been adopted by the Conference.
4. The agreements have engendered constant misunderstanding between China and Japan and, if not abrogated, will necessarily tend, in the future, to disturb friendly relations between the two countries, and will thus constitute an obstacle in the way of realising the purpose for the attainment of which this Conference was convened. As to this, the Chinese delegation, by way of conclusion, can perhaps do no better than quote from a resolution introduced in the Japanese Parliament, in June 1915, by Mr. Hara, later Premier of Japan, a resolution which received the support of some one hundred and thirty of the members of the parliament.

The resolution reads:

“ *Resolved*, that the negotiations carried on with China by the present Government have been inappropriate in every respect; that they are detrimental to the amicable relationship between the two countries, and provocative of suspicions on the part of the Powers; that they have the effect of lowering the prestige of the Japanese Empire; and that, while far from capable of establishing the foundation of peace in the Far East, they will form the source of future trouble ”.

The foregoing declaration has been made in order that the Chinese Government may have upon record the view which it takes, and will continue to take, regarding the Sino-Japanese Treaties and Exchange of Notes of May 25th, 1915.

Appendix IV.

STATEMENT BY THE REPRESENTATIVE OF THE UNITED STATES OF AMERICA.

The important statement made by Baron Shidehara on behalf of the Japanese Government makes it appropriate that I should refer to the position of the Government of the United States as it was set forth in identical notes addressed by that Government to the Chinese Government and to the Japanese Government on May 13th, 1915.

The note to the Chinese Government was as follows:

“ In view of the circumstances of the negotiations which have taken place and which are now pending between the Government of China and the Government of Japan and of the agreements which have been reached as a result thereof, the Government of the United States has the honour to notify the Government of the Chinese Republic that it cannot recognise any agreement or undertaking which has been entered into or which may be entered into between the Governments of China and Japan impairing the treaty rights of the United States and its citizens in China, the political or territorial integrity of the Republic of China, or the international policy relative to China commonly known as the ‘ Open-door Policy ’.

“ An identical note has been transmitted to the Imperial Japanese Government.”

That statement was in accord with the historic policy of the United States in its relation to China, and its position as thus stated has been, and still is, consistently maintained.

It has been gratifying to learn that the matters concerning Shantung, which formed the substance of group 1 of the original demands, and were the subject of the Treaty and Exchange of Notes with respect to the province of Shantung, have been settled to the mutual satisfaction of the two Parties by negotiations conducted collaterally with this Conference, as reported to the plenary session on February 1st.

It is also gratifying to be advised by the statement made by Baron Shidehara on behalf of the Japanese Government that Japan is now ready to withdraw the reservation which she made, in proceeding to the signature of the Treaties and Notes of 1915, to the effect that group 5 of the original proposals of the Japanese Government—namely, those concerning the employment of influential Japanese as political, financial, and military advisers; land for schools and hospitals; certain railways in South China; the supply of arms, and the right of preaching—would be postponed for future negotiations. This definite withdrawal of the outstanding questions under group 5 removes what has been an occasion for considerable apprehension on the part alike of China

and of foreign nations which felt that the renewal of these demands could not but prejudice the principles of the integrity of China and of the "Open Door".

With respect to the Treaty and the Notes concerning South Manchuria and Eastern Inner Mongolia, Baron Shidehara has made the reassuring statement that Japan has no intention of insisting on a preferential right concerning the engagement by China of Japanese advisers or instructors on political, financial, military, or police matters in South Manchuria.

Baron Shidehara has likewise indicated the readiness of Japan not to insist upon the right of option granted exclusively in favour of Japanese capital with regard, first, to loans for the construction of railways in South Manchuria and Eastern Inner Mongolia; and, second, with regard to loans secured on the taxes of those regions; but that Japan will throw them open to the joint activity of the international financial consortium recently organised.

As to this, I may say that it is doubtless the fact that any enterprise of the character contemplated which may be undertaken in these regions by foreign capital would in all probability be undertaken by the consortium. But it should be observed that existing treaties would leave the opportunity for such enterprises open on terms of equality to the citizens of all nations. It can scarcely be assumed that this general right of the Treaty Powers of China can be effectively restricted to the nationals of those countries which are participants in the work of the consortium, or that any of the Governments which have taken part in the organisation of the consortium would feel themselves to be in a position to deny all rights in the matter to any save the members of their respective national groups in that organisation. I therefore trust that it is in this sense that we may properly interpret the Japanese Government's declaration of willingness to relinquish its claim under the 1915 Treaties to any exclusive position with respect to railway construction and to financial operations secured upon local revenues, in South Manchuria and Eastern Inner Mongolia.

It is further to be pointed out that, by Articles II, III and IV of May 25th, 1915, with respect to South Manchuria and Eastern Inner Mongolia, the Chinese Government granted to Japanese subjects the right to lease land for building purposes, for trade and manufacture, and for agricultural purposes, in South Manchuria, to reside and travel in South Manchuria, and to engage in any kind of business and manufacture there, and to enter into joint undertakings with Chinese citizens in agriculture and similar industries in Eastern Inner Mongolia.

With respect to this grant, the Government of the United States will, of course, regard it as not intended to be exclusive, and, as in the past, will claim from the Chinese Government for American citizens the benefits accruing to them by virtue of the most-favoured-nation clauses in the treaties between the United States and China.

I may pause here to remark that the question of the validity of treaties as between China and Japan is distinct from the question of the treaty rights of the United States under its treaties with China; these rights have been emphasised and consistently asserted by the United States.

In this, as in all matters similarly affecting the general right of its citizens to engage in commercial and industrial enterprises in China, it has been the traditional policy of the American Government to insist upon the doctrine of equality for the nationals of all countries, and this policy, together with the other policies mentioned in the note of May 13th, 1915, which I have quoted, are consistently maintained by this Government. I may say that it is with especial pleasure that the Government of the United States finds itself now engaged in the act of reaffirming and defining, and I hope that I may add revitalising, by the proposed Nine-Power Treaty, these policies with respect to China.

Appendix V.

STATEMENT OF THE CHINESE GOVERNMENT.

February 12th, 1932.

With full realisation of its responsibility to the civilised world and willingness to submit the accuracy of those statements to impartial international enquiry and adjudication, the Chinese National Government presents the following summary of the Sino-Japanese conflict from its inception:

At no time since the Russo-Japanese War has the Chinese Government doubted the purpose of Japan to seize Manchuria whenever an opportune occasion arose. At the conclusion of the Russo-Japanese War, which was fought chiefly on China's soil against China's protests, Japan put strong pressure on China to implement Japan's gains from Russia and to grant Japan additional special privileges, impairing China's sovereignty and contravening the "open-door" policy in Manchuria. China resisted those demands to the utmost of her ability.

When the World War arose, Japan took advantage of the preoccupation of the Powers and China's military weakness to present the twenty-one demands which, if conceded, would have destroyed China's sovereignty, not only in Manchuria, but in other parts of China as well. Under Japan's ultimatum, China was forced to concede some of those demands, which she did under protest and so notified all the friendly Powers.

At the Paris Conference, at the Washington Conference, and before the League of Nations, China reiterated her protests against those exactions of Japan and repudiated them all at suitable occasions. At the Washington Conference, China refused to conduct separate negotiations with Japan and insisted that Sino-Japanese questions must be discussed in purview of the whole Conference. By signing the Nine-Power Treaty of Washington, China's territorial integrity and administrative autonomy were guaranteed by all the Powers and it was definitely stated that Manchuria is an integral part of China's territory. That Treaty also provided for appeal to the signatory Powers in the event of disagreement about the interpretation of the Treaty and the infraction of its terms.

Subsequent to signing the Nine-Power Treaty, the Chinese Government has invariably in its relations with Japan and other Powers insisted upon observing the terms and the principles of that Treaty, but, owing to Japan's continuously trying to step outside the Treaty and to insist upon having special rights in China, especially in Manchuria, the Chinese Government has been unable to avoid disputes and frictions with Japan which, when serious, China tried to refer to the League of Nations and the Court of International Justice. China gladly became party to the Kellogg-Briand Pact renouncing force as a means to settle international disputes and obtain political objectives and has associated herself with all similar plans to secure peace. On several occasions, China sought without success to invoke provisions of the League of Nations Covenant that obsolete and unsatisfactory treaties might be revised.

This, broadly, was the situation last September when, without provocation, Japanese troops attacked Chinese troops at Mukden and usurped control there. A careful analysis shows without doubt that Japan's military coup was premeditated and carefully planned. Dispositions were commenced days before September 18th.

It is scarcely necessary to review events in Manchuria since then. Using various pretexts, the Japanese army has overturned Chinese authority in Manchuria and taken control almost of the whole of these provinces, while China appealed in vain to the League of Nations and the peace pacts.

At times since the Mukden attack, Japan tried to draw the Chinese Government into separate negotiations, but China, following precedents set at Paris, Washington and Geneva, has refused to negotiate without the presence or participation of neutral Powers, knowing full well that she cannot singly resist Japan's pressure backed by unbridled military force which aims at the annexation of Manchuria.

Those tactics failing to frighten the Chinese Government, Japan decided to carry military action into the heart of China, showing her contempt for and indifference to world opinion, with the purpose of convincing the Chinese that it was hopeless to appeal for outside help. During the four months of continuous Japanese military aggression, the indignation of the Chinese people was aroused to the highest pitch, while the Chinese Government, already harassed by natural calamities, was faced with the task of dealing with invasion from without and restraining popular feeling within.

Having sent naval forces to Shanghai with the stated purpose of protecting Japanese residents and property there, the Japanese Government presented through the Japanese Consul-General certain demands to the Chinese local authorities at Shanghai, requiring complete acquiescence by six o'clock p.m. on January 28th. At two o'clock that afternoon, the Chinese replied fully accepting Japan's demand and were assured by the Japanese Consul-General that the reply was satisfactory. Nevertheless, at midnight that night, Japanese naval forces advanced into Chinese territory and attacked the Chinese police and garrison troops. The Chinese Government has no doubt that disinterested foreigners on the scene have more or less correctly informed the world of events at Shanghai since January 28th, but the Chinese Government wishes to emphasise the following points:

The Japanese naval and military forces have used the International Settlement at Shanghai both as a base for their attacks on the Chinese police and troops and as a sanctuary where they can retire when repulsed and for recuperation and re-supply.

The Chinese troops, in defending China's soil from ruthless invaders, have been unable to reply effectively to the Japanese attacks without endangering the lives and property of thousands of friendly neutral foreigners residing in the International Settlement and surrounding suburbs and have been unable to pursue their Japanese attackers without risking a conflict with friendly neutral foreign police and troops protecting the Settlement.

The Japanese naval and military forces have used the river-front docks within the International Settlement to land troops, artillery and supplies. Japanese warships anchored in the

Whangpoo River alongside the International Settlement fire over the Settlement at Chinese forces resisting Japanese attacks in Chinese territory outside the Settlement, and Chinese artillery cannot reply effectively without gravely endangering scores of neutral vessels in port. The Japanese flagship with the Japanese admiral and staff directing attacks lies alongside the wharf near the centre of the Settlement.

Japanese airplanes bombed all parts of Chinese districts of Shanghai, also parts of the International Settlement and then withdrew over the mid section of the International Settlement.

Japanese military forces and civilian un-uniformed elements have killed and injured presently large number of Chinese peaceable unarmed men, women, children, estimated between one and two thousand, and imprisoned, maltreated many others and executed many without trial.

Japanese bombings and fires started by bombs already have destroyed property roughly estimated at hundreds of millions of dollars.

The Japanese Government excuses these atrocities by alleging the military peril due to proximity of Chinese troops. The Chinese Government solemnly declares that such excuse is a transparent pretext, as it is impossible to send Japanese troops anywhere in China without being surrounded by Chinese population and near Chinese troops occupying their regular stations. Japanese military forces have pushed forward into China's territory, always making the excuse that nearby Chinese troops constitute a menace. It is evident that such reasoning provides excuse for the complete conquest of China by Japan.

When the United States of America and Great Britain, supported by France, Germany and Italy, recently presented to Japan and China a note in five points designed to end hostilities and to bring about the liquidation of this situation worse than war, the Chinese Government without hesitation accepted the proposals of the Powers in full.

In flatly turning down, first, the proposals of the International Shanghai Defence Committee, then the Powers' five proposals and more recently still the British Admiral Kelly's scheme, Japan is thus closing every avenue to peace, leaving China no alternative but to continue to adopt appropriate measures for self-defence to the best of her ability.

The Chinese Government asks the world to contrast known facts of Japan's acts in China during recent months with the Japanese Government's latest statement that "it is the immutable policy of the Japanese Government to ensure tranquillity in the Far East". Also to contrast Japan's statement that "her troops in China are only to discharge an international duty" with the efforts of the League of Nations and Washington Treaty Powers to induce Japan to withdraw her troops from China and to cease warfare. Also contrast Japan's frequent declarations that she has no territorial ambitions *vis-à-vis* China with her refusal to submit the Manchurian and other Sino-Japanese questions before a conference of Treaty Powers. Also contrast Japan's acts at Shanghai causing immense destruction of the property of all nationals and loss of lives with her statement that she acted in Shanghai in co-operation with the other foreign defence forces and foreign municipal authorities and with the latest statement of the Shanghai foreign Municipal Council that "Japanese Government and not the Municipal Council is solely responsible for acts of the Japanese armed forces in Shanghai".

The Chinese Government positively denies that the Chinese violated the temporary truce arranged on January 29th. Because of the suddenness of the armistice, it was not possible to get orders to all outposts resulting, during the night, in desultory firing between the outposts on both sides. The Japanese command resumed attacks at daybreak of January 30th.

Since Japan's astounding action in Mukden last September, it has been the unswerving policy of the Chinese Government to avoid, by all means at its command, a state of war and to that end it has endured intense humiliation, risked its own existence in face of popular feeling, in the hope that the worldwide pacific measures might check Japan's reckless course. Despite the failure so far of the pacific agencies, the Chinese Government adheres to its faith in world justice, but it cannot passively submit to Japan's invasion of China's territory and slaughter of Chinese people. It therefore solemnly declares to the world that China will continue to resist in self-defence Japan's attacks at all points and with all the forces at its commands.

The Chinese Government further declares that it is China's desire to settle issues in connection with the present crisis in purview of interested Powers and in accordance with principles guaranteeing world peace and the sovereignty, independence, and territorial and administrative integrity of China.

Appendix VI.

RAILWAY GUARDS.

Railway guards were kept by Japan along the railways after the Russo-Japanese War originally on the ground of the *post bellum* disorder in Manchuria, but have been maintained there ever since against Chinese protests. They consist of the following kinds:

(a) One division of regular troops, with headquarters at Liaoyang and garrison points at Changchun, Kungtsuling, Tiehling, Mukden, Liaoyang and Haicheng, besides Port Arthur in the Leased Territory; and

(b) Six battalions of specially organised guards stationed along the railways, with headquarters at Kungtsuling.

The railway guards are under the control of the Commander of the Kwantung Army, with headquarters in the Leased Territory, who, according to the Japanese Imperial Ordinance of April 12th, 1919, is to "have command over the military forces in the Kwantung Province and South Manchuria"; to "be responsible for the defence of the Kwantung Province and the protection of the railway lines in South Manchuria"; and to "have the power to employ military forces" in discharging his duties, "when he deems it necessary." The article containing the last provision continues:

"The Commander shall comply with the request of the Governor of Kwantung for the despatch of troops necessary for the preservation of peace and order in the region under the Governor's jurisdiction, as well as in connection with police affairs in the lands attached to the South Manchuria Railway; but he may adopt such expedient military measure as occasion may require in case of emergency too urgent to wait for a request from the Governor.

"Any such contingencies as the foregoing shall be reported to the Minister of War and the Chief of the General Staff."

Appendix VII.

WITHDRAWAL OF THE RAILWAY GUARDS.

With regard to railway guards, the claim that they have a treaty basis of their own cannot be any better sustained. Article V of the Chinese Eastern Railway contract reads:

"The Chinese Government will take measures to assure the safety of the railway and of the persons in its service against any attack.

"The Company will have the right to employ at will as many foreigners or natives as it may find necessary for the purpose of administration, etc.

"Criminal cases, lawsuits, etc., upon the territory of the railway, must be settled by the local authorities in accordance with the stipulations of the Treaties."

The foregoing translation from the French text may also be compared with a translation from the Chinese text, which reads:

"The said railway and its employees the Chinese Government will take measures to protect. As to the personnel, Chinese and foreign, necessary for the operation of the railway, the said Company is permitted to employ at will. All criminal cases, lawsuits, etc., upon the lands of the railway shall be administered by the local authorities in accordance with Treaties."

It is clear from the foregoing provisions that Japan did not have a right to maintain railway guards.

That such is the case is, it may be added, recognised by Japan herself. In Additional Article I in the Portsmouth Treaty, Japan reserves with Russia "the right to maintain guards to protect their respective railway lines in Manchuria," the number of such "not to exceed fifteen per kilometre". In Additional Article II in the Peking Treaty of 1905, under the protest of China, she, however, not only makes no claim to a "right", but undertakes to withdraw the guards under certain conditions. This Article, translated from the Chinese text, reads:

"Since the Chinese Government declares that it earnestly hopes that Japan and Russia will rapidly withdraw their troops now in Manchuria as well as the railway guards, the Japanese

Government is prepared to meet China's wishes. When Russia agrees to withdraw her railway guards, or when China and Russia agree to adopt other proper measures, the Japanese Government will consent to take similar steps. Again, when the order of Manchuria is restored and China is in the position to give full protection to the lives and property of foreigners, Japan will also simultaneously with Russia withdraw the railway guards."

Since Japan has no right to maintain the guards and has so admitted, their withdrawal is but a matter of duty. It may also be added that, even on the basis of the two alternative conditions she imposed for carrying out her duty, she has no reason to tarry. "When Russia agrees", runs the first condition, "to withdraw her railway guards, or when China and Russia agree to adopt other proper measures, the Japanese Government will consent to take similar steps." It is a common knowledge that Russia has so agreed. "The Governments of the two Contracting Parties," says Article IX, Section I, of the Sino-Russian Peking Agreement of May 31st, 1924, "declare that, with the exception of matters pertaining to the business operations which are under the direct control of the Chinese Eastern Railway, all other matters affecting the right of the National and Local Governments of the Republic of China, such as *** matters relating to *** military administration *** shall be administered by the Chinese authorities." "When the order of Manchuria is restored", runs the alternative Japanese condition, "and China is in the position to give full protection to the lives and property of foreigners, Japan will also, simultaneously with Russia, withdraw the railway guards." It is scarcely necessary to say that the restoration to a normal, from a *post bellum*, situation, which is contemplated in the text and is the only condition that could have been contemplated there, must have taken place not long after the cessation of armed conflict between Japan and Russia. At least, there has been no indication to the contrary ever since the re-organisation of the Manchurian administration in 1907, from which time twenty-five years have now elapsed.

Appendix VIII.

CHINESE STATEMENT ON MANCHURIA'S PUPPET GOVERNMENT (FEBRUARY 22ND, 1932).

The Three Eastern Provinces, also known as Manchuria, are always an integral part of China and any usurpation or interference with the administration therein constitutes direct impairment of China's territorial and administrative integrity. Article of the Organic Law of the National Government of October 4th, 1928, which was proclaimed in the Three Eastern Provinces (Manchuria) as well as in other provinces of the Republic, provided that the National Government shall exercise all governing powers in the Chinese Republic. The Provisional Constitution of June 1st, 1931, expressly provides that the territory of the Chinese Republic consists of the various provinces, Mongolia, and Tibet, and that the Republic of China shall be a unified Republic forever.

The territorial, political and administrative integrity of the Chinese Republic, besides being an attribute of a sovereign State and of international law, is guaranteed by Article 10 of the Covenant of the League of Nations and Article 1 of the Nine-Power Treaty. Such guarantee has been implemented by Japan when she adhered to the League Council resolution of September 30th last, which reads partly as follows:

"The Council recognises the importance of the Japanese Government's statement that it has no territorial designs in Manchuria; . . . being convinced that both Governments are anxious to avoid taking any action which might disturb the peace and good understanding between the two nations, notes that the Chinese and Japanese representatives have given assurances that their respective Governments will take all necessary steps to prevent any extension of the scope of the incident or any aggravation of the situation . . ."

In the resolution of October 24th last, the Council emphasised the importance of these assurances, saying that it "recalls the Japanese statement that Japan has no territorial designs in Manchuria, and notes that this statement is in accordance with the terms of the Covenant of the League of Nations, and of the Nine-Power Treaty, the signatories of which are pledged 'to respect the sovereignty, the independence, and the territorial and administrative integrity of China'."

The Council further states in the resolution of December 10th last that, "considering that events have assumed an even more serious aspect since the Council meeting of October 24th, notes that the two parties undertake to adopt all measures necessary to avoid any further aggravation of the situation and to refrain from any initiative which may lead to further fighting and loss of life."

This resolution was also accepted by Japan. The Chinese delegate who endorsed it declared: "China would regard any attempt by Japan to bring about complications of a political character affecting China's territorial or administrative integrity (such as promoting so-called independence movements or utilising disorderly elements for such purposes) as an obvious violation of the undertaking to avoid any further aggravation of the situation."

Now, in defiance of all law and solemn obligations, the Japanese authorities who are in unlawful occupation of the Three Eastern Provinces are endeavouring to set up in these provinces a so-called independent government and are trying to compel Chinese citizens to participate in the puppet organisation. The National Government has repeatedly and emphatically protested against the illegal actions of the Japanese Government in this regard, and hereby again declares that it will not recognise the secession or independence of the Three Eastern Provinces, or any part thereof, or any administration which may be organised therein without its authority and consent.

Geneva, February 27th, 1932.

LEAGUE OF NATIONS

RÉPORTS

of the

Committee of Enquiry set up at Shanghai

under Article 15, Paragraph 1, of the Covenant



Note by the Secretary-General:

Article 15, paragraph 1, of the Covenant stipulating that the Secretary-General "will make all necessary arrangements for a full investigation and consideration", the Secretary-General, on receiving the Chinese Government's appeal under Article 15, requested certain Members of the Council having representatives on the spot to authorise these representatives to constitute a committee for the purpose of enquiring into the causes and developments of the situation at Shanghai and in the neighbourhood.

The Secretary-General also thought it well to address a similar request to the Government of the United States of America. While it did not feel in a position to appoint an official representative as a member of the commission, this Government instructed its Consul-General at Shanghai to co-operate with the Committee in its work.

The Secretary-General has the honour to communicate the Committee's reports and the notes sent to him by the Chinese and Japanese delegations in connection with these reports.

C.185.M.90.1932.VII.

I. FIRST REPORT BY THE COMMITTEE.

Shanghai, February 6th (desp. 9.18 p.m.).

Drummond, Nations, Geneva.

Committee appointed by Secretary-General of the League of Nations to report on events in Shanghai and neighbourhood has established, on the basis of its own information, following first report, which may require subsequent correction in detail or amplification, and will be followed by report on subsequent events. Committee met with the co-operation of Mr. Cunningham, Consul-General United States.

Present Committee has been asked to report on causes facts developments events Shanghai and neighbourhood.

Anti-Japanese boycott existing since July result of Korean affairs increased by occupation Manchuria and stringently enforced, caused enormous damage to Japanese business. Boycott, fostered by the anti-Japanese Boycott Association(s) formed by various Chinese collaborating organisations, included picketing shops, seizure Japanese manufactures, fining, imprisonment of Chinese using or dealing in such goods and other illegal acts for which no redress obtainable through courts. Spirit bitter hostility was developed. Student manifestations and demand for war declaration against Japan increased Chinese feeling against Japan. In this state great tension, incidents of violence frequently occurred. There was in addition derogatory references by Chinese to the Emperor of Japan which infuriated Japanese, and demands by Japanese to their Government to take direct action to put an end to intolerable position became insistent.

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VII. POLITICAL ✓

1932. VII. 4.

January 18th, five Japanese, some of them being Buddhist monks, whilst passing in front of Sanye Towel Factory in Chapei were attacked by Chinese, some of assailants being probably members of organised anti-Japanese Volunteer Corps. Chinese police arrived too late to arrest culpables. Two Japanese seriously wounded, one of them, Buddhist monk, dying from wounds subsequently.

On January 20th, about 50 members of Japanese Youth Protection Society with knives and clubs, proceeded to Sanye Towel Factory, set building on fire and on the way home clashed with Settlement Municipal Police. Three Chinese police seriously wounded, one of them dying from wounds, three Japanese shot by police, one dying from wounds.

Same day, mass meeting Japanese residents held at Japanese Club protested against attack against monks and against disparaging references by the Press to the Japanese Emperor. Meeting passed a resolution asking Japanese Government send war vessels and military units for complete suppression anti-Japanese movement. About half of them proceeded first to Japanese Consulate then to the naval headquarters in order to present resolution. After seeing Japanese Consul who asked them leave matter with him clashed with International Settlement police on the way to naval headquarters one British probation police wounded. Japanese authorities expressed regret. Seven Japanese subsequently surrendered to the Japanese authorities and were arrested by them to be tried for the offences in Nagasaki in accordance with Japanese law.

Afternoon of the same day, Japanese Consul presented the Chief Secretary of the Mayor of Greater Shanghai following demands concerning events occurring January 18th.

- First, formal apology by Mayor ;
- Second, immediate arrest culpable ;
- Third, payment indemnity hospital bills ;
- Fourth, adequate control of anti-Japanese movement ;
- Fifth, immediate dissolution all anti-Japanese organisations actively engaged in fostering hostile feelings and anti-Japanese riots and agitation.

During the morning of January 21st, the Mayor of Greater Shanghai communicated to the Japanese Consul readiness to consider first three points but had difficulty in complying with last two. Later during the day, communication from admiral commanding Japanese naval forces published in the Press, sent copies to Settlement authorities, Public Safety Bureau Greater Shanghai, stating that, should the Mayor of Greater Shanghai fail to give satisfactory reply to Japanese and fulfil demands without delay, admiral was determined take necessary steps in order to protect Japanese Imperial rights interests.

On January 24th, Japanese naval reinforcements arrived at Shanghai. Rumour also current Chinese troops in Chapei were being reinforced. Same day Japanese Consul communicated to mayor that if no reply was forthcoming within reasonable time or if reply unsatisfactory Japanese Government reserved right to take action as required by circumstances. Meanwhile mayor, who had expressed to neutrals his intention making every possible concession to avoid clashes, was trying to induce leaders of local Chinese to stop anti-Japanese boycott associations and agree to delete words "anti-Japanese" from the title other body, these words being considered by Japanese as national offence. Resulted association was closed and various offices were seized by Chinese police during the night January 27th-28th.

On January 27th, Japanese Consul notified Mayor of Greater Shanghai that, without fixing definite day, he would expect preliminary reply by January 28th.

January 27th, Japanese Consul informed mayor that he must have satisfactory reply to demands by 6 p.m. next day failing which Japanese would take necessary steps in order to enforce them.

January 28th, 7.30 a.m., Japanese admiral notified commanders other national defence forces he proposed to take action following morning if no satisfactory reply been received from Chinese. Municipal council of International Settlement held meeting during the morning and decided that state of emergency should be declared as from 4 p.m. This decision was taken by the municipal council on their responsibility. Declaration of state of emergency is effective notice to commanders of various national forces that they are expected to be prepared to defend their sections.

Same day, early afternoon, Mayor of Greater Shanghai transmitted to Japanese Consul reply accepting entirely Japanese demands. At 4 p.m., Japanese Consul informed consular body of receipt this reply which said entirely satisfactory. He added that it remained to be

seen whether mayor would be able to enforce terms accepted but he admitted that demands had been carried out to a large extent and, for the time being, no action would be taken. In spite of this change in the diplomatic situation, there was a popular belief that the Japanese naval authorities were determined to take direct action in any event. Inflammatory statements were appearing Japanese Press *Union Bulletin* to the effect that Chinese did not intend to carry out their promise and that they were preparing to attack Japanese. It was also anticipated that there might be a revolt amongst Chinese population against acceptance by the mayor of the Japanese demand. These considerations made it advisable in the eyes of the Defence Committee that the state of emergency should be nevertheless enforced as from 4 p.m.

It is to be noted that the International Settlement Defence Committee composed of garrison commanders, Chairman Shanghai Municipal Council (?), Shanghai Municipal Police and Commandant Shanghai Volunteer Corps, and presided by the senior garrison commander, is not considered to give orders to the various commanders as to detailed measures they are expected to take in defending their sections. It simply allots sections, helps in co-ordinating action taken by various commanders, and fixes main principles defence.

British and American troops started to occupy their respective sections soon after declaration state of emergency. Italian troops occupied their section January 29th.

Japanese section consisted of whole north-eastern area of the Settlement, limited on the western side by North Honan Road. Comprised also, from the point of view Shanghai Defence Committee area outside Settlement limited on the west by North Kiangsi Road and Woosung Railway, on the north by the northern border of Hongkew Park, on the east by a line joining roughly north-east corner of Hongkew Park and Harbin Road Police Station.

Many Japanese live in the region of Hongkew Park. The park itself and North Szechwan Road, Dixwell Road, although outside Settlement are properties Shanghai Municipal Council and normally policed by it. Does not appear that the Chinese authorities previous to events starting at 11 p.m. had received any communication about this outside Japanese section. Japanese made no attempt to occupy extra Settlement section when state of emergency came into force, but it must be understood that Japanese marines have always maintained posts along above-mentioned municipal road in this area for the protection of their nationals and their naval headquarters are situated towards the end of this salient.

11 p.m., Japanese admiral issued two proclamations copies of which were served on the mayor, who declared he had received them at 11.15 p.m. One of these referred to state of emergency and said Imperial Navy, feeling very anxious regarding situation in Chapei, where Japanese nationals lived in large numbers, decided to send troops to this section for the enforcement of law and order in the area. Under the circumstances, he hoped Chinese authorities would speedily withdraw Chinese troops stationed at Chapei to the west of railway and remove all hostile defence in that area. Other proclamations stated that in the area given to Japanese in order to preserve order in the Settlement any action considered necessary for the proper execution of duties involved in state of emergency would be taken.

Japanese marine and armed civilians having mobilised (one word undecipherable) at naval headquarters, forces advanced along North Szechwan Road, dropping parties at entrances to alleyways as they went along, and, at midnight, at a given signal, all these parties advanced westwards and northwards in the direction of railway. The final party of about 100 marines, accompanied by armoured cars, attempted to pass through gates dividing Settlement from Chinese territory at the end of Honan Road but were prevented by Shanghai volunteer corps in whose section gate situated. This gate leads to railway station.

Chinese military authorities had not complied with Japanese admiral's demands to withdraw their troops. Would appear moreover even had they decided to comply with this demand, would have been impossible in short time at their disposal to arrange for the actual withdrawal of Chinese troops in that area. One should take into account also tension created by situation of previous days which would induce Chinese authorities to interpret measures taken by Japanese naval authorities as representing part of larger military operations. Japanese marines consequently met with resistance on the part of Chinese regular troops. They succeeded in reaching railway line so far south as Paoting Road, but do not appear to have succeeded in reaching line south of that point and their line then ran east of railway until it reached Settlement boundary between North Honan and North Szechwan Roads. Japanese were harassed by Chinese armoured train, which issued from station and patrols Woosung line. Subsequently, it took refuge in the station, which was also strongly defended by Chinese troops. Thereupon Japanese, during January 29th, bombarded station and destroyed train by aeroplanes. Other buildings along Paoting Road also burned by incendiary

bombs and it is generally thought this was done deliberately in order to destroy vantage post overlooking Japanese lines. Casualties not known but believed considerable loss of life resulted.

Mayor Greater Shanghai had lodged protest against the Japanese action with consular authorities. Japanese authorities contended that their action was not connected with demand they had made and which had been accepted, but was based necessity protecting Japanese population living in part of area occupied. Also maintained that action, which met with armed resistance, and for which they took full responsibility, was within limits admitted, if necessity arose, by the International Settlement defence plans. Fighting continued during greater part of January 29th.

In the afternoon of January 29th, at the request of the Mayor of Greater Shanghai, American and British consuls succeeded in arranging for truce, which started from January 29th at 8 p.m. Truce amounted only to an agreement to refrain from further firing.

On January 31st, at a meeting held between Japanese Consul, admiral commanding Japanese naval forces, Mayor Greater Shanghai and commander local Chinese troops, in presence of American and British consuls, it was agreed that Japanese Consul should report to Japanese Government a suggestion that Japanese troops should be withdrawn from the salient. If reply was unfavourable Chinese would refer to their Government and until final reply was received both sides agreed that they would not fire unless first fired upon. — CIANO (*Chairman Committee*). (Report ends.) — HAAS.

C.209.M.109.1932.VII.

II. COMMUNICATION FROM THE CONSUL-GENERAL OF THE UNITED STATES AT SHANGHAI WITH REGARD TO THE FIRST REPORT BY THE COMMITTEE.

Shanghai, February 9th, 1932 (received 5 p.m.).

Consul-General United States has communicated officially to Chairman of Shanghai Committee by letter February 8th that he concurs in general in the first report of the Committee, on the understanding that, as set forth in the first paragraph thereof, it may require subsequent correction in detail or amplification. — HAAS (*Secretary-General of the Shanghai Committee*).

C.248.M.140.1932.VII.

III. INFORMATION SUPPLEMENTARY TO THE FIRST REPORT OF THE COMMITTEE, COMMUNICATED BY THE LATTER IN RESPONSE TO A REQUEST FROM THE REPRESENTATIVE OF CHINA.

(a) LETTER FROM THE REPRESENTATIVE OF CHINA TO THE SECRETARY-GENERAL.

February 9th, 1932.

Referring to the first part of the report from your Shanghai Committee (document C.185.M.90.1932.VII), I have the honour to request you to telegraph to Shanghai for some supplementary information regarding two items contained therein.

1. On page 4, paragraph 3, it is stated that "Japanese admiral notified commanders other national defence forces *he proposed to take action following morning* . . . Municipal Council of International Settlement held meeting during the morning and decided that state of emergency *should be declared as from 4 p.m.* Declaration of state of emergency is effective notice . . . *to defend their (commanders') sections.*

It is clear from the above that it was the Japanese who intended to attack and not the Chinese. Such being the case, what was the motive for the Council to declare a state of emergency, which, as stated above, is "effective notice to defend"? Was it meant to defend the Settlement against the Japanese, the attacking party, or against the Chinese troops, the attacked party, which would, of course, be absurd?

2. On page 6, seventh line from the bottom of page, it is stated that "the final party of about 100 marines, . . . attempted to pass through gates dividing Settlement from Chinese territory . . . *but were prevented by Shanghai Volunteer Corps* . . ."

I should be grateful if you will be kind enough to ascertain in this case why the volunteer corps prevented the Japanese marines, accompanied by armoured cars, from passing through the gates. Did the volunteer corps have orders from the municipal council to do so, and, if in the affirmative, were not these orders based on the notion of neutrality of the International Settlement ?

(Signed) W. W. YEN.

(b) REPLY FROM THE COMMITTEE.

Shanghai, February 13th, 1932 (10.10 p.m.).

Drummond, Nations, Geneva.

Shanghai Committee has adopted following text in reply to your request for further information regarding two points which you transmitted by your telegram of 12th :

Reply begins : *Question 1.* — Declaration state of emergency brings into operation defence scheme. Purpose of defence scheme is twofold : (i) to protect foreign area from internal disorder and (ii) to defend it against external aggression.

When state of emergency was declared Council had in mind that either (a) Chinese would not accept Japanese terms, in which case Japanese would take some action and there might be rushes of excited refugees and possibly of disorganised military elements attempting to enter Settlement, or (b) that Chinese would accept Japanese terms, in which case there might be storm of protest on part of Chinese population, resulting in riot and disorder both inside and outside Settlement. Mayor himself was apprehensive of this. Therefore, although there was reason to expect trouble, it was not known from what direction it would come, and declaration of state of emergency was merely precautionary measure not directed against any particular party.

Question 2. — Honan Road Gate gives access from Settlement to Chinese territory not comprised in defence scheme, and strict instructions, based on principle that the duties of defence force are defensive and not offensive, had been given by commandant Shanghai Volunteer Corps, in whose section it is situated, that in no circumstances was it to be opened to permit of either entrance or exit. — CIANO (*Chairman*), HAAS (*Secretary-General*).

C.227.M.121.1932.VII.

IV. SECOND REPORT BY THE COMMITTEE.

Shanghai, February 12th, 1932.

I am requested to transmit following second report Shanghai Committee.

By 8 p.m. *January 29th*, that is, after beginning of arranged truce, firing had died down, but next day Japanese admiral protested to American and British Consuls-General that Chinese armoured train in the railway station re-opened fire. This Chinese denied, alleging, on the other hand, that it was Japanese who had fired.

During the morning of *January 31st*, 17 Japanese aeroplanes flew over Shanghai and Chinese positions but without any bombardment. Japanese naval authorities contended this demonstration was effected as a result of fresh breach of truce by Chinese. This was warmly denied by the Chinese. On this day took place the meeting referred to in last paragraph of first report, at which suggestions for a neutral zone were made, and it was agreed that the truce should continue, pending final reply both sides.

February 1st: Truce was more or less observed, though there was again some intermittent firing.

February 2nd: Japanese commander again alleged breach of truce by the Chinese on previous days, adding that, as it seemed clear Chinese were assembling forces with a view to surrounding Japanese, he was going to send up aeroplanes to reconnoitre.

About midday Japanese aeroplanes flew over Shanghai and Chinese positions. They were fired upon by the Chinese, whereupon aeroplanes dropped bombs and in a short time general firing both sides recommenced. About 3 p.m., that is, after fighting had re opened, Japanese Consul-General informed consular authorities that the Japanese Government had rejected proposal for neutral zone referred to above.

Same day, the Mayor of Greater Shanghai sent to consular authorities a letter, received by them February 3rd, referring to request for an armistice meeting January 31st, and stating Japanese had repeatedly broken this agreement by bombarding them from the air as described in the preceding paragraph.

February 3rd. Japanese naval authorities announced, as the Chinese authorities had consistently failed display sincerity in the carrying out of their engagements, Chinese troops must be withdrawn sufficient distance from Chapei, and to effect that object Japanese aeroplanes might be forced to bombard Chinese positions. Later on same day, Japanese Consul-General informed consular authorities that three Japanese destroyers had been fired upon from the Woosung forts, and Japanese therefore intended occupy forts. This was again denied by the Chinese.

Since February 3rd, state of open war exists, any pretence truce being abandoned. Firing continues intermittently, both in Chapei and Woosung area, with the use of artillery and, on the side of Japanese, by aerial bombardment. Offensive is entirely in the hands of Japanese, whose declared object is to capture Woosung forts and drive all Chinese troops considerable distance from Shanghai.

It must be noted, in relation to any question of breach of truce, that complete truce never really existed, and also that, in the absence of foreign observers in the fighting lines, it is impossible to establish which side should be held responsible for breaking truce. Individual units on either side, even "agents provocateurs" may have been responsible.

Apart from question of resumption of hostilities between regular troops on the fighting line, it is necessary to recall briefly events, internationally important from the point of view of the status of settlement, which during this period were occurring inside Japanese section.

From the beginning of the Japanese movement on the night of January 28th, Japanese section was invaded by Chinese plain-clothes troops, who concealed themselves inside, or on roofs of houses, whence they fired on the Japanese patrols in the streets with automatic pistols. It should be mentioned that the Japanese, who seem to have had insufficient regular forces for the defence of the area they occupied, had mobilised and armed all their so-called reservists, who wore civil clothes distinguished by brassards.

Marines and reservists responded to the sniping of the Chinese plain-clothes soldiers by machine-gun fire, and also by house-to-house search in order to locate snipers, in course of which very considerable damage was done, houses even being set on fire in order to get rid of snipers.

Japanese naval authorities took complete control Hongkew district, inside Settlement, barricaded streets, disarmed police, and paralysed all other municipal activities of the Settlement authorities, including fire brigade. Police posts were prevented from all communications with their headquarters. Shanghai Municipal Council was forced to evacuate schools and hospitals. Numerous excesses, including summary executions, were committed by marines, reservists and . . . last mentioned, who had not official standing, being actuated probably merely by spirit of revenge against Chinese for earlier anti-Japanese activities. Reign of terror resulted, and almost entire non-Japanese population of area ran away.

Owing to large number of Chinese who were believed to have been arrested or put to death by the Japanese, and of whom no trace could be found, Municipal Council, February 5th, asked Consular Body to approach Japanese authorities with a view to enquiry. Japanese Consul admitted that excesses had been committed by his nationals at a time when feeling was running high and chaotic conditions prevailed, but the situation was greatly improved and he agreed that persons arrested as suspect by the naval authorities within the Settlement should be handed over to municipal police. This was accordingly done, but the number of Chinese still unaccounted for is very large. Municipal police have already collected details of about 100 cases.

Sniping has been now greatly reduced but Japanese control is still severe and police and other municipal functions can only assert themselves. Japanese authorities were much concerned at the excesses committed by their nationals, and considerable number of undesirables have been deported to Japan.

Shanghai Committee do not propose for the time being to send any further reports unless they come in possession of some fresh information which will necessitate corrections of previous statements, or until it is required to amplify or supplement any particular point in statements made in their first and second reports. — CIANO (*Chairman*). (End report.) — HAAS.

C.235.M.128.1932.VII.

V. COMMUNICATION FROM THE JAPANESE DELEGATION REGARDING THE FRENCH TRANSLATION OF THE SECOND REPORT OF THE COMMITTEE.

Geneva, February 14th, 1932.

With reference to the Second Report of the Shanghai Committee which you were good enough to forward to me to-day, I venture to draw your attention to a few points of translation which appear to be in need of correction, as they might leave an impression which is not conveyed by the English text. It would be extremely regrettable if the remarkably impartial and objective work of the Committee were to suffer in any way.

It will be understood that my remarks refer only to questions of translation. I reserve the right to submit further explanations of the words used in both reports should such explanations appear necessary.

Page 1, paragraph 3, line 4 : " Contended " has been translated " ont *prétendu* que ". The word " affirmé " would appear more appropriate.

Page 1, paragraph 3, line 7 : " on this day " should apparently be translated " le même jour ".

Page 2, paragraph 3, line 2 : " whereupon ". It would be advisable to add to the French text (page 2, line 2) " et *alors* ont jeté ".

Page 2, penultimate line : " This was again denied " is translated " Cette allégation également. . ." which appears to express an opinion on the declaration made by the Japanese authorities.

Page 3, penultimate line : " so-called reservists ". The translation " *prétendus* réservistes " gives a shade of meaning which does not exactly correspond to the sense of the English text.

Page 4, second paragraph, penultimate line : " Reign of terror resulted ". The translation " Ainsi s'*établit* le règne de la terreur " is noticeably stronger than the English text.

I should be much obliged if you would, if possible, arrange for the incorporation of the corrections which I have ventured to suggest.

(Signed) N. SATO,

Representative of Japan on the Council.

C.244.M.135.1932.VII.

VI. OBSERVATIONS OF THE JAPANESE DELEGATION ON THE SECOND REPORT OF THE COMMITTEE.

Geneva, February 18th, 1932.

1. The report mentions that the offensive is entirely in the hands of the Japanese. In this connection it should be borne in mind that the present combats are merely the outcome of the clash between the Chinese forces and the Japanese troops who were proceeding to occupy their line of protection on January 28th. At first, the Japanese marines numbered only 1,500, and this small force, which subsequently reached some 3,000 men, had to defend a large sector inhabited by some 30,000 Japanese against hostile forces numbering more than 30,000 men. The Japanese delegation has already mentioned the special circumstances in which the 19th Chinese Army was placed and which explain the violence of its attitude.

Efforts were made to bring about a suspension of hostilities, which was naturally desired by us in view of the disproportion between the conflicting forces. In spite of the truce arranged, a Chinese armoured train opened fire against us on the 30th at about 5.20 a.m. and this firing lasted for an hour and a half. At about 9 a.m. the Chinese opened fire on the Japanese headquarters and on our positions along the railway. On the 31st, at 1.20 and 4.40 p.m., they again violated the truce and by dawn about 100 soldiers were advancing near the Rokusan Garden and opened fire on our headquarters. Moreover, plain-clothes soldiers, whose activities are referred to in the report, continued to invade our lines. The second attempted truce was again violated on February 1st and 2nd, while the Chinese forces were manœuvring for the purpose of surrounding us.

It was becoming evident that the Chinese could not be trusted to observe the truce ; a pacific attitude on our part led to increasingly greater losses, and the movements of the Chinese forces, who brought up reinforcements and surrounded the salient of the Extension, rendered the position of our marines more and more critical. It was on this account that from February 3rd onwards our forces were compelled to attack the Chinese positions.

2. It is not quite correct to speak of the mobilisation of reservists. No general measure of this kind was adopted. A small number of volunteers armed with pistols was deputed to take action against Chinese snipers and to assist the police. These volunteers were disarmed some time ago and only a few reservists are still employed as interpreters, guides, etc.

3. As regards the slowing down of the municipal activities of the Concession authorities, it should be noted that the municipal police forces had at one time abandoned their posts. Their return and co-operation were requested by the Japanese authorities and they have now resumed their normal work. As regards the firemen, in particular, their co-operation was requested even for the quarters neighbouring on the Concession and the Extension. (The normal activity of the municipal council's firemen is in principle confined to the Concession and the Extension.) The Japanese authorities hope that the other municipal activities will shortly be fully resumed.

The flight of the police forces and the evacuation of schools and hospitals mentioned in the report were certainly due only to the dangers of the situation and were not a consequence of the measures taken in this connection by the Japanese authorities. It is, however, true that at the commencement of the incidents, in the general disorder, a few Chinese policemen were disarmed by mistake. On the other hand, the co-operation of the Chinese municipal police having proved ineffective in the struggle against soldiers in mufti, these police were on certain occasions temporarily replaced by Japanese forces.

Owing to this struggle, barricades had been built at various points, but they have at present been taken down.

4. The report says that excesses were committed by sailors, reservists and other elements having no official standing. The Japanese delegation feels bound to deny this assertion as regards the sailors and reservists.

The report mentions the attitude which the Japanese authorities adopted with regard to undesirable elements, against whose activities very severe action was taken. Many of these individuals are now in custody at the Consulate-General, while others have been deported.

5. As regards the number of Chinese whose fate is unknown, it should be noted that very probably a large number of these have taken refuge in the outskirts of Shanghai and in other towns. (Anyone who knows China will agree how difficult it is to follow the movements of the population in that country, particularly in large inhabited areas like Shanghai.)

6. It is to be regretted that the report has not verified certain facts which, though denied by the Chinese, are indisputable, as for instance the firing by the Woosung forts on three Japanese vessels which were leaving Shanghai on February 3rd. These vessels were taking back to Japan the mortal remains of our sailors killed during the fighting of the previous days, and, that being their mission, they would certainly not have opened fire on the forts. This action, which took place in full daylight, and which the Chinese deny, affords a further example of the value of allegations from Chinese sources.

7. If it is correct that orders were given to the Chinese soldiers regarding the truce, the frequent disregard of those orders by the said soldiers bears eloquent witness to the state of disorder and indiscipline existing in the Chinese forces. As regards the Japanese forces, orders had been issued that they should fire only in the case of hostile acts on the part of the Chinese in violation of the truce. The known discipline of the Japanese troops is sufficient guarantee that these orders were obeyed.

C.258.M.147.1932.VII.

VII. THIRD REPORT BY THE COMMITTEE.

Drummond, Nations, Geneva.

Shanghai, February 20th, 1932.

In conformity with request contained in your telegram of February 19th I send hereafter Third Report of Shanghai Committee. (Report begins.)

Through intermediary neutral diplomatic representatives suggestion for meeting of military commanders on both sides was accepted with a view to discussion on the basis of mutual evacuation.

Meeting held morning of February 18th, Chinese and Japanese commanders being represented by their Chiefs of Staff. Japanese representatives presented their terms which Chinese representative declared were unacceptable. After two hours' fruitless discussion Japanese representative said Japanese side would send in written communication of their terms before 9 p.m., and he hoped Chinese would return reply as soon as possible. Meeting then broke up.

About 9 p.m. separate despatch containing Japanese terms was delivered to the Mayor and the Commander of the Chinese 19th Army. Terms differing in words, but following in substance :

Paragraph 1: Chinese forces to cease hostilities and complete evacuation of their first lines by 7 a.m., February 20th, and complete evacuation whole area by 5 p.m. same day to a depth of 20 kilometres north of following lines, including "sketseline" forts, namely, line formed by north border of Settlement and the Soochow Creek to Pusungchen and

on the East of Whangpoo line from Lannidu to Changchiachiao. This is practically line of the Soochow Creek extended eastward. All fortifications and military works in the evacuated area to be removed and no new ones created.

Paragraph 2: Japanese troops will not attack or pursue but aeroplanes may be sent off on observation duty. After Chinese evacuation Japanese troops will maintain only the municipal road areas adjacent to Hongkew, including Hongkew Park.

Paragraph 3: Japanese investigator with Japanese military guard and flag to be sent to evacuated area after evacuation of the first line by the Chinese.

Paragraph 4: Chinese to assume responsibility for safety of Japanese lives and property outside evacuated area, failing which Japanese would take necessary steps. Plain-clothes men to be effectively suppressed.

Paragraph 5: Question of the protection of foreigners in vicinity of Shanghai evacuated area to be dealt with subsequently.

Paragraph 6: As regards anti-Japanese movement, mayor's promises of January 28th to be strictly enforced and the matter to be dealt with by diplomatic negotiations between Japanese Foreign Office and Chinese civil officials of Shanghai. Failing compliance with above articles Japanese troops will be compelled to take action.

On the following day, namely February 19th, reply was delivered by mayor to Japanese Consul and by Chinese commander to Japanese commander. Mayor stated that grave situation in Shanghai was due to invasion of Chinese territory and brutal murders of Chinese people by Japanese troops in violation of all international treaties and law. Inasmuch as measures called for in Consul-General's letter had direct bearing on general relations between China and Japan, they should be dealt with by diplomatic authorities of the two countries, and he had therefore transmitted Consul-General's letter to his Government for consideration and reply to Japanese Minister through Ministry of Foreign Affairs. He pointed out, further, that Chinese indignation had been daily intensified by continued acts of provocation by Japanese troops, and it was natural, therefore, so-called anti-Japanese activities should fail to cease. Chinese commander's reply was to the effect that his troops were part of national forces and subject to directions of National Government, to whom accordingly he had submitted Japanese commander's letter. It is not yet known what reply, if any, has been sent by Chinese Government.

During the night February 19th-20th, Japanese reinforcements were moved from their base in the International Settlement to the Japanese lines, and after preliminary aerial reconnaissance which satisfied Japanese that Chinese had not evacuated their lines in conformity with demand, Japanese opened attack February 20th at 7.30 a.m. in Kiangwan and Woosung areas. Hostilities continued whole day. — CIANO. (Report ends.) — HAAS.

C.272.N.160.1932.VII.

VIII. SUPPLEMENT TO THE THIRD REPORT BY THE COMMITTEE.

Shanghai, February 24th, 1932. (Desp. 11.12 p.m.)

Drummond, Nations, Geneva.

I am requested to transmit following supplement to the Third Report of the Shanghai Committee.

In reply to an enquiry whether any answer had been sent by Chinese Government to the Japanese Minister on the subject of Japanese demand, following communication was received by the Secretary-General of the Shanghai Committee from the City Government of Greater Shanghai :

“ Chinese Foreign Minister's reply to Japan despatched on February 20th took the form of vigorous protest lodged with Japanese Minister in China against the action of the Japanese Commander and the Consul-General in delivering their identical note to the Commander of the Chinese 19th Route Army and Mayor of Greater Shanghai.

“ The Chinese Note stated that ever since their unprovoked attack on Mukden on September 18th Japanese military forces have kept pushing forward and have occupied many important areas in the North-East. Then on January 28th they suddenly shifted the

scene of their military adventure to Shanghai and staged a surprise attack on the Chapei district, and for twenty days Japanese Army naval and air forces have carried on a terrific bombardment of the Chapei and Woosung district. Local Chinese garrison forces were constrained to resist their onslaught as a measure of self-defence. As though this were not enough, Japanese Commander and Japanese Consul-General now present to Commander of the Chinese 19th Route Army and Mayor of Greater Shanghai respectively a set of demands of an impossible nature.

“The note concluded by declaring that should Japanese forces attempt to renew their attack, Chinese troops would not hesitate to resist to the best of their ability, and stating that the Japanese Government would be held entirely responsible all consequences. CIANO (*Chairman*); CHARRÈRE (*Secretary*)”.

C.283.M.170.1932.VII.

IX. OBSERVATIONS BY THE JAPANESE DELEGATION ON THE THIRD REPORT OF THE SHANGHAI COMMISSION.

1. The text of the demands addressed on February 18th by the Officer Commanding the Japanese forces to the Officer Commanding the 19th Army does not appear to have been taken from the official communication of the Japanese authorities (text of which is appended), but from a document probably of Chinese origin. It is not in exact accordance with the demands in question—*e.g.*, in the case of the limits of the zone to be evacuated.

2. The last paragraph of the report suggests that all the Japanese forces had made the Concession their basis of operations. The report omits to state that a large part of the Japanese forces were stationed outside the Concession, and commenced operations from Woo-Sung.

Appendix.

DEMANDS MADE BY GENERAL UEDA, COMMANDER OF THE JAPANESE TROOPS, TO THE COMMANDER OF THE 19TH ARMY, FEBRUARY 18TH, 1932.

1. The Chinese troops shall withdraw from all the points within a distance of twenty (20) kilometres from the boundary of the International Settlement to the north of the following lines—namely, the northern boundary line of the Settlement; a line connecting the north-westernmost end of the Settlement, Tsoachiatuchen, Chouchiachiaothen and Pusungchen and running outward from the last-named position and on the right of the Whangpoo River; a line connecting Lannitu and Changchia Louchen and running outward from these positions respectively; the aforesaid withdrawal of the Chinese troops shall be effected by completing the withdrawal of the forefront by 7 a.m. on February 20th, 1932, and that of the remainder by 5 p.m. on the same day. All the forts and other military equipments of China shall be removed from and shall not be reinstalled or newly erected within the aforesaid distance of twenty kilometres. The Shitzulin forts shall be deemed to be within the same distance.

The Chinese authorities shall protect the lives and property of the Japanese subjects in districts around Shanghai other than the aforesaid area evacuated by the Chinese troops; in the event of the protection accorded by the Chinese authorities being unsatisfactory, the Japanese authorities may take such measures as they consider necessary. The Chinese authorities shall completely suppress all the activities of plain-clothes gunmen.

2. Upon having ascertained the withdrawal of the Chinese troops, the Japanese forces will maintain only the Extension Road area in the Hongkew district including the area around the Hongkew Park. The Japanese forces will not engage in attacks, shooting or bombardments after the commencement of the withdrawal of the Chinese troops but may carry on reconnoitring flights.

3. After the withdrawal of the forefront of the Chinese troops, the Japanese forces will despatch their representatives accompanied by bodyguards to ascertain the completion of the withdrawal.

4. Further negotiations shall be made with regard to the protection of foreign residents in districts around Shanghai, including the area evacuated by Chinese troops.

Genève, le 5 avril 1932.

SOCIÉTÉ DES NATIONS.

APPEL DU GOUVERNEMENT CHINOIS.

Rapports de la Commission d'Enquête constituée à Chang-Hai
en exécution de l'Article 15, paragraphe premier, du Pacte.

Le Secrétaire de la Commission ci-dessus a fait parvenir
le texte de la correction suivante, à apporter au second rapport de
la Commission, en date du 12 février 1932:-

A la page 6, ligne 12, au lieu de:

"état de guerre existe ouvertement",

lire: "il existe un état de guerre patent",

LEAGUE OF NATIONS.

APPEAL FROM THE CHINESE GOVERNMENT.

Reports of the Committee of Enquiry set up at Shanghai
under Article 15, Paragraph 1, of the Covenant.

The following correction has been received from the
Secretary of the above Committee to the Second Report of the
Committee dated February 12th, 1932:-


On page 6 (line 12) instead of

"state of open war",

read "state of open warfare",

[Distributed to the Assembly,
the Council and the Members
of the League.]

Official No.: **A. [Extr.] 6.** 1932. VII.

Geneva, March 2nd, 1932. 

LEAGUE OF NATIONS

**APPEAL FROM THE CHINESE GOVERNMENT
IN VIRTUE OF ARTICLE 15 OF THE COVENANT**

**EXPLANATORY NOTE COMMUNICATED
BY THE JAPANESE GOVERNMENT**

Note by the Secretary-General:

The Secretary-General has the honour to circulate the following letter from the Japanese delegation, dated March 2nd, 1932, communicating an Explanatory Note by the Japanese Government.

[*Translation.*]

To the Secretary-General of the League of Nations.

With reference to your note of February 26th, quoting part of the resolution adopted by the Council on February 19th, and asking me when you could count on receiving from me a statement of the Japanese case, I have the honour, acting on instructions from my Government, to forward herewith an explanatory note on the Shanghai incidents. As I mentioned in my note of February 29th, informing you of the appointment of our delegates to the Extraordinary Assembly, Japan will participate subject to the reservation mentioned in that communication. The explanatory note attached hereto is not, properly speaking, the statement referred to in the second paragraph of Article 15, but rather simply an explanation of what has occurred at Shanghai. I trust, however, that you will find in it the necessary information and the essential facts. I should be grateful if you would communicate it to the Assembly.

(Signed) N. SATO,

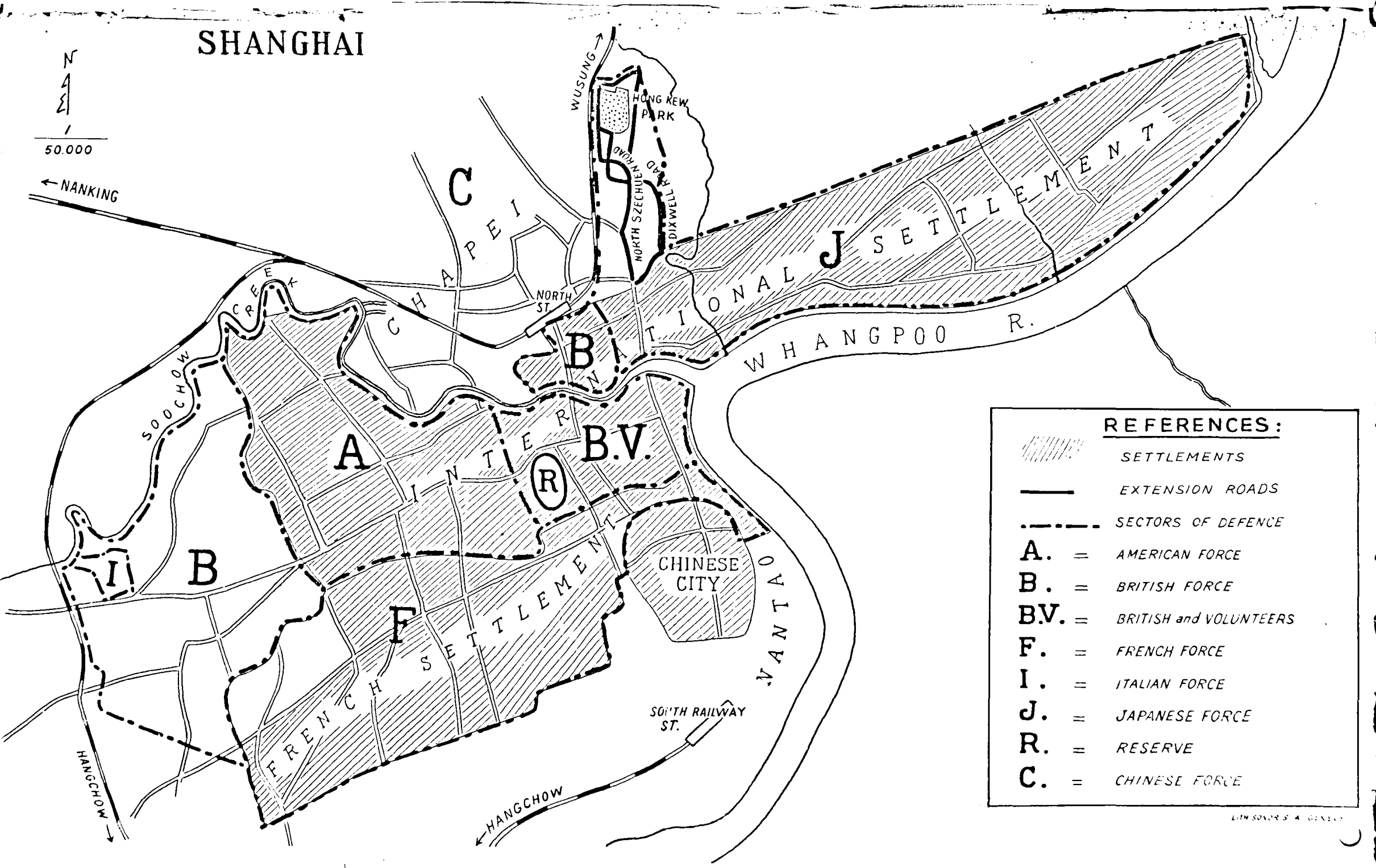
*Representative of Japan on the
Council of the League of Nations.*

SHANGHAI





50,000

← NANKING



REFERENCES:

-  SETTLEMENTS
-  EXTENSION ROADS
-  SECTORS OF DEFENCE
- A.** = AMERICAN FORCE
- B.** = BRITISH FORCE
- BV.** = BRITISH and VOLUNTEERS
- F.** = FRENCH FORCE
- I.** = ITALIAN FORCE
- J.** = JAPANESE FORCE
- R.** = RESERVE
- C.** = CHINESE FORCE

EXPLANATORY NOTE FROM THE JAPANESE GOVERNMENT.

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I. REVOLUTIONARY POLICY OF THE CHINESE NATIONALIST GOVERNMENT.

1. The Chinese military and revolutionary Government, formed in 1912 by the Nationalist Party, of which Sun Yat Sen was the founder, adopted the so-called three "Min" policy recommended by the latter. That policy was based on equality of races and the principle of nationalities, the rights of the people (democracy) and the right of every individual to the means of livelihood. Foreign policy more particularly took as a basis the first axiom and proclaimed the liberation of the Chinese people and anti-imperialist tenets.

The principles adopted in 1913 by the Nationalist Party in regard to foreign policy were as follows :

(a) Abolition of all rights based on "unequal" treaties, more particularly extraterritoriality, administration of Customs by foreigners, foreign political influences in China prejudicial to the latter's sovereignty. Substitution for such treaties of other treaties on a footing of reciprocal equality.

(b) Recognition of most-favoured-nation status for all countries which might voluntarily relinquish their privileges and for all countries prepared to abrogate treaties according them rights prejudicial to Chinese sovereignty.

(c) Modification of other treaties, concluded between China and the Powers, prejudicial to the interests of China.

(d) Pledging and repayment of loans would be agreed to only in so far as China suffered no damage from a political or economic standpoint. The Chinese people does not consider itself responsible for loans concluded by Governments whose undertakings it cannot endorse—for example, a Government elected in virtue of money, such as the Peking Governments under the former Presidents.

The Nationalist Government's foreign policy was, in short, to come to an agreement with countries which relinquished their rights and to oppose those which failed to do so. Its fundamental basis was the unilateral denunciation, without any consideration for the wishes of the other party, of all foreign rights, more particularly loans and so-called "unequal" treaties. After the death of Sun Yat Sen, the Nationalist Party and the Government of the nationalist and revolutionary army pursued this policy, proclaiming even more energetically their anti-imperialist tenets. In 1926 Chiang Kai Shek, the Head of the Government, marched northwards again with his armies against the Northern generals. During his expedition he proclaimed : " If the nationalist revolution succeeds, China will immediately denounce all unequal treaties ".

2. The Revolutionary army won a series of victories, and at the beginning of 1927 was on the point of seizing Nanking and Shanghai. The attitude of the Nationalist Party and of the Revolutionary Government became increasingly arrogant. Frequent attempts were made against the life and property of foreigners wherever the revolutionary Army appeared, especially in the Wuchang and Hankow region, where the nationalist Left and communist elements had set up the Wuhan Government. The Communist Party's activities were particularly violent and the anti-imperialist movement was becoming increasingly dangerous. The anti-foreign movement took the form of direct action, the most memorable example being the taking by force of the British Concessions at Hankow and Kiukiang early in 1927. The Wuhan Government had not officially taken part in that action, but the latter had, in point of fact,

been carried out under the direction of the leaders of the Chinese Communist Party, on which the Wuhan Government depended. That was conclusive proof of the will of the Chinese leaders to deprive foreigners of the rights which they enjoyed.

3. The Wuhan Government's rival—that is, the Nanking Government, consisting of the nationalist Right—appeared more moderate, at all events from a formal standpoint. Actually, however, its tendencies were as violent as those of the rival party, and both had adopted as their fundamental policy the denial of foreign rights and interests—a policy which coloured all their actions.

The Nanking Government lost no opportunity of declaring its intention of denouncing "unequal" treaties, and reiterated openly that it had entered into an undertaking with the Chinese people to sweep away the rights and interests of foreigners. On December 28th, 1929, it promulgated a law abolishing extraterritoriality as from January 1st, 1930. The Powers all protested against this attempt to abrogate international undertakings by means of an internal law.

In the face of this attitude the Chinese Government sought to temporise; in December 1931 it published a declaration full of threats to the effect that if a satisfactory solution was not found for the question of extraterritoriality before the end of February 1932, it would pursue its policy by means other than diplomatic means. Lastly, it officially declared its firm intention of denouncing treaties unilaterally, by promulgating the "Regulations concerning judicial procedure in regard to foreigners".

The statements of responsible officials concerning the taking by force of the foreign Concessions and "Settlements", the appeals for concerted anti-foreign action, are all so many examples proving how impossible it is to apply to such a policy the customary rules for international relations.

II. THE AGITATION AGAINST FOREIGNERS IN CHINA.

1. As has been shown above, the foundations of Chinese policy under the direction of the Nationalist Party are the denunciation of "unequal" treaties and the withdrawal of the legitimate rights and interests of foreigners.

The weapons used by the party to achieve its purposes are anti-foreign agitation and boycotting.

The agitation is directed against all the foreign Powers and not against one or a few of them. Unless it abandons all the rights and interests which it possesses, every Power is liable to find itself at any moment the object of this agitation.

2. The latter should be considered from two different aspects: first, that of anti-foreign education and organisation which have been pursued secretly and continuously for many years, and, secondly, that of the sporadic violent agitation and boycotting directed for a time against one or several individual nations.

(a) The methods employed to consolidate the anti-foreign attitude of the nation are chiefly education inculcating a hatred of foreigners and the celebration of days of national humiliation.

The Nationalist Government has laid down as a basis of the national education the teaching of the three principles of Sun Yat Sen. Article 47 of the Provisional Law of 1931 lays this down clearly. One of the compulsory subjects for the civil service examinations is the study of the principles of the Nationalist Party. Anti-foreign text-books have been compiled for the elementary and secondary schools, where their use is compulsory. These text-books present the facts in a misleading or false light. They stir up hatred of the foreigner and openly encourage feelings of revenge. Instead of educating the Chinese nation, it must unfortunately be recognised that they poison it.

The Nationalist Government, in instituting and celebrating days of national humiliation and similar commemorations, endeavours to keep alive in the hearts of the nation the memory of conflicts with foreign countries. It thus develops a narrow patriotism and an anti-foreign spirit.

The number of these days of humiliation is very large. They are observed by the Nationalist Party and the Chinese Government, as well as by public organisations. They are often public holidays. Special commemorative ceremonies are even organised.

(b) The Nationalist Government is aware of the difficulty and disadvantages of organising a general movement against all foreign countries. It therefore first of all attacks one or several countries, chosen according to the necessities of the moment, provisionally moderating the agitation against other nations.

3. For example, at the time of the so-called V.30 case (May 30th, 1925), the chiefs of the Nationalist Party ordered the students' organisations to concentrate their efforts against Great Britain, and the members of the Canton Military Government openly gave the same directions to their subordinates. This agitation imperilled British trade and the lives, rights and interests of British nationals in China. British concessions were even taken back by force. Before these events Great Britain had, since December 1926, adopted an extremely conciliatory attitude towards China: at the Peking Customs Conference, for example, she

had proposed to the Powers parties to the Washington Treaty concerning the Chinese Customs tariff the unconditional acceptance of the surtax provided for by this Treaty ; and in January of the following year she had proposed the most liberal concessions to the Chinese Government for the settlement of the questions pending between Great Britain and China.

The latter showed no appreciation of these efforts at conciliation, and on the contrary directed against Great Britain the violent campaign which has just been mentioned, and as a result of which Great Britain was compelled, in order to protect her nationals and her rights and interests in China, to send large armed forces there in January 1927.

The anti-British movement became more and more violent and on March 23rd a premeditated attack was made against the foreign consuls and foreign nationals at Nanking by the regular Chinese troops. The losses suffered by the Japanese, British, Americans and French were enormous. Ordinary remedies were unavailing, and British and American warships were obliged to bombard Nanking.

The anti-British movement was extended to Americans also and soon developed into a campaign against all foreigners. On April 3rd, the Japanese concession at Hankow was attacked by a Chinese crowd ; numerous Japanese were wounded, and houses were pillaged. The movement spread all through the valley of the Yangtse, which the Japanese had to leave, withdrawing to Shanghai or returning to Japan.

The Nationalist Army proceeded towards the north. The Japanese Government then decided to send troops to Shantung so as not to leave the numerous Japanese nationals inhabiting these provinces at the mercy of the Nationalist soldiers. The anti-Japanese campaign then redoubled in violence. It attained its height after the fighting which took place at Tsinan, where the Nationalist forces entered the town and attacked the Japanese troops who were quartered there. A communication was sent to the League of Nations at that time by the Japanese Government.

4. Since then the anti-Japanese campaign has continued, whereas the anti-British and anti-American agitation has abated. This does not prove, however, that China has changed her attitude towards other countries. She knows well enough that a general campaign would unite all the Powers against her, and she understands that she would be in an impossible situation. The anti-Japanese campaign is at present engaging her attention too exclusively for her to be able to disperse her efforts. The experience of the past shows that she would soon turn against the other Powers if her present campaign were successful or if a favourable occasion presented itself.

III. ANTI-JAPANESE MOVEMENTS IN CHINA.

1. We shall begin by summarising briefly the principal anti-Japanese movements in China since 1908.

(a) A whole series of boycotts have occurred in 1908, after the Japanese protest against the illegal seizure of the s.s. *Tatsu-Maru*, which was taken to Canton ; again, in 1908, after the decision of the Japanese Government to extend the Antung-Mukden Railway under the terms of the agreement concluded with China ; in 1915, in connection with the Sino-Japanese negotiations ; in 1919, as a protest against the articles of the Versailles Treaty relating to Shantung ; and in 1923, in consequence of the refusal to cede the leased territory at Kwantung.

(b) In 1925 the movement, which at the outset was solely anti-British, later became general, becoming anti-American and anti-Japanese (see Part II).

(c) In June 1927, serious disturbances occurred at Tsinan. The National troops committed outrages against the Japanese residents, just as they had indulged in looting and cruelties against British and American nationals in Central and South China. In the course of the Tsinan disturbances thirteen civilians, women and children among them, were killed under the most barbarous circumstances, while twenty-eight persons disappeared. A year later serious trouble again occurred in the same region.

(d) The present anti-Japanese movement is the most serious since 1908.

It began in June after the Wanpaoshan incident (flagrant denial of justice to Korean peasants in Chientao, interference of the Chinese authorities, reprisals by Koreans on Chinese at Jinsen, Seoul, etc.). The incidents which subsequently occurred at Shanghai will be discussed in detail in Part IV.

2. The anti-Japanese campaigns and the movement for the boycotting of Japanese goods had been increasing steadily during the last fifteen years. Since the Nationalist Party came into power, these movements have been not only tolerated or encouraged by the Chinese Government, but have been under the direct or indirect control of the Nationalist Party (Kuomintang). Where the population did not support the movement, severe penalties were exacted. It is a case, therefore, of an organised campaign conducted for purposes of foreign policy, in which the population is compelled to join whether it wishes to or not.

No doubt can exist as to the anti-Japanese agitation. It is conducted under the orders of the Nationalist Party with the encouragement of the Chinese Government.

The organisation which is the mainspring of the entire movement is the association for the support of anti-Japanese movements which has taken the name "Anti-Japanese Association for the Defence of the Country". It is a private organisation, but set up by the agency of the Nationalist Party, and is recognised by the Chinese Government. It has sections throughout the country. Its heads are the leaders of the party or of local sections and the principal members of the chambers of commerce. Administrative authorities have also on numerous occasions given orders of an anti-Japanese character. Thanks to the concerted action of the anti-Japanese associations, the movement has been strongly organised and identical action has been taken throughout the country. It is in the districts which are under the direct authority of the Nanking Government in the Yangtse valley that the anti-Japanese campaign has been most violent and most successful.

The anti-Japanese associations issue the following instructions :

1. Not to buy Japanese goods ;
2. Not to use Japanese goods ;
3. Not to transport Japanese goods ;
4. Not to use Japanese currency ;
5. Not to use Japanese vessels ;
6. Not to have personal relations with Japanese ;
7. Not to work for Japanese ;
8. Not to deposit money in Japanese banks ;
9. Not to supply Japanese with food ;
10. Not to go to Japan on business or for study.

In order to force Chinese merchants to conform to these rules, the anti-Japanese associations have taken steps

- (1) To enforce the registration of Japanese goods in the hands of Chinese : it is proposed to take steps to check and confiscate such goods ;
- (2) To compel Chinese in the employment of Japanese to leave their employment or to go on strike ;
- (3) To keep a watch on Chinese who have relations with Japanese ;
- (4) To exact various penalties such as confiscation of goods or property or corporal punishment. (Offenders are liable to be dragged through the city or put in cages and exposed to the public view.)

Since July, the anti-Japanese campaign at Shanghai has attained an unexampled degree of intensity. Not only has a large quantity of Japanese goods in the hands of Chinese been confiscated, but goods belonging to Japanese have also been looted or seized.

Towards the end of September, the anti-Japanese campaign extended over practically the whole of China and was highly effective. Commercial relations with Japan were *de facto* interrupted. The big Japanese spinning concerns had their contracts cancelled. They could not obtain transport. Goods accumulated in the factories. They were compelled to reduce the length of the working day and ultimately to suspend activities altogether. Japanese Banks ceased entirely to do business with Chinese. Shipping companies were compelled to lay up a number of ships. The Japanese population was exposed to vexations and in many cases to actual violence, and was frequently compelled to leave its dwellings in order to take refuge in districts where safety was assured. In many localities the women and children had to be evacuated.

Japanese living in places where they were dependent on Chinese for their food supply were also compelled to quit their residences. Our consulates at Chenchow, Chentu, Yunnanfu and Chihfeng had to be evacuated at the end of October. At the end of December, the number of Japanese compelled to evacuate different places in central China was over 1,700. Full details on this subject have been communicated by the Japanese delegation to the League of Nations.¹

The Japanese Government protested repeatedly against this campaign ; on October 9th, 1931, it despatched a formal note of protest to the Chinese Government. In communicating this note to the League (document C.690.M.296.1931.VII), it submitted to the opinion of the world the proceedings to which the Nationalist Government had had recourse. No improvement, however, was to be noted. On the contrary, the Chinese authorities maintained that the campaign was no more than a spontaneous expression of Chinese patriotism, and did nothing but encourage—and thereby appreciably aggravate—the situation. This attitude did not fail to produce incidents. On December 31st, Japanese were assassinated at Canton. On January 2nd, 1932, Japanese officials were assaulted and insulted at Fuchow. The Chinese Press published articles containing insults to the Japanese Imperial house, and the nervousness and indignation of Japanese nationals in China increased from day to day. It was at this juncture that the Shanghai incident occurred.

¹ See documents : C.678.M.285.1931.VII. — C.695.M.300.1931.VII. — C.703.M.309.1931.VII. — C.715.M.320.1931.VII. — C.727.M.332.1931.VII. — C.730.M.335.1931.VII. — C.732.M.337.1931.VII. — C.859.M.437.1931.VII. — C.971.M.534.1931.VII. — C.997.M.553.1931.VII.

IV. THE SHANGHAI INCIDENTS.

1. The recent anti-Japanese agitation and the various forms in which it manifested itself have been succinctly described in the previous chapter. We will now examine the Shanghai incidents.

Shanghai is the most important centre of Japanese commerce and shipping in Central and Southern China. Japan possesses interests in Shanghai amounting to several hundred million yen.¹ The Japanese residents number about 27,000. The extent of their interests has been increasing every year.

Since the Wanpaoshan incident (see above, page 5), Shanghai has been the centre of that anti-Japanese agitation which has now extended all over China. In Shanghai itself the anti-Japanese associations had been strongly organised under the direction of the Nationalist Party and had for several months been indulging without restraint, both inside and outside the Settlement, in the most reprehensible acts of violence. It would be difficult to give a list of the quantities of goods belonging to Japanese which have been seized in course of transport. Children going to school, Japanese women and girls have been insulted and molested in the street. Up to December 1931 more than 600 cases of this kind occurred, the number of victims being more than 1,000. Since September the Chinese authorities had been adopting vexatious measures of every kind, such as refusing to accept correspondence; the interception of newspapers; and refusing or hindering telephone calls. By the end of September, Chinese agents and employees in banks and business firms had almost all been forced to quit their employers. At the beginning of October, a strike was engineered among the lightermen. Certain Chinese merchants refused to sell to Japanese articles of primary necessity such as rice and coal.

The anti-Japanese organisations conducted their campaign with particular violence under the cloak of a patriotic movement, calling themselves "Anti-Japanese Associations for the Defence of the Country". Since the middle of October they have frequently attacked Japanese mills and shops, causing serious damage, and have forced the Chinese workers to go on strike. When these matters were brought before the Chinese Courts, the latter merely inflicted light fines on the offenders and even in certain undoubted cases of robbery with violence, the Courts, considering that these acts had been committed on patriotic grounds, only punished the offenders with a very small fine. The penalties themselves were not really enforced: time and again offenders have been bound over, a fact which has naturally tended to encourage further acts of violence.

As a result of this state of affairs, Japanese trade and shipping have borne the heaviest losses they had ever suffered hitherto, and although it is difficult to estimate these losses accurately in figures they certainly amount to several hundred million yen.

Japanese business firms at Shanghai are at present unable to transact any business direct with the Chinese. Shipping companies have curtailed the number of their sailings, while more than half of their vessels are laid up. Undertakings of every kind are in a critical condition. The business of most of the merchants and manufacturers has, since the beginning of November, been completely at a standstill: many of our nationals have in fact been deprived of their means of livelihood.

The action of the anti-Japanese organisations referred to has not merely dealt a serious blow at the commercial and industrial activity of the Japanese; it possesses another and—by no means negligible—aspect. It has fomented and encouraged among the Japanese masses violent feelings of contempt and hostility towards Japan. Obviously and naturally such feelings on the part of the Chinese, coupled with the sufferings caused by the heavy losses incurred by the Japanese, have found their echo among the Japanese themselves. These circumstances were such as might produce the most deplorable effect on the relations between China and Japan. Aware of this regrettable state of affairs, the Japanese Minister and the Consul-General at Shanghai on several occasions requested the Nationalist Government and the local Chinese authorities to put a stop to this anti-Japanese agitation. These requests never produced any result, although our authorities made every effort, while the Japanese marines stationed at Shanghai had to be maintained continuously on the alert in order to protect our nationals.

2. Such was the atmosphere at Shanghai when on January 9th this year the *Minkuo Daily News*, organ of the Nationalist party at Shanghai, published an article insulting the Japanese Imperial house. Following on an energetic protest by the Japanese Consul-General, the Municipality of Greater Shanghai admitted the culpability of the newspaper and made an official apology; the director of the newspaper was dismissed, the editor directly responsible was punished and the paper itself published a rectification and an apology. The affair was thus terminated officially, but it had produced among Japanese nationals a readily comprehensible emotion owing to the particular veneration in which the Imperial family is held in Japan.

At this juncture, on January 18th, two Japanese monks, accompanied by three of their followers, were, without any provocation, attacked by workmen from a Chinese factory, well known as a centre of the anti-Japanese agitation and situated in the Chinese quarter near the eastern boundary of the Settlement. The five Japanese were all wounded; one of them subsequently died as a result of his wounds. A group of Japanese attacked this factory on January 20th by way of reprisal.

¹ See document C.214.M.111.1932.VII.

3. The Japanese Government could not but conclude that an attack on its nationals such as that which occurred on January 18th was the result of the enmity to and hatred of the Japanese that had long been fomented by anti-Japanese associations. The Chinese authorities had up to then tolerated and even made use of the action of these illegal anti-Japanese associations and, in spite of frequent warnings from the Japanese authorities, had shown no sincere desire effectively to repress their activities. It was natural therefore that they should be held responsible for the consequences of their inaction or ill-will. If the outrages against Japanese were to be stopped, it was absolutely necessary that these illegal organisations should be abolished. Consequently, on January 21st, the Japanese Consul-General addressed to General Wu, the Mayor of Greater Shanghai, the following demands :

- (1) Apologies to be made by the Mayor ;
- (2) Punishment of the guilty persons ;
- (3) Compensation to be paid to the victims ;
- (4) Repression of illegal and improper acts by the Chinese population directed against Japan, and, in particular, the immediate dissolution of all the Shanghai anti-Japanese patriotic committees and all anti-Japanese associations.

On January 25th, a further note was handed in explaining these requests in greater detail. The Mayor was also informed that, failing proof of sincerity on the part of the Chinese, Japan would be obliged to take the necessary protective steps.

Meanwhile, on January 21st, the *Minkuo Daily News* had published a statement to the effect that the attack on the Chinese factory by Japanese had taken place under the protection of marines. The latter could not ignore such a slur on their prestige and honour, and on January 23rd, after the Municipal Council of the International Settlement had been notified, the officer commanding the Japanese Landing Corps forwarded an energetic protest to the Chinese newspaper. The latter published a rectification, but would not publish an apology. While the Japanese naval authorities were considering what steps they should take, the Municipal Council of the International Settlement having also come to the conclusion that the presence within the Concession of this newspaper and the central organ of the anti-Japanese associations was a menace to public order, caused the offices of the *Minkuo Daily News* to be closed on January 26th and stated that it was ready to co-operate with the Japanese authorities if the latter decided to take action against the central organ of the anti-Japanese associations.

4. The Municipal authorities of Greater Shanghai gave the impression that they intended to comply loyally with the Japanese demands ; a whole week had, however, elapsed since those terms were received and as yet no reply was forthcoming. On January 25th, an extraordinary meeting of the Central Council of the Nationalist Government was held at which (it was reported) the decision was taken that the Chinese troops stationed at Shanghai should make important defensive preparations. It was also decided to encourage acts of anti-Japanese agitation in every way, provided such acts did not amount to personal attacks on, and did not directly affect the life and property of, the Japanese. Moreover, the question of the breaking off of economic relations with Japan had been on the agenda since January. These circumstances encouraged the authorities and population to adopt an increasingly hostile attitude. Chinese forces were rapidly being concentrated in the neighbourhood of Shanghai and barricades of sandbags with barbed wire entanglements were erected, while trenches were dug in the region of Chapei, which borders on the quarters of the Settlement and the Extension where the greatest number of Japanese reside. It was rumoured that in case of conflict, 6,000 Chinese gendarmes and the Chinese naval forces were ready for action.

A feeling of the utmost alarm began to spread among the Japanese and Chinese inhabitants and there was ground for fearing a panic with the most appalling results. The Japanese consul-general accordingly decided, on January 27th, to ask for a reply from the Mayor of Shanghai by 6 p.m. on the following day and sent notice of this step to the British, American and French Consuls-General and to the authorities of the International Settlement and the French Concession.

At the same time he informed the police of the Municipal Council that, in the event of the demands not being accepted, he would be forced to take direct action against the Central Association. He asked to be informed whether the municipal police was intending to take steps to occupy the buildings in question. He added that he would not fail to notify the municipal authorities in the event of its being decided that action would be taken by the Japanese forces.

The Municipal Council, in view of the notorious lack of discipline among the Chinese troops and of the hordes of refugees who were crowding into the Settlement, feared that disturbances might break out, whether the Japanese demands were accepted or no. A meeting, therefore, attended by the commanders of the British, American and other troops, was held on January 26th to consider what protective measures should be taken. As soon as the Japanese note was received, a further meeting was held on January 27th, at which the commanders of the foreign forces were present, and it was decided that in case of need the Municipal Council would proclaim a state of emergency and that the foreign troops would occupy the positions assigned to them in a joint defence scheme which had been drawn up in August 1931.¹ This scheme had been prepared by the commanders of the international forces

¹ Document C.154.M.67.1932.VII.

at the request of the Municipal Council and communicated to the respective Governments for approval. At noon on the 28th, the Municipal Council met again and decided to proclaim a state of emergency at 4 p.m. At 5 p.m. the British and American troops took up their positions, followed by the other foreign forces.

5. At 3.15 p.m. on the same day the principal secretary of the Mayor of Shanghai went to the Japanese Consul-General and handed him a note in which the Mayor intimated his acceptance of the Japanese demands. The Consul-General, regarding this reply as satisfactory, accepted the note and at the same time insisted that energetic action should be taken without delay to suppress the anti-Japanese associations. He also pointed out the possible danger of disturbances occurring after the publication of the Chinese reply and urged that adequate measures should be adopted to ensure the maintenance of order. He drew the Chinese authorities' attention likewise to the provocative attitude of the Cantonese forces in the Chapei district and insisted on a stop being put to the forward movements of the troops and of the removal of the military works put up by the Chinese soldiers.

The Mayor replied that he would make every exertion to meet the Japanese authorities on these various points and undertook to assume entire responsibility for the protection of the lives and property of Japanese nationals.

The Japanese authorities accordingly decided to watch the way in which the Chinese carried out their promises, while the naval authorities made their arrangements for the maintenance of order. In the evening of the 27th, the Chinese municipal authorities had given secret orders to the Police and the Municipal Social Bureau to proceed to break up the various anti-Japanese associations (document C.154.M.67.1932), and the Chinese Press announced that, on the morning of the 28th, six of them, inside and outside the settlement, had been dissolved. Events, however, were destined to prove how little reliance could be placed on the Chinese promises. On the morning of the same day, a bomb was thrown at the Japanese Consulate General by members of the "shock troops of the Anti-Japanese Associations". In the afternoon of the same day, about 5,000 students went to the Town Hall and violently attacked General Wu, censuring him for having accepted the Japanese demands. Ever since the morning, hooligans and students had been attacking civilians and the Japanese Police inside and outside the settlement. The concentration of the Chinese troops and the digging of entrenchments were pushed on actively near the settlement boundary, more particularly in Chapei. The strength of the troops was over 30,000, and as their attitude was becoming increasingly hostile, the Chinese residents, fearing a clash, took refuge *en masse* in the settlement. Towards the end of the afternoon of the 28th, the Chapei police forces had fled, and the only result was increased disorder. The lives and property of Japanese nationals were thus exposed to more and more imminent danger. It became plain that it was neither the honest intention nor within the power of the Chinese municipal authorities to control the Chinese soldiers and fomentors of disorder.

6. The acceptance of the Japanese demands made it unnecessary for the naval authorities to take direct action against the anti-Japanese associations. The task assigned to them, however, in consequence of the proclamation of the state of emergency, of effectively protecting a sector of the International Settlement, and likewise the large number of Japanese residing in the Chapei district, called for the urgent despatch of adequate forces to their defence posts in the Japanese sector. The state of utter confusion caused by the Chinese refugees in the Chapei district hampered the rapid occupation of their positions by the Japanese marines. These positions were to be in the vicinity of the points occupied by the Chinese troops. To obviate any incident, the commander of the Japanese forces announced, at 8.30 p.m. on January 28th, that he was about to take steps for the protection of the zone assigned to him in consequence of the state of emergency. He published at the same time a proclamation requiring the speedy removal of the works constructed by the Chinese forces concentrated in the Chapei district. These proclamations were communicated to the Chinese municipal authorities of Shanghai and to the Municipal Council of the International Settlement. Towards midnight the Japanese marines proceeded to their posts in the vicinity of the North Szechuan Road. That road and also the Dixwell Road belong to the Settlement, of which they form an extension. The Japanese nationals are particularly numerous in that district. The marines had of necessity to pass through the neighbouring Chinese quarters in order to reach their posts. ¹ While doing so they were attacked by Chinese snipers in civilian clothing and then by regulars. The Japanese marines had received strict orders not to fire unless they were attacked. In the circumstances they were compelled to reply to the Chinese fire in order to perform their duties as part of the defence force. The clash between the Japanese and Chinese troops accordingly occurred in consequence of the provocation and attacks of snipers and Chinese regulars. There is no question on this point, and the Chinese version, according to which the Japanese forces, notwithstanding the satisfactory reply given by the Mayor, nevertheless took the offensive against the Chinese, is absolutely opposed to the facts. ²

¹ See, in this connection, the First Report of the Committee, page 6, French text and hereunder, Part V, No. 3.

² Documents C.152.M.66.1932.VII.; C.154.M.67.1932.VII.; C.161.M.74.1932.VII.

7. After the first engagements, an agreement was concluded through the Consuls-General of Great Britain and the United States of America with a view to a truce, which was to begin on the 29th at 8 p.m.¹ The Chinese troops violated this first truce and, on the morning of the 20th, began to bombard the Japanese positions with field guns. The Japanese forces, in order to prevent any aggravation of the situation, temporarily withdrew and informed the Consuls-General of Great Britain and the United States of America of the violation of the truce by the Chinese, requesting them to issue a warning to the latter. In spite of this warning, the Chinese forces continued to fire and several shells fell into the Settlement.

On the 31st, a proposal to establish a neutral zone was drawn up at a meeting held in the presence of the commanding officers of the foreign forces. It was understood that hostilities would be suspended until an agreement was reached. The Chinese forces again violated this arrangement; on the 31st, at 11 p.m., they opened artillery fire in the vicinity of the Commercial Library; on February 1st, from 1 to 5 p.m., there was heavy firing from their posts by the Northern Railway Station of Shanghai and shells fell as far as the Whangpoo, in an entirely different direction from that in which the Japanese sector was situated. At the same time, the activities of the soldiers in civilian clothes redoubled in violence, and a large number of Japanese civilians were killed or wounded by them (document C.155.M.168.1932.VII). The concentration of the Chinese troops in the direction of Shanghai continued. An armoured train was approaching the Northern Station, and there was every sign that an offensive was about to begin.

To have allowed such a situation to develop would have meant exposing the Japanese marines and Japanese nationals to the gravest perils. The Japanese forces, which were very few in number, were obliged to engage in street fighting under extremely difficult conditions. The vigorous repulse of the Chinese forces without delay was becoming essential if the Japanese marines were to accomplish the mission of protection which had been entrusted to them. Consequently, on February 2nd at 10 a.m., the Japanese forces decided to reply to the Chinese fire. Naval aeroplanes, which had been sent out to reconnoitre, were also attacked, and in their turn they bombed the Chinese positions. Meanwhile, on February 3rd, three Japanese warships, which were proceeding downstream to take back to Japan the bodies of men who had fallen in the recent fighting, came under Chinese gunfire off Woosung.

8. From the outset of the present engagements, the Japanese Consul-General had considered that the only means of saving the situation was for the Chinese to cease their attacks and to consent to withdraw their troops a certain distance; he had several times made representations to this effect, but without any result (document C.220.M.115.1932.VII). Neither had the proposal to establish a neutral zone led to any positive result. In the meantime, the Chinese redoubled their attacks and brought up additional forces. On February 12th, a new truce was concluded at the request of Father Jacquinet of the Catholic Mission for the purpose of evacuating civilians from the area of hostilities. The Chinese again broke the truce and opened fire on our troops who, according to their instructions, did not reply.

As stated above, the Japanese forces had been obliged to carry out their task under extremely unfavourable conditions and their losses were very heavy. It was becoming dangerous to continue the struggle with such small effectives, who were tired out after fighting for more than a week against an enemy outnumbering them by ten to one. The foreign Powers, in view of the gravity of the situation, were bringing reinforcements. Their total strength was shortly to be increased to over 18,000 men. The Japanese Government accordingly decided to send, as reinforcements, some 15,000 men of the land forces to co-operate with the marines in protecting Japanese nationals and accomplishing their international mission of protecting the Settlement. In its declaration of February 7th, the Japanese Government mentioned the reasons for this movement of troops and stated that the despatch of reinforcements would be limited to the strength required for the above purposes, and that their action would be guided by the policy of protecting the common interests of the Powers (document C.187.M.92.1932.VII).

The disembarkation of these land forces was completed on February 16th. The Japanese authorities, in order not to create any difficulties for the International Settlement, took care to land the troops as far as possible outside the Settlement. They were, however, forced to land some troops in the Settlement itself. On February 14th, the Consuls-General of Great Britain and the United States of America protested against this landing of troops, asserting that the International Settlement was thus being used as a base for military operations.

It must be remembered that the British and American forces have always landed in the Settlement. Moreover, every officer commanding foreign forces has the right to land the troops necessary for the protection of the sector which is assigned to him. The Japanese Consul-General, while stressing these arguments, replied to his colleagues' protest by assuring the Powers that with the object of preventing any danger to the Settlement, the Japanese soldiers would be transferred outside the latter within as brief a time as possible.

The Japanese authorities considered that, in order to avert the imminent danger which threatened the Settlement and its inhabitants, it was necessary to remove the Chinese forces rapidly out of gun range. Although in principle the foreign representatives at Shanghai shared the views of the Japanese authorities, they did not desire to act in concert with the latter; and although, through the intermediary of the British Minister, the Japanese military

¹ Documents C.152.M.66.1932.VII.; C.160.M.73.1932.VII.; C.163.M.76.1932.VII.

authorities conferred with the Chinese authorities, with a view to an amicable settlement of the situation, no agreement was reached. The movement of Chinese troops continuing actively, and the attitude of the Canton forces becoming increasingly hostile, the Japanese Consul-General addressed the following demands, at 9 p.m. on February 19th, to the Mayor of Shanghai :

(1) Withdrawal of the Chinese first-line by 7 a.m. on February 20th ; withdrawal of all troops to a distance of 20 kilometres north of the boundary of the International Settlement before 5 p.m. the same day. The Japanese troops would be withdrawn within the roads of the Extension of the Settlement at Hongkew directly the effective withdrawal of the Chinese troops had been established.

(2) Further negotiations with regard to the protection of foreigners in the Shanghai region.

(3) Carrying out by the Mayor of the undertakings entered into on January 28th concerning the prevention and punishment of anti-Japanese movements.

At the same time, the Commander-in-Chief of the Japanese Forces addressed demands, couched in practically identical terms to the Officer commanding the Nineteenth Cantonese Army, informing him that, in the event of non-compliance with those demands, the Japanese Army would take whatever measures might be deemed necessary. The Chinese would be held responsible for any consequence arising out of such action (document C.283.M.170. 1932.VII).

On the evening of the same day, the Mayor of Shanghai informed the Japanese Consul-General in reply that the Japanese demands were such that he could not transmit them to the Chinese forces, but that he would refer the matter to the Central Government.

The Officer commanding the Nineteenth Army replied to the Officer commanding the Japanese forces that, as the Nineteenth Army was under the authority of the Nationalist Government, he would ask the Officer commanding the Japanese Forces to apply to the latter.

As no direct or indirect reply had been received from the Nationalist Government by 7 a.m. on February 20th, and as the Chinese forces were still occupying their front lines and continuing their fire, the Japanese forces accorded them half-an-hour's grace and began operations at 7.30 a.m. on February 20th.

V. REMARKS ON THE REPORTS OF THE SHANGHAI CONSULAR COMMITTEE.

The description we have just given of the origin of the Shanghai incidents is decisively confirmed in the first report of the Shanghai Consular Committee ; and, as in such cases it is the origins of the conflicts which are of capital importance, we may briefly recall that, as the report says, the boycott which had been in force since July was applied with extreme severity ; that it was accompanied by numerous illegal acts for which no redress could be obtained before the Courts ; and that a spirit of bitter hostility was developed and led to an increase in the number of acts of violence.

The reports then describe the succession of grave occurrences which led the Japanese forces to take energetic measures of protection. Taken as a whole, these indications correspond to the description we have given of the facts. But, as the reports are relatively short, they inevitably present certain omissions. Accordingly, we must submit the following observations in connection therewith.

I. FIRST REPORT.

1. The report states that " Resulted that association was closed and various offices were seized by Chinese Police during the night January 27th-28th."

This sentence might convey the idea that the Chinese Mayor of Shanghai had suppressed the Anti-Japanese Association. It was in reality the Municipal Council of the Settlement which, on its own initiative, closed the offices of the *Minkuo Daily News* and decided also to close the central organisation of anti-Japanese associations, situated in the International Settlement.

2. The report says : " 11 p.m. Japanese admiral issued two proclamations, copies of which were served on the Mayor, who declared he had received them at 11.15 p.m."

The Japanese admiral published his declaration at 8.30 p.m. and immediately informed the authorities concerned. When the Consul-General of Japan received the reply from the Chinese Mayor agreeing to the Japanese demands at 3.15 p.m. on the same day, he had already asked the Mayor that steps might be taken for the withdrawal of the Chinese troops.

3. The report says : " Japanese marines consequently met with resistance on the part of Chinese regular troops."

It must be observed that this sentence is ambiguous. Japanese marines on their way to their posts were attacked by soldiers in civilian clothes and afterwards by regular troops themselves ; they retaliated only in fulfilment of the duty that had been entrusted to them of protecting the Settlement.

2. SECOND REPORT.

The following observations were made by the Japanese delegation concerning this report (document C.244.M.135.1932.VII) :

“ 1. The report mentions that the offensive is entirely in the hands of the Japanese. In this connection, it should be borne in mind that the present combats are merely the outcome of the clash between the Chinese forces and the Japanese troops who were proceeding to occupy their line of protection on January 28th. At first, the Japanese marines numbered only 1,500 and this small force, which subsequently reached some 3,000 men, had to defend a large sector inhabited by some 30,000 Japanese against hostile forces numbering more than 30,000 men. The Japanese delegation has already mentioned the special circumstances in which the Nineteenth Chinese Army was placed and which explain the violence of its attitude.

“ Efforts were made to bring about a suspension of hostilities, which was naturally desired by us in view of the disproportion between the conflicting forces. In spite of the truce arranged, a Chinese armoured train opened fire against us on the 30th at about 5.20 a.m. and this firing lasted for an hour and a half. At about 9 a.m. the Chinese opened fire on the Japanese headquarters and on our position along the railway. On the 31st, at 1.20 and 4.40 p.m., they again violated the truce and by dawn about 100 soldiers were advancing near the Rokusan Garden and opened fire on our headquarters. Moreover, plain-clothes soldiers, whose activities are referred to in the report, continued to invade our lines. The second attempted truce was again violated on February 1st and 2nd, while the Chinese forces were manœuvring for the purpose of surrounding us.

“ It was becoming evident that the Chinese could not be trusted to observe the truce ; a pacific attitude on our part led to increasingly greater losses and the movements of the Chinese forces, who brought up reinforcements and surrounded the salient of the Extension, rendered the position of our marines more and more critical. It was on this account that, from February 3rd onwards, our forces were compelled to attack the Chinese positions.

“ 2. It is not quite correct to speak of the mobilisation of reservists. No general measure of this kind was adopted. A small number of volunteers armed with pistols was deputed to take action against Chinese snipers and to assist the Police. These volunteers were disarmed some time ago and only a few reservists are still employed as interpreters, guides, etc.

“ 3. As regards the slowing-down of the municipal activities of the Settlement authorities, it should be noted that the municipal Police forces had at one time abandoned their posts. Their return and co-operation were requested by the Japanese authorities and they have now resumed their normal work. As regards the firemen, in particular, their co-operation was requested even for the quarters neighbouring on the Settlement and the Extension. (The normal activity of the Municipal Council's firemen is in principle confined to the Settlement and the Extension.) The Japanese authorities hope that the other municipal activities will shortly be fully resumed.

“ The flight of the Police forces and the evacuation of schools and hospitals mentioned in the report were certainly due only to the dangers of the situation and were not a consequence of the measures taken in this connection by the Japanese authorities. It is, however, true that, at the commencement of the incidents, in the general disorder, a few Chinese policemen were disarmed by mistake. On the other hand the co-operation of the Chinese Municipal Police having proved ineffective in the struggle against soldiers in mufti, these Police were on certain occasions temporarily replaced by Japanese forces.

“ Owing to this struggle, barricades had been built at various points, but they have at present been taken down.

“ 4. The report says that excesses were committed by sailors, reservists and other elements having no official standing. The Japanese delegation feels bound to deny this assertion as regards the sailors and reservists.

“ The report mentions the attitude which the Japanese authorities adopted with regard to undesirable elements, against whose activities very severe action was taken. Many of these individuals are now in custody at the Consulate-General, while others have been deported.

“ 5. As regards the number of Chinese whose fate is unknown, it should be noted that very probably a large number of these have taken refuge in the outskirts of Shanghai and in other towns (anyone who knows China will agree how difficult it is to follow the movements of the population in that country, particularly in large inhabited areas like Shanghai).

“ 6. It is to be regretted that the report has not mentioned certain facts which, though denied by the Chinese, are indisputable, as, for instance, the firing by the Woosung forts on three Japanese vessels which were leaving Shanghai on February 3rd. These vessels were taking back to Japan the mortal remains of our sailors killed during the fighting of the previous days and, that being their mission, they would certainly not have opened fire on the forts. This action, which took place in full daylight, and which the Chinese deny, affords a further example of the value of allegations from Chinese sources.

“ If it is correct that orders were given to the Chinese soldiers regarding the truce, the frequent disregard of those orders by the said soldiers bears eloquent witness to the state of disorder and indiscipline existing in the Chinese forces. As regards the Japanese forces, orders had been issued that they should fire only in the case of hostile acts on the part of the Chinese in violation of the truce. The known discipline of the Japanese troops is sufficient guarantee that these orders were obeyed.

3. THIRD REPORT.

The following observations were made by the Japanese delegation concerning this report (document C.283.M.170.1932.VII) :

“ 1. The text of the demands addressed on February 18th by the Officer Commanding the Japanese forces to the Officer Commanding the Nineteenth Army does not appear to have been taken from the official communication of the Japanese authorities, but from a document probably of Chinese origin. It does not indicate correctly the limits of the zone to be evacuated.

“ 2. The last paragraph of the report suggests that all the Japanese forces had made the Settlement their basis of operations. The report omits to state that a large part of the Japanese forces were stationed outside the Settlement, and commenced operations from Woo-Sung.”

Geneva, February 29th, 1932.

8 APR 1932

LEAGUE OF NATIONS.

**APPEAL FROM THE CHINESE GOVERNMENT
IN VIRTUE OF
ARTICLE 15 OF THE COVENANT**

**Report by the Secretary-General
on the Action taken by the League on the
Sino-Japanese Dispute**

I. CONSIDERATION OF THE DISPUTE UNDER ARTICLE II OF THE COVENANT.

THE INCIDENT OF SEPTEMBER 18TH, 1931.

At the public meeting of the Council of the League of Nations held on Saturday, September 19th,¹ the Japanese representative, in deference to the wish expressed by the President of the Council, communicated the information which he had just received relative to an incident which, according to Press reports, had taken place the evening before in the neighbourhood of Mukden.

This first information, which included few details, referred to a collision, near the South Manchurian Railway line, between Chinese troops and the Japanese troops which guard that line. The Japanese representative stated that his Government had immediately taken all possible steps to prevent this local incident from leading to undesirable complications. M. Yoshizawa had asked his Government for additional information and he was sure that it would do everything possible to relieve the situation.

The Chinese representative stated that the information which he had so far received seemed to indicate that the incident had not been occasioned by any act on the part of the Chinese. He added that he would not fail to keep the Council informed of any reliable news he might receive.

APPEAL FROM THE CHINESE GOVERNMENT UNDER ARTICLE II.

On September 21st, the Chinese representative formally brought the matter to the notice of the Council in the following note addressed to the Secretary-General:

"I am instructed by the National Government of China to bring to your attention the facts stated below, and to request that, in virtue of Article II of the Covenant of the League of Nations, you forthwith summon a meeting of the Council of the League in order that it may take such action as it may deem wise and effectual so that the peace of nations may be safeguarded.

"Through statements made to it at its meeting on September 19th by the representatives of China and Japan, the Council was advised of the fact that a serious situation had been created in Manchuria. In his statement at that meeting, the representative of China declared that the information which he then had indicated that the situation had been created through no fault upon the part of the Chinese. Since September 19th, the undersigned has received from his Government information which discloses a situation of greater gravity than had appeared by the first report, and which revealed that, beginning from ten o'clock of the night of September eighteenth, regular troops of Japanese soldiers, without provocation of any kind, opened rifle and artillery fire upon Chinese soldiers at or near the city of Mukden, bombarded the arsenal and barracks of the Chinese soldiers, set fire to the ammunition depot, disarmed the Chinese troops in Changchun, Kwan-chengtse and other places, and later took military occupation of the cities of Mukden and Antung and other places and of public buildings therein, and are now in such occupation. Lines of communication have also been seized by Japanese troops. To these acts of violence the Chinese soldiers and populace, acting under instructions from

¹ *Official Journal*, December 1931, page 2248.

the Chinese Government, have made no resistance, and have refrained from conduct which might in any way aggravate the situation.

"In view of the foregoing facts, the Republic of China, a Member of the League of Nations, asserts that a situation has arisen which calls for action under the terms of Article 11 of the Covenant. I am therefore instructed by my Government to request that, in pursuance of authority given to it by Article 11 of the Covenant, the Council take immediate steps to prevent the further development of a situation endangering the peace of nations; to re-establish the *status quo ante*; and to determine the amounts and character of such reparations as may be found due to the Republic of China.

"I will add that the Government of China is fully prepared to act in conformity with whatever recommendations it may receive from the Council, and to abide by whatever decisions the League of Nations may adopt in the premises."

INITIAL ACTION TAKEN BY THE COUNCIL.

On September 29th, the representative of Spain, who was then President-in-Office of the Council, informed the Assembly, immediately before the close of its session, of the first results of the Council's examination of the question:

"The Chinese Government's appeal", said M. Lerroix, "was submitted on Monday, September 21st. The Council first examined it on September 22nd.

"I shall now recapitulate the main facts regarding the origin and history of the affair, according to the statements of the representatives of the two Governments:

"On the evening of September 18th, the first incident occurred near Mukden in the South Manchurian Railway zone, which was guarded by Japanese troops.

"The Japanese officer in command, on the ground of military precautions, sent troops outside the South Manchurian Railway zone — in particular, to the Chinese railway lines converging on Mukden. The Chinese Government, on receiving the news of the first incident, had contemplated the possibility of settling the matter by direct negotiation, but decided then, in view of the aggravation of the situation, to lay the question before the Council.

"The Council's first act, after its meeting on the Tuesday morning, which was devoted to hearing the first statements of the representatives of the two Parties, was to authorise its President: (1) to address an urgent appeal to the Governments of China and Japan to abstain from any act which might aggravate the situation or prejudice the peaceful settlement of the problem; (2) to seek, in consultation with the representatives of China and Japan, adequate means whereby the two countries may proceed immediately to the withdrawal of their respective troops without compromising the security of life of their nationals or the protection of the property belonging to them.

"The Council decided, further, to forward, for information, the Minutes of all its meetings, together with the documents relating to this question, to the Government of the United States of America.

"On the evening of September 22nd, I telegraphed to the two Governments informing them of the duty entrusted to me by the Council and addressing to them the urgent appeal which the Council had authorised me to transmit.

"Simultaneously with these consultations, I convened the Council, when I judged this useful, in order that the latter might be informed of the progress of the affair.

"The two Governments replied promptly to the telegrams which I had sent them on September 22nd on behalf of the Council. The Chinese Government's reply was received on Thursday, September 24th, and that of the Japanese Government on Friday the 25th.

"The Chinese Government urged that measures should be taken as rapidly as possible to ensure the immediate withdrawal of the Japanese troops. It added that it would assume entire responsibility for the protection of the lives and property of Japanese nationals directly its authority was re-established in the territories evacuated by the Japanese troops.

"The Japanese Government, in its reply, stated that it was sincerely desirous of settling the matter peacefully and as soon as possible by negotiations between the two countries. It had withdrawn the greater part of its troops within the railway zone, where they were concentrated. Outside that zone only a few troops remained posted as a measure of precaution in the city of Mukden and in Kirin, while a few soldiers had been stationed at certain points. The withdrawal of the Japanese forces was being effected in so far as the security of Japanese nationals and the protection of the railway then allowed. The Japanese Government proposed to withdraw its troops into the railway zone as the situation improved and felt confident that the Council would, in this matter, trust the sincerity of its attitude.

"The Secretary of State of the United States of America also communicated to me on September 24th, through the United States Minister at Berne, a document assuring me that his Government was in wholehearted sympathy with the attitude of the League as expressed in the Council resolution communicated to the Chinese and Japanese Governments, and that he proposed to send to Japan and to China notes on similar lines.

"The Council thanked the United States Secretary of State for this communication, adding that it would be happy to continue to keep the United States Government informed of any steps it might take. The Council also expressed the hope that the United States Government would be prepared to enter into communication with it. On September 25th, the United States Minister at Berne communicated to me the text of the identical note addressed by the United States to the Chinese and Japanese Governments.

"Following on the replies of the Chinese and Japanese Governments to my telegram of September 22nd, and the additional explanations furnished to the Council by the representatives of the two Governments at the meeting on Friday, September 25th, I was able to inform the Council that the withdrawal of the Japanese forces to within the railway zone was being carried out, and that, if on both sides efforts were pursued to arrive at pacification, the Council might hope for a satisfactory settlement of the problem.

"I added that the Council must, in the first place, count on the firm goodwill of the two Parties concerned, on their sincerity and on their sincere desire not to aggravate the situation. I stated that the Council would certainly wish, on the one hand, to address an appeal to the Japanese Government to withdraw its troops as soon as possible to within the railway zone, and I stated also that the Council had noted the declaration by the Chinese representative, who, referring to the undertaking contained in the telegram which his Government had addressed to me on September 23rd, gave an assurance that the latter would, in proportion as the withdrawal of the Japanese troops proceeded, assume responsibility for the security of Japanese nationals and the protection of their property outside the railway zone. I added that the Council would doubtless wish to be kept informed of the measures which would be taken by the two Parties in reply to the appeal addressed to them.

"At the following meeting of the Council, held on September 28th, the Japanese representative referred to the fact that the Chinese Government had stated, through its representative, that it would assume responsibility for the safety of Japanese nationals and the protection of their property. While noting the Chinese Government's admirable intentions, the Japanese representative gave the reasons for which it seemed to it necessary, before rescinding all the measures taken to ensure the protection of its nationals, to make certain that the local authorities were really in a position to maintain order, and that the Japanese were not likely to be exposed to danger as the result of the departure of the Japanese protective forces.

"The Japanese representative also announced to the Council that the withdrawal of the Japanese troops was proceeding, and that the Japanese effectives stationed at Kirin had been reduced since the communication which he had made to the Council at the previous meeting. Outside the railway zone, there only remained, apart from Kirin and Mukden, small detachments at Hsinmingtung and Chenchiatung for the protection of Japanese nationals against the attacks of bands of Chinese soldiers and brigands which at the time were ravaging those districts.

"The Japanese representative added that his Government would not fail to keep the Council closely informed on every phase of the situation and all the measures taken to secure a rapid settlement. As things were the Japanese representative thought that any further steps in that connection were unnecessary. In conclusion, he asserted once more that his Government had no territorial ambitions in Manchuria, and that it still firmly maintained its intention, which it had already manifested for some days past in the form of definite acts, to bring back its forces into the railway zone, in proportion as the security of its nationals and of their property were effectively ensured.

"The Japanese representative hoped that his Government would be enabled to carry out its intentions in full and as rapidly as possible.

"The Chinese representative, after stating his satisfaction at hearing that the withdrawal of the Japanese troops was proceeding, expressed his uneasiness on a number of points. On what date would the evacuation be completed? In the evacuated localities, had the prisoners been released and had the seized property been restored to its owners? He thought that certain steps might be taken to hasten the withdrawal of the troops, their withdrawal being desired, not only by China, but also by Japan and by the Council. In his desire to facilitate agreement between the two Governments, he announced that he was prepared, if this proposal were more agreeable to the representative of the Japanese Government, no longer to suggest, as he had done before, the despatch to the spot of a commission consisting of neutral members, but that the Council should assist the Parties, in order that, with the assistance of neutral members, arrangements might be made on the spot which would make it possible to fix an early date for the complete withdrawal of the Japanese troops.

"The Chinese representative will, I suppose, embody his proposal in a concrete form.

"Such is the present situation. I only wish to emphasise several essential points: firstly, the statement by the Japanese Government and by its representative that there never has been, and never will be, any question of the military occupation of Manchuria; secondly, the fact that the Japanese Government has on several occasions insisted, before the Council, on its intention to withdraw the Japanese forces as soon as possible to within the railway zone, in so far as the safety of its nationals and their property may be effectively ensured; thirdly, the fact that this intention has, according to the declaration made yesterday to the Council by the Japanese representative, already been translated, during the last two days, into definite action and that outside the railway zone Japanese troops are stationed in only four localities.

"The Council has noted these reassuring statements by the Japanese Government. It feels certain that, in this very delicate affair, as in other affairs which have been laid before it, the goodwill of the Parties and their loyalty to international engagements will be found

to constitute the best guarantee for the peace of the world. Having had the matter laid before it under Article 11 of the Covenant, the Council will, after the close of this session of the Assembly, continue its efforts to assist the representatives of the two Parties to obtain, by such measures as both may deem acceptable, a satisfactory settlement of a situation which has deeply affected the relations between two great nations and at one time even seemed likely, before the real progress achieved in the last few days, to constitute a threat to international peace."

RESOLUTION OF SEPTEMBER 30TH, 1931.

After the close of the Assembly, the Council held a further meeting on September 30th.

The President stated that the Council, which was anxious to carry out the duty incumbent upon it under Article 11 of the Covenant, was bound to attach immediate and paramount importance to the withdrawal of the Japanese troops to within the railway zone. In the special circumstances of the case, however, a certain time must inevitably be allowed for the withdrawal, particularly in order to ensure the safety of Japanese life and property.

The President added that both the Parties had concurred with the other members of the Council in recognising, without prejudice to their views as to the method of settlement of outstanding questions, the essential importance of the withdrawal of the troops in accordance with the above conditions, and both had taken steps to that end. A certain amount of time, which the Council together with the Parties desired to be as short as possible, was thus still required for the complete withdrawal of the Japanese troops. While, therefore, the Council was bound to watch closely the development of the situation, it seemed that, in the circumstances, it could best serve the interests of peace and good understanding by adjourning discussion of the question until another meeting to be held in the near future.

After mentioning that suggestions had been made verbally or in writing with a view to obtaining information on the spot, the President stated that the Council, for its part, would be ready at all times to render any assistance that might be useful. He then submitted a draft resolution, which was unanimously adopted. This resolution was worded as follows:

"The Council,

"1. Notes the replies of the Chinese and Japanese Governments to the urgent appeal addressed to them by its President and the steps that have already been taken in response to that appeal;

"2. Recognises the importance of the Japanese Government's statement that it has no territorial designs in Manchuria;

"3. Notes the Japanese representative's statement that his Government will continue, as rapidly as possible, the withdrawal of its troops, which has already been begun, into the railway zone in proportion as the safety of the lives and property of Japanese nationals is effectively assured and that it hopes to carry out this intention in full as speedily as may be;

"4. Notes the Chinese representative's statement that his Government will assume responsibility for the safety of the lives and property of Japanese nationals outside that zone as the withdrawal of the Japanese troops continues and the Chinese local authorities and police forces are re-established;

"5. Being convinced that both Governments are anxious to avoid taking any action which might disturb the peace and good understanding between the two nations, notes that the Chinese and Japanese representatives have given assurances that their respective Governments will take all necessary steps to prevent any extension of the scope of the incident or any aggravation of the situation;

"6. Requests both Parties to do all in their power to hasten the restoration of normal relations between them and for that purpose to continue and speedily complete the execution of the above-mentioned undertakings;

"7. Requests both Parties to furnish the Council at frequent intervals with full information as to the development of the situation;

"8. Decides, in the absence of any unforeseen occurrence which might render an immediate meeting essential, to meet again at Geneva on Wednesday, October 14th, 1931, to consider the situation as it then stands;

"9. Authorises its President to cancel the meeting of the Council fixed for October 14th should he decide, after consulting his colleagues, and more particularly the representatives of the two Parties, that, in view of such information as he may have received from the Parties or from other members of the Council as to the development of the situation, the meeting is no longer necessary."

While accepting the draft resolution, the Japanese representative, M. Yoshizawa, reminded the Council that, with regard to the information to be obtained on the spot, he had already stated that, in his view and in the view of his Government, it would be quite useless to take special measures. There were already a great many persons on the spot from whom the Council could

obtain information. In order, however, to facilitate the task of all his colleagues, he proposed that each member of the Council should send to the Secretary-General any information which his Government might obtain on the spot and which he deemed it desirable and useful to communicate to the other members.

The Chinese representative, who also accepted the resolution, observed that its terms showed that the Council was conscious of its responsibility for helping both Parties to secure the complete and prompt withdrawal of the armed forces of Japan, and the re-establishment of the *status quo ante*. But the complete withdrawal of the armed forces of Japan and the re-establishment of the *status quo ante* did not, in his opinion, constitute more than a single and preliminary step in the adjustment of the dispute and he announced that the Chinese Government, while reserving all its rights under the Covenant, would continue to look to the League for aid in determining the several responsibilities of the Parties for the events which had occurred since September 18th, and the fixing of the reparations justly due.

M. Yoshizawa having stated that, while he accepted the resolution as it stood, he was unable to accept the interpretation placed upon it by the Chinese representative, the President expressed the opinion that there was no need to go into matters of interpretation; the rights of both Parties remained intact, and either would be entitled, if necessary, to submit its point of view to the Council at some later date.

DEVELOPMENT OF THE SITUATION BETWEEN SEPTEMBER 30TH AND OCTOBER 13TH.

China requests Evacuation.

After the adjournment of the session, the Chinese Government on October 5th addressed a note to the Japanese Government informing it of the appointment of two representatives to take over all the districts to be evacuated by the Japanese troops. Having received no reply, the Nankin Government, through its Minister in Tokio, asked the Japanese Government to specify immediately which districts of Manchuria it intended to hand over to the Chinese authorities that week.

Japan protests against the anti-Japanese Agitation and proposes Negotiations on the "Fundamental Points".

Meanwhile, the Japanese Government, in a number of communications, drew the Council's attention to the development of an anti-Japanese movement in China taking the form, more particularly, of a boycott of Japanese goods and other vexatious acts. Furthermore, in a reply dated October 9th to the Chinese note of October 5th, it recalled that the withdrawal of the troops within the railway zone was contingent upon the security of the Japanese railway lines, and upon the protection of the life and property of Japanese nationals in Manchuria. The Japanese Government added that, in the circumstances, the most urgent task with which the two Governments were faced was to calm excited national feelings "by rapidly establishing direct negotiation on fundamental points capable of constituting a basis allowing resumption of normal relations". Once national passions were appeased by direct negotiation, Japanese troops might, without undue apprehension, withdraw completely within the railway zone. Japan declared herself willing to negotiate immediately with China with regard to "the fundamental points".

China protests against the Bombardment of Chinchow and Fresh "Aggressive" Operations.

On the same day (October 9th), in consequence of reports to the effect that the previous day Japanese military aeroplanes had bombarded the town of Chinchow, where the Provincial Government of Manchuria had provisionally established itself, the Chinese representative requested that the Council be summoned forthwith. He stated that, in addition to this bombardment which had been the cause of a number of deaths, the Japanese troops were engaging in fresh operations of an "aggressive" character in Manchuria.

Appeal by the President of the Council. Convocation of the Council for October 13th.

Thereupon, the President of the Council addressed a telegram to both Parties reminding them of their undertaking to refrain from any act likely to aggravate the situation. The Council was summoned for October 13th.

Declaration of the Government of the United States of America.

In accordance with the decision taken on September 22nd, copies of these communications were transmitted to the Government of the United States, which immediately replied as follows:

"It is highly desirable that the League in no way relax its vigilance and in no way fail to assert all the pressure and authority in its competence with a view to regulating the action of Japan and China in the premises. The American Government, on its part, acting independently through its diplomatic channels, will try to reinforce League action and will make it evident that it has not lost interest in the question and is not oblivious to the obligations which Japan and China have assumed to other signatories of the Pact of Paris as well as the

Nine-Power Pact, if a time should come when it should seem advisable that those obligations be brought forward.”

The United States Government moreover announced that it was despatching two of its officials to Manchuria as observers.

Reply of Japan to the Appeal of the President of the Council.

On October 12th, the Japanese Government replied to the President of the Council's telegram, dated October 9th, by a note recalling that it had always been convinced that a friendly solution of this incident could only be obtained by means of direct negotiations between Japan and China. It concluded with the following statement:

“The Japanese Government considers that, in the existing circumstances, the most pressing necessity is to relieve the tension between the Japanese and Chinese peoples by mutual co-operation. To this end, it is essential to agree upon certain main principles to form a foundation for the maintenance of normal relations between the two countries. Once these principles have been laid down, the state of tension between the two nations will undoubtedly relax and the Japanese forces will be able to retire without apprehension within the South Manchurian Railway zone. The Japanese Government is prepared to open negotiations with the responsible representatives of China on these fundamental points.”

On October 12th, the Chinese Government, for its part, had replied to the Japanese note of October 9th. China declared that she would continue to do everything in her power to protect the lives and property of Japanese nationals. The difficulties which had arisen with regard to the trade relations between the Chinese and Japanese peoples were — so it was stated — the inevitable result of the action of the Japanese troops. If the Japanese Government endeavoured to remove the cause of the “present deplorable situation”, this would have the most fortunate effect in improving the relations of the two countries.

SECOND MEETING OF THE COUNCIL.

At the meeting of the Council on October 13th, the Spanish representative, M. de Madariaga, announced that the President-in-Office of the Council, M. Lerroux, was prevented by his duties in Madrid from proceeding to Geneva. M. de Madariaga therefore proposed to the Council, on behalf of M. Lerroux, that the French representative, M. Briand, who, in deference to a tradition of courtesy, had requested Spain to retain the presidency during the second September session, should be asked to assume the office of President during the forthcoming meetings.

After having thanked the Spanish representative, M. Briand stated that, when the Council adopted the resolution of September 30th, it had hoped that the meeting fixed for October 14th would prove unnecessary and that the two Parties would, in the greatest possible measure, have carried out the undertakings they had entered into before the Council. It had, however, been necessary to summon the meeting earlier at the request of the representative of China, who had communicated serious information regarding further military operations on the part of Japanese troops in Manchuria. The Japanese Government, on the other hand, had notified the Council that, in China, Japanese goods were being boycotted and Japanese nationals molested to such an extent that they were compelled to evacuate certain localities. It appeared, however, from the information at the Council's disposal that the Chinese Government had issued appeals and taken measures which, at any rate outside Manchuria, had prevented any loss of human life. The Council hoped that this attitude would be maintained, as it was essential that calm and moderation should prevail on both sides.

Statements were then submitted by M. Sze (China) and M. Yoshizawa (Japan).

M. Sze declared that means must be sought of ensuring the prompt and complete withdrawal of the Japanese troops to the positions occupied by them prior to September 18th and, in general, of re-establishing the *status quo ante*. Such measures should not be linked with questions of fact existing prior to September 18th, nor should they be confused with measures of a different kind which would subsequently have to be taken in order that satisfactory relations between China and Japan might be fully re-established. China regarded the Covenant of the League of Nations and the Pact of Paris as her two sheet-anchors. They were the corner-stones of world peace, and, if they crumbled, the whole edifice would be in danger of collapse. China was confidently placing her fate in the hands of the League of Nations.

M. Yoshizawa stated, in the first place, that though it was true, at least so far as he knew, that no Japanese had latterly been assassinated outside Manchuria, Japanese nationals were, nevertheless, subjected in China to “indescribable treatment and molestation”. After having sketched the history of Japan's relations with Manchuria and of the incidents which had occurred in that province during the summer of 1931 prior to September 18th (massacre of Koreans in the Wanpaoshan district, murder of Captain Nakamura, acts of provocation towards railway-guards, etc.), he declared that “the origins of present events are therefore deeply rooted in the past, and

the Japanese people cannot admit that these events should be treated as an isolated or fortuitous act without referring to the sources of the trouble in the hope of improving matters in future". M. Yoshizawa, in conclusion, stated that, if the Chinese Government were to make serious efforts to check anti-Japanese agitation and to arrive, jointly with Japan, at a preliminary basis for the re-establishment of normal relations between the two countries, it would do much towards relaxing the tension, and would thus remove the most serious obstacle to the withdrawal of Japanese troops.

The Japanese Government, for its part, was actuated by the desire to reach a pacific solution, and it deemed it essential that immediate negotiations should be opened with the responsible representatives of China with a view to settling certain points which were indispensable for the re-establishment of normal relations.

The Chinese representative, in his reply, declared that China would not consent to direct negotiations so long as Japanese troops illegally occupied Chinese soil.

INVITATION TO THE UNITED STATES OF AMERICA.

It was at this juncture that the question arose of the most suitable procedure for facilitating co-operation between the Council and the Government of the United States; in accordance with the decision adopted on September 22nd, such co-operation had, up to that time, taken the form of an exchange of written communications. As the Government of the United States had been one of the proponents of the Pact of Paris and as it had expressed first its sympathy with the attitude of the League of Nations and subsequently its desire to reinforce the latter's action, the Council, at its meetings on October 15th and 16th, discussed whether, as a means of co-ordinating efforts, the Government of the United States should not be invited to send a representative to sit at the Council table, though not as a member.

On this occasion, the Japanese representative expressed certain doubts on constitutional and legal grounds. He was of opinion that the sending of such an invitation was not a mere question of procedure; his contention was that the United States could only be invited as the result of a unanimous vote of the Council. In reply to M. Yoshizawa's arguments, the President pointed out that, in principle, the question of co-operation with the United States had been settled on September 22nd. The question now was to give such co-operation an oral form. The majority of the members of the Council held that the question was one of procedure and could therefore be settled by a majority vote. In conclusion, the President stated that the constitutional problem raised by the Japanese representative would be reserved, and the Council then decided, with only one dissentient vote, to send an invitation to the United States of America. This invitation was accepted, and on October 16th Mr. Prentiss Gilbert, representative of the United States, took his seat at the Council table. He was authorised by his Government "to consider with the Council the relationship between the provisions of the Pact of Paris and the present unfortunate situation in Manchuria and at the same time to follow the deliberations of the Council with regard to the other aspects of the problem with which it is now confronted".

ACTION TAKEN UNDER ARTICLE 2 OF THE PACT OF PARIS.

On October 17th, the majority of the Governments represented on the Council decided in their capacity of signatories of the Pact of Paris to transmit, through their diplomatic representatives at Nanking and Tokio, an identical note to the Governments of China and Japan, in order to draw their attention to the provisions of this Pact and more especially to the terms of its second article.¹ Furthermore, the French Government was requested to telegraph to the other Governments signatories of the Pact of Paris informing them that such a note had been sent. Immediately upon receipt of this communication, the Government of the United States caused a note to be handed to the authorities at Nanking and Tokio similarly drawing attention to Article 2 of the Pact of Paris.

The two Governments communicated their replies to this note to the Council.*

¹ The text of this article is as follows:

"The High Contracting Parties agree that the settlement or solution of all disputes or conflicts of whatever nature, or of whatever origin they may be, which may arise among them, shall never be solved except by pacific means."

² *Reply from the Chinese Government:* "In accordance with instructions received from the Acting Minister of Foreign Affairs, I have the honour to deliver to you from him the following message:

"The Chinese Government has received from the French Government the communication in which the French Government invites the attention of the Chinese Government to the provisions of the Treaty for the Renunciation of War of August 27th, 1928, and expresses the hope that both the Chinese and Japanese Governments will refrain from taking any steps that might endanger the success of the efforts already in progress to secure a peaceful settlement of the present situation in China.

"The Chinese Government feels thankful to the French Government for the deep concern shown in the development of events in the north-eastern provinces of China since September 18th, when Japanese troops, in defiance of international law, the Treaty for the Renunciation of War and other international agreements, began their unprovoked attack on Shenyang (Mukden) and other cities. Being desirous of strictly adhering to the undertakings assumed under international treaties, particularly the Covenant of the League of Nations and the Treaty for the Renunciation of War, China has judiciously refrained from employing force to meet the military aggressions of Japan and has been seeking, from the very beginning, a just and adequate settlement by pacific means. We have therefore entrusted our case unreservedly to the League of Nations. We absolutely

DRAFT RESOLUTION OF OCTOBER 22ND.

Between October 16th and 22nd, the members of the Council, with the exception of the Parties, met on several occasions in private session. At the same time, the President held frequent meetings and many conversations with the representatives of China and Japan.

At a public meeting on October 22nd the President submitted a draft resolution on which the members of the Council, with the exception of the Parties, had unanimously agreed. That draft was framed as follows:

“The Council,

“In pursuance of the resolution passed on September 30th;

“Noting that in addition to the invocation by the Government of China, of Article II of the Covenant, Article 2 of the Pact of Paris has also been invoked by a number of Governments;

“(1) Recalls the undertakings given to the Council by the Governments of China and Japan in that resolution, and in particular the statement of the Japanese representative that the Japanese Government would continue as rapidly as possible the withdrawal of its troops into the railway zone in proportion as the safety of the lives and property of Japanese nationals is effectively assured, and the statement of the Chinese representative that his Government will assume the responsibility for the safety of the lives and property of Japanese nationals outside that zone — a pledge which implies the effective protection of Japanese subjects residing in Manchuria;

“(2) Recalls further that both Governments have given the assurance that they would refrain from any measures which might aggravate the existing situation, and are therefore bound not to resort to any aggressive policy or action and to take measures to suppress hostile agitation;

“(3) Recalls the Japanese statement that Japan has no territorial designs in Manchuria, and notes that this statement is in accordance with the terms of the Covenant of the League of Nations, and of the Nine-Power Treaty, the signatories of which are pledged ‘to respect the sovereignty, the independence, and the territorial and administrative integrity of China’;

rely on the solemn engagements contained in the Treaty for the Renunciation of War, the Covenant of the League of Nations and other international agreements designed for the maintenance of peace, in the belief that Japan will be awakened to her legal as well as moral duty to human civilisation.

“The Chinese Government sincerely hopes that the active efforts now in progress in Geneva to arrive at a settlement of the present case in the interests of justice and peace, will soon be crowned with success which will be conducive to the well-being, not only of China, but of the whole world. The Chinese Government will persist in its own efforts to seek the settlement of all questions of whatever nature by peaceful means, and will give the Council of the League of Nations every assistance in devising a permanent system ensuring the effective observance of this policy in the future in the Far East.”

(Signed) Sao-ke Alfred SZE.”

* * *

Reply from the Japanese Government: “1. The Japanese Government realise as fully as any other signatories of the Pact of Paris of 1928 the responsibility incurred under the provisions of that solemn Pact. They have made it clear on various occasions that the Japanese railway guards, in taking military measures in Manchuria since the night of September 18th last, have been actuated solely by the necessity of defending themselves as well as of protecting the South Manchuria Railway and the lives and property of Japanese subjects against wanton attacks by Chinese troops and armed bands. Nothing is farther from the thought of the Japanese Government than to have recourse to war for the solution of their outstanding differences with China.

“2. It is their settled aim to compose those differences by all pacific means. In the note of the Japanese Minister for Foreign Affairs to the Chinese Minister at Tokio, dated October 9th, the Japanese Government have already declared their readiness to enter into negotiations with the responsible representatives of China for an adjustment of the present difficulties. They still hold to the same view. So far as they are concerned, they have no intention whatever of proceeding to any steps that might hamper any efforts intended to assure the pacific settlement of the conflict between Japan and China.

“3. On the other hand, they have repeatedly called the attention of the Chinese Government to the organised hostile agitation against Japan now in progress in various parts of China. The suspension of all commercial intercourse with Japanese at present practised in China is in no sense a spontaneous act of individual Chinese. It is enforced by the anti-Japanese organisations that have taken the law into their own hands and are heavily penalising, even with the threat of capital punishment, any Chinese who may be found disobeying their arbitrary decrees. Acts of violence directed against Japanese residents also continue unabated in many places under the jurisdiction of the Government of Nankin. It will be manifest to all fair observers of the actual situation that those activities of the anti-Japanese organisations are acquiesced in by the Chinese Government as a means to attain the national ends of China. The Japanese Government desire to point out that such acquiescence by the Chinese Government in the lawless proceedings of their own nationals cannot be regarded as being in harmony with the letter or the spirit of the stipulations contained in Article 2 of the Pact of Paris.”

“(4) Being convinced that the fulfilment of these assurances and undertakings is essential for the restoration of normal relations between the two Parties;

“(a) Calls upon the Japanese Government to begin immediately and to proceed progressively with the withdrawal of its troops into the railway zone, so that the total withdrawal may be effected before the date fixed for the next meeting of the Council;

“(b) Calls upon the Chinese Government, in execution of its general pledge to assume the responsibility for the safety of the lives and property of all Japanese subjects resident in Manchuria, to make such arrangements for taking over the territory thus evacuated as will ensure the safety of the lives and property of Japanese subjects there, and requests the Chinese Government to associate with the Chinese authorities designated for the above purpose representatives of other Powers in order that such representatives may follow the execution of the arrangements;

“(5) Recommends that the Chinese and Japanese Governments should immediately appoint representatives to arrange the details of the execution of all points relating to the evacuation and the taking over of the evacuated territory so that they may proceed smoothly and without delay;

“(6) Recommends the Chinese and Japanese Governments, as soon as the evacuation is completed, to begin direct negotiations on questions outstanding between them, and in particular those arising out of recent incidents as well as those relating to existing difficulties due to the railway situation in Manchuria. For this purpose, the Council suggests that the two Parties should set up a conciliation committee, or some such permanent machinery;

“(7) Decides to adjourn till November 16th, at which date it will again examine the situation, but authorises its President to convoke a meeting at any earlier date should it in his opinion be desirable.”

After the reading of this text, the representative of China asked for an interval of time in which to consult his Government.

The representative of Japan made a statement on the situation in Manchuria, a situation “rendered particularly dangerous by the presence of many gangs of bandits and fugitive soldiers”. He added that it was their presence that prevented the Japanese from fixing a definite date for the complete withdrawal of their troops, although the Japanese Government was desirous of withdrawing within the railway zone as soon as possible — and finally, it was to be hoped — the few effectives still outside the zone.

The following day, October 23rd, the representative of China stated that his Government, although it had hoped that, this time, the Council would settle the question of the withdrawal of the Japanese troops speedily and completely, had authorised him to accept the resolution, which it regarded as a “bare minimum”. The delay provided for the evacuation of those troops appeared, however, to the Chinese Government to be very long. Further, the term “evacuation” included, he understood, all forces of a military or quasi-military character (gendarmerie, police) and aeroplanes of all kinds: all Chinese property which had been seized by the Japanese since September 18th was to be restored, and Chinese authorities and citizens, and banking or other commercial or industrial establishments were to be released from all forms of restraint. At the same time, M. Sze requested the Members of the Council and the representative of the United States to signify their readiness to accept an invitation from China, which would be forthcoming without delay, to designate representatives to be associated with the Chinese authorities, under paragraph 4 (b) of the resolution.

The representative of China then stressed the point that, in his Government’s view, paragraph 6 of the resolution implied that the withdrawal of the troops was the only subject before the Council. In the view of the Chinese Government, the only problem to be examined after the withdrawal would be that of the responsibility and assessment of damages for the events that had occurred since September 18th. China would reject any attempt to make the military invasion of Manchuria an occasion for the solution of other claims, but, when the present incident had been settled, she would willingly agree to discuss every issue between China and Japan in the most friendly spirit.

The President then read a counter-resolution submitted by M. Yoshizawa. In this draft, paragraphs 1, 2 and 3 were the same as those of the Council resolution. On the other hand, paragraphs 4, 5, 6, 7 and 8 of the counterdraft read as follows:

“(4) Again notes the statement by the representative of Japan made on October 13th to the effect that the Japanese Government would withdraw those of its troops still remaining in a few localities outside the said zone, as the present atmosphere of tension clears and the situation improves by the achievement of a previous understanding between the Chinese and Japanese Governments as regards the fundamental principles governing normal relations — that is to say, affording an assurance for the safety of the lives of Japanese nationals and for the protection of their property;

“(5) Recommends the Chinese and Japanese Governments to confer together at once with a view to arriving at the understanding mentioned in paragraph 4;

“(6) Recommends the Chinese and Japanese Governments to appoint representatives to arrange the details of execution of the evacuation and of taking over the districts evacuated;

“(7) Asks the Chinese and Japanese Governments to be so good as to keep the Council informed of the progress of the negotiations between them and the position as regards the execution of the present resolution;

“(8) Authorises its President to take, after examination of the above communications, all such measures as he may think necessary to ensure the carrying out of the present resolution, and to convene the Council at any time with a view to a fresh examination of the position.”

In an explanatory statement, M. Yoshizawa made it known that the Japanese Government, seeing that feeling was running high in Manchuria and having in view the conditions of disorder prevailing in that region, did not deem it possible to fix a definite date by which the evacuation could be completed. The Japanese Government regarded it as absolutely essential that a calmer frame of mind should be restored; with this object, it had “determined a number of fundamental points upon which normal relations between China and Japan should be based”.

The representative of China stated that he could not accept the Japanese proposal.

The British representative having enquired what the “fundamental principles” were, M. Yoshizawa replied that they were “the means of safeguarding, as a first step, the lives and security of Japanese nationals and the protection of their property”.

On October 24th (morning session), M. Yoshizawa repeated that those “fundamental points” were “only intended to ease the situation and to facilitate the re-establishment of normal relations between the two countries”. He added that, as he had stated the previous day, he had no objection to a meeting of the Council on November 16th and therefore would agree to Point 8 of his resolution being omitted and being replaced by the text of Point 7 of the draft submitted by the President.

Replying to further questions of the British and Spanish representatives concerning the fundamental points, M. Yoshizawa explained that his Government held “certain views” but that he could not “communicate these views officially” until his Government had authorised him to do so. It was natural that his Government should wish to enter into negotiations with China in order to reach agreement on a number of questions with a view to ensuring the security of the lives and property of Japanese nationals in Manchuria. Later, the Japanese representative stated that his Government thought it preferable not to enumerate the fundamental principles in the resolution or to discuss the details of those principles at the Council table, as they could usefully be discussed between the two countries.

At the meeting on the morning of October 24th, the President pointed out that the Council must reach a conclusion. The fundamental difference between the draft resolution proposed by all the Members of the Council except the two parties and the counter-proposal submitted by the representative of Japan was the measures proposed with a view to ensuring the safety of property and persons, as had been promised by China to enable Japan to withdraw her troops.

The Council's text at any rate possessed the merit of being clear: it could not be interpreted in several ways. Further, it was based on a desire to ensure respect for treaty obligations, on the undertakings already entered into by the parties, and, in particular, on the statement by the Japanese representative, accepted in the resolution of September 30th — that is to say, before the dispute had become embittered. That declaration referred, in the matter of safety, to steps which could not fail to be taken rapidly; otherwise, Japan would not at that date have commenced evacuation and have promised to complete that evacuation at an early date. Moreover, Japan, which always so scrupulously honours her obligations, could not entertain the idea of settling her dispute with China by other than pacific means. Public opinion would not readily admit that a military occupation under these circumstances could be regarded as coming under the heading of pacific means.

As regards the counter-proposal submitted by the Japanese representative, it was impossible for members of the Council to accept, in a spirit of conciliation, a reference to fundamental points, without knowing what those points were and without having the right to formulate and discuss them.

The representative of Japan having repeated that his Government had no intention of settling the difference by military force, that its only desire was to ensure effectively the security of its nationals, and that the draft resolution appeared to it inadequate in that respect, the Council proceeded to vote on the resolutions. The Japanese counter-resolution was first put to the vote, only Japan voting in favour. Then, with the exception of Japan, which voted against the motion, the members of the Council pronounced in favour of the draft resolution.

Before adjourning until November 16th, the President stated that, since the sole anxiety of the Japanese Government was to ensure the necessary safeguards for Japanese nationals and their property, he ventured to hope that, between then and the next meeting of the Council, the Japanese Government would continue the evacuation, already begun, thereby proving by its acts that it was straining every effort to end the conflict.

CHINA'S STATEMENT REGARDING HER INTERNATIONAL OBLIGATIONS.

The British representative having, at the meeting on October 24th, made certain observations regarding the sacredness of treaties and the procedure to be followed for the settlement of all

disputes concerning their validity or interpretation, the Chinese representative that same evening made to the President of the Council, on behalf of his Government, the following declaration:

“China, like every Member of the League of Nations, is bound by the Covenant to “a scrupulous respect for all treaty obligations”. The Chinese Government for its part is determined loyally to fulfil *all* its obligations under the Covenant. It is prepared to give proofs of this intention by undertaking to settle all disputes with Japan as to treaty interpretation by arbitration or judicial settlement, as provided in Article 13 of the Covenant.

“In pursuance of this purpose, the Chinese Government is willing to conclude with Japan a treaty of arbitration similar to that recently concluded between China and the United States of America, or to those concluded of recent years in increasing numbers between Members of the League.”¹

DECLARATION BY THE JAPANESE GOVERNMENT CONCERNING THE FIVE FUNDAMENTAL POINTS.

The Japanese Government, in a statement published on October 26th at Tokio and communicated to the Council on October 27th, said that the “fundamental principles” related to the following points:

1. Mutual repudiation of aggressive policy and conduct.
2. Respect for China’s territorial integrity.
3. Complete suppression of all organised movements interfering with freedom of trade and stirring up international hatred.
4. Effective protection throughout Manchuria in order to allow Japanese nationals to engage there in any peaceful pursuits.
5. Respect for treaty rights of Japan in Manchuria.²

The Japanese Government added that it was still prepared to enter into negotiations with the Chinese Government on the subject of these fundamental points concerning the normal relations between Japan and China and the withdrawal of the Japanese troops into the railway zone.

REPLY OF THE PRESIDENT OF THE COUNCIL.

The President of the Council replied to this communication in a letter dated October 29th in which he pointed out that independently of the vote taken on the 24th, which retained its full moral force, the Council still had before it from the juridical standpoint a valid resolution — namely, that which had been adopted on September 30th and which retained its full executory force. In that resolution, the Council had noted the statement made by the Japanese representative to the effect that the Japanese Government “is continuing as rapidly as possible the withdrawal of its troops, which has already begun, into the railway zone in proportion as the safety of the lives and property of Japanese nationals is effectively assured, and that it hopes to carry out this intention in full as speedily as may be”.

The President of the Council then went on to say that the first four points of the Japanese Government seemed to him to be contained not only in the draft resolution of October 22nd, which had been approved by the Chinese representative, but also in the counter-draft of the Japanese representative, the three first paragraphs of these two drafts being identical, so that they might be regarded as expressing the will of the two parties. With regard to the fifth point, the President referred to the letter addressed to him by the Chinese representative on October 24th concerning the respect for treaty obligations:

“It therefore,, appears to me, and I feel sure that my colleagues on the Council, including, I trust, Your Excellency, will agree that the Chinese Government have given to the Council of the League, on which Japan has a permanent representative, pledges which cover the various fundamental principles raised by the Japanese Government.”³

REPLY OF JAPAN.

On November 7th, the Japanese Government replied to the President of the Council’s letter:

“... It is pointed out in your note that the first four points of the five fundamental principles mentioned in the Japanese declaration of October 26th are virtually embodied in the proposition of October 24th.

“Your Excellency, however, will no doubt perceive that the terms of the proposition are not sufficiently explicit or comprehensive to cover all implications of the four points in question. As regards the final point — viz., guarantee of respect for Japanese treaty rights in Manchuria — the terms of the letter addressed to you on October 24th by the Chinese representative seem to give rise to doubt whether the Chinese Government contemplates

¹ See document C.761.M.559. 1931. VII.

² See *Official Journal*, December 1931, page 2514.

³ See document C.776.M.371.1931.

calling in question the validity of some of the treaties constituting the basic embodiment of relations between Japan and China. It may be needless to state that the Japanese Government could not for a moment entertain such a contention. . . . The Japanese Government trust that they have made it clear that the five fundamental principles mentioned in the Japanese declaration of October 26th are no more than those that are commonly observed in intercourse of ordered communities with one another. Unless and until an arrangement is reached between Japan and China on the basis of those principles no measure of security for the lives and property of Japanese subjects sufficient to enable the withdrawal of Japanese troops to the railway zone can possibly be assured."¹

CHINESE PROTEST CONCERNING THE SEIZURE OF THE REVENUE OF THE SALT MONOPOLY.

On November 3rd, the Chinese representative forwarded to the President of the Council information to the effect that the Japanese military authorities had in certain Manchurian towns seized the revenue from the salt tax.² In reply to a letter from M. Briand,³ the Japanese representative stated on November 6th, on the strength of information received from Tokio, that this information was quite unfounded.⁴ On November 9th, in a new communication to the President of the Council, the Chinese representative reiterated his protest.⁵

EXTENSION OF MILITARY OPERATIONS TO NORTHERN MANCHURIA.

Incidents moreover were spreading towards Northern Manchuria. To the south of Tsitsikar, the railway bridges of the Taonan-Angangchi railway over the River Nonni having been destroyed, the Japanese decided to repair them, and sent troops to the district.

These troops having come into contact with the Chinese troops of General Ma Chan-Shan, the President of the Council sent a telegram on November 6th to the Japanese and Chinese Governments reminding them that they had given assurances that they would take all necessary steps to avoid aggravating the situation. He therefore asked them to issue instructions without delay to the officers commanding their respective forces with a view to removing all possibility of sanguinary engagements between Chinese and Japanese troops.⁶

On November 8th, the Chinese and Japanese Governments replied to the President of the Council. The former asked in particular that the Powers should send representatives to observe the situation on the spot; the latter stated that orders had already been given on November 6th to limit to what was strictly necessary the operations intended to protect the rebuilding of the railway bridges, and that there was no reason to fear an aggravation of the situation if the Chinese did not resort to new acts of hostility.⁷

On November 11th, the President, in a second appeal addressed to Nanking and Tokio, insisted once more that the officers commanding the opposing forces should receive strictest orders to refrain from any further action. At the same time, he asked that facilities should be accorded to the observers which the Members of the Council would send to the neighbourhood of the Nonni bridges.⁸

FURTHER MEETING OF THE COUNCIL (PARIS, NOVEMBER 16TH).

In accordance with its decision of October 24th, the Council met again on November 16th. This meeting took place in Paris.

Co-operation of the United States of America.

The Government of the United States of America had sent to Paris General Dawes, their Ambassador in London. General Dawes was not present at the Council meetings; he had interviews with the President and other members of the Council.

Examination of the Situation at Private Meetings.

From its first meeting, the Council decided to begin by examining, at private meetings, the situation which had developed since the previous month and the procedure to be followed with a view to settling the dispute.

From November 17th to 21st, the members of the Council, other than the representatives of the parties, held frequent meetings, and the President of the Council had numerous interviews with the representatives of the parties.

Japan, however, continued to complain of anti-Japanese agitation in central and southern China. On the other hand, in Manchuria the Japanese army, after requesting the Chinese troops of General Ma to withdraw, put them to rout. The Japanese forces reached and even went beyond the

¹ See document C.814.M.404.1931.

² See documents C.789.M.383.1931 and C.793.M.387.1931.

³ See document C.810.M.400.1931.

⁴ See document C.811.M.401.1931.

⁵ See document C.818.M.407.1931.

⁶ See document C.804.M.397.1931.

⁷ See documents C.816.M.405.1931 and C.817.M.406.1931.

⁸ See document C.835.M.415.1931.

Eastern Chinese railway, entering Angangchi and Tsitsikar. The Japanese Government stated that traffic had been re-established on the railway almost immediately, and that a portion of its troops had withdrawn from Tsitsikar. China protested against the occupation by Japan of the greater part of Southern Manchuria and the installation of local puppet-governments.

Japanese Proposal for a Commission of Enquiry.

On November 21st, at a public meeting of the Council, the President reiterated once more the essential points of the resolution of September 30th, which retained its full executory force. Referring to the seriousness of the events in Manchuria, he added that the efforts of the Council to settle the dispute might be rendered vain if military operations continued and if public opinion in the two countries could not recover the calm necessary to enable the two Governments to co-operate, in full confidence, with the Council for the maintenance of peace.

The representative of Japan, after stating that the Japanese Government was anxious that the resolution of September 30th should be observed in the spirit and the letter, proposed, in view of the complexity of the situation both in Manchuria and in China proper and in order that the Council might obtain an impartial view of the situation, that a Commission of Enquiry should be sent to the spot. That Commission would not be empowered to intervene in the negotiations which might be initiated between the two parties, or to supervise the movements of the military forces. The Japanese Government's view was that the creation and despatch of this Commission would in no way modify Japan's desire to withdraw her troops as quickly as possible within the railway zone in pursuance of the resolution of September 30th.

The representative of China stated that his Government could not bargain for the withdrawal of the Japanese troops. If further assurance were deemed necessary for securing the safety of life and property in the evacuated areas, his Government would accept any reasonable arrangement involving neutral co-operation under the auspices of the League. With a view to securing the evacuation of her territory, China had the firm intention of availing herself, as circumstances might require, of all the rights secured to her under Article II and the other articles of the Covenant.

The principal questions the Council had to consider were, in his opinion, the cessation of hostilities and the withdrawal of the Japanese troops. As regarded the proposal to set up a Commission of Enquiry, the representative of China could not express an opinion until the exact scope of the proposal was known.

The members of the Council having declared themselves in favour of the setting-up of a Commission, the Council unanimously decided to study the Japanese representative's proposal.

Preparation of a draft Settlement.

On November 24th, after further meetings of the members of the Council other than the parties to the dispute, a draft settlement was framed in the form of a resolution. The general lines of this draft, which was communicated to the two parties, were as follows:

Further reference to and reaffirmation of the resolution of September 30th, by which the two parties declared that they were solemnly bound. The two Governments were therefore invited to take all steps necessary to ensure the execution of this resolution, so that the withdrawal of the Japanese troops within the railway zone might be effected as speedily as possible. The two parties were further to undertake to issue the strictest orders to the officers commanding their forces to refrain from any action which might lead to further incidents and loss of life; the parties were also to promise that they would adopt all measures necessary to avoid any further aggravation of the situation. The members of the Council were moreover invited to furnish the Council with any information received from their representatives on the spot, while a Commission was to be set up to study the situation on the spot. This Commission, on which both China and Japan were to be represented by an assessor, would have to report to the Council on any circumstance which, affecting international relations, threatened to disturb the peace between China and Japan, or the good understanding between them on which peace depended.

Finally, the draft settlement laid down that the appointment and work of the Commission should not prejudice in any way the undertaking given by the Japanese Government and embodied in the resolution of September 30th to withdraw its troops within the railway zone.

This draft settlement was published on November 25th. General Dawes, in a statement to the Press, stated that the Government of the United States of America approved the draft as a whole and urgently recommended its acceptance by China and Japan.

On November 26th, the members of the Council, other than the representatives of the parties, appointed a drafting committee to put the finishing touches to the draft settlement. This Committee consisted of the following members: the President-in-Office of the Council or his representative, the representatives of the British Empire, of Spain and Norway.

Development of the Situation in the Region of Chinchow. Question of the Creation of a Neutral Zone.

At this time, communications from the Chinese and Japanese Governments drew the Council's attention to the situation which was developing in south-western Manchuria near Chinchow, the provisional headquarters of the provincial Government of Manchuria, and the headquarters of Marshal Chang-Hsueh-Liang since the latter had been obliged to evacuate Mukden.

On November 24th, the Japanese Government contradicted the "absurd" Press reports concerning a Japanese offensive against Chinchow. "The rumours might possibly have been caused by the despatch of troops for the purpose of dispersing the brigands along the South Manchurian Railway to the south of Mukden." On November 25th, the representatives of both Governments expressed their anxiety regarding the situation. The Chinese Government, in particular, requested the Council to take the necessary steps to establish a neutral zone between the Chinese and Japanese forces, the zone in question to be occupied by neutral detachments under Council authority, in which case China would, if requested by the Council, withdraw her forces to within the Great Wall.

The President of the Council immediately, on November 25th, sent a telegram to the Chinese and Japanese Governments. After referring to the fact that certain Governments had decided to send observers to this area, M. Briand asked the parties to give the commanders of their respective forces the strictest orders to refrain from any action which might lead to further engagements and further loss of human life.

On November 26th, the members of the Council other than the parties proceeded to a fresh exchange of views. The President informed them that he had just had conversations with the representatives of China and Japan in which both had again drawn his attention to the situation in the Chinchow district. As the Chinese proposal for a neutral zone occupied by international detachments encountered practical difficulties, the members of the Council, other than the parties, substituted the following suggestion which was immediately communicated to the Chinese and Japanese representatives:

"We have decided to submit the following proposal to our respective Governments:

"It is proposed that those Governments which are able to send observers to the Chinchow region should give them the following instructions:

"(1) The observers shall, in concert with one another, examine the possibility of establishing as between the Chinese and Japanese troops a neutral zone or any other system calculated to prevent any collision between the troops of the two parties;

"(2) The said observers will, in concert with one another, consider the means of establishing liaison with the commanders of the Chinese and Japanese forces with a view to the necessary arrangements being made.

"In order that these instructions may produce the desired results, the commander of the Chinese forces should be authorised to get into touch with the observers in question."

Meanwhile, Dr. Wellington Koo, who had been appointed Minister for Foreign Affairs at Nanking, had conversations with the Ministers of Great Britain, France and the United States of America on October 24th and made the following declaration:

"In order to avoid any collision, China, as a temporary measure and pending a general settlement of the Manchurian question, is prepared, if Japan insists, to withdraw the Chinese troops from Chinchow to Shanghaikwan, on condition that Japan gives a satisfactory undertaking to Great Britain, France and the United States not to penetrate into this zone and to leave intact the Chinese civil administration, including the police."

The Japanese representative replied on November 28th to the communication of the President of the Council and rejected the proposal contained in this communication, but referred to the suggestion made by the Chinese Minister for Foreign Affairs:

"November 28th, 1931.

"With reference to my letter of November 27th, I have the honour to acquaint you that my Government has just informed me that it has examined with great care the proposal submitted to the Governments represented on the Council.

"The policy which the Japanese Government has so far consistently pursued in the true interest of good relations between China and Japan has been not to resort, in disputes capable of direct settlement with China, to the interposition of third parties; and it cannot but pursue this line of conduct in the present case.

"Within these limits it will, of course, always be prepared to give the fullest consideration to any means of avoiding a conflict. It was in this spirit that it welcomed China's recent proposal, which was transmitted to it by His Excellency the French Ambassador at Tokio.

"As you have certainly been informed by M. de Martel, Baron Shidehara, when expressing to the latter the hope, which the Japanese Government shares with the French Government, that hostilities would be avoided in the Chinchow district, informed him that, if China withdrew her troops entirely from the Chinchow district to Shanghaikwan and west of that place and only maintained the administration (including the policing) of the Chinchow district at Shanghaikwan, the Japanese Government would be prepared to undertake in principle that Japanese troops would not enter the zone thus evacuated by the Chinese troops, except in the unexpected case of serious and urgent circumstances threatening the safety of the lives and property of Japanese nationals in northern China and the safety of the Japanese troops stationed therein.

“The Japanese Government at the same time expressed its readiness to order its competent authorities on the spot to enter into negotiations at any moment with the local Chinese authorities regarding the exact determination of the above-mentioned zone and the detailed measures for giving effect to this arrangement.

“Under these circumstances it would be desirable in the opinion of the Japanese Government to see how the above-mentioned suggestions will be received.”

Meanwhile, the bulk of the Japanese forces were withdrawing within the railway zone; only small detachments remained in a few localities between this zone and the Liao River and at Sinminfu, on the right bank of that river, for the protection of the zone against brigands.

After this withdrawal, the Japanese Government, continuing to fear that operations might have to be undertaken against the brigands, which might lead to a clash between Japanese forces and those of Marshal Chang-Hsueh-Liang, asked the Council to pursue its endeavours for the establishment of the neutral zone, referred to in its letter of November 28th.

The efforts of the members of the Council met with no success and, on the last day of the session, the President made the following statement:

“On November 26th, the two parties advised us of the apprehension which they felt owing to the situation in the Chinchow district. We thereupon took steps to avert the immediate danger thus brought to our notice and we remain ready to take any special action if the necessity should occur again. The observers sent to that area have noted, on the one hand, that the Japanese troops have been adequately withdrawn and, on the Chinese side, that no movements or preparations of an offensive character were taking place. The Council is therefore entitled to be confident that there will be no further hostilities and that, even if there is no official delimitation of a demilitarised zone, the definite undertakings which have been accepted on both sides will in any case suffice to prevent any further clash.”

RESOLUTION OF DECEMBER 10TH, 1931.

While pursuing their efforts to prevent an extension of hostilities in the south-west of Manchuria, the members of the Council, in agreement with the parties, prepared the final text of the draft resolution which was submitted at a public meeting on December 9th. This reads as follows:

“The Council:

“(1) Reaffirms the resolution passed unanimously by it on September 30th, 1931, by which the two parties declare that they are solemnly bound; it therefore calls upon the Chinese and Japanese Governments to take all steps necessary to assure its execution, so that the withdrawal of Japanese troops within the railway zone may be effected as speedily as possible under the conditions set forth in the said resolution;

“(2) Considering that events have assumed an even more serious aspect since the Council meeting of October 24th;

“Notes that the two parties undertake to adopt all measures necessary to avoid any further aggravation of the situation and to refrain from any initiative which may lead to further fighting and loss of life;

“(3) Invites the two parties to continue to keep the Council informed as to the development of the situation;

“(4) Invites the other members of the Council to furnish the Council with any information received from their representatives on the spot;

“(5) Without prejudice to the carrying out of the above-mentioned measures;

“Desiring, in view of the special circumstances of the case, to contribute towards a final and fundamental solution by the two Governments of the questions at issue between them:

“Decides to appoint a Commission of five members to study on the spot and to report to the Council on any circumstance which, affecting international relations, threatens to disturb peace between China and Japan, or the good understanding between them, upon which peace depends;

“The Governments of China and of Japan will each have the right to nominate one assessor to assist the Commission.

“The two Governments will afford the Commission all facilities to obtain on the spot whatever information it may require;

“It is understood that, should the two parties initiate any negotiations, these would not fall within the scope of the terms of reference of the Commission, nor would it be within the competence of the Commission to interfere with the military arrangements of either party.

“The appointment and deliberations of the Commission shall not prejudice in any way the undertaking given by the Japanese Government in the resolution of September 30th as regards the withdrawal of the Japanese troops within the railway zone.

“(6) Between now and its next ordinary session, which will be held on January 25th, 1932, the Council, which remains seized of the matter, invites its President to follow the question and to summon it afresh if necessary.”

The President then read the following declaration:

"It will be observed that the resolution which is before you provides for action on two separate lines: (1) to put an end to the immediate threat to peace; (2) to facilitate the final solution of existing causes of dispute between the two countries.

"The Council was glad to find during its present sittings that an enquiry into the circumstances which tend to disturb the relations between China and Japan, in itself desirable, would be acceptable to the parties. The Council therefore welcomed the proposal to establish a Commission which was brought before it on November 21st. The penultimate paragraph of the resolution provides for the appointment and functioning of such a Commission.

"I shall now make certain comments on the resolution paragraph by paragraph.

"*Paragraph 1.* — This paragraph reaffirms the resolution unanimously adopted by the Council on September 30th, laying particular stress on the withdrawal of the Japanese troops within the railway zone on the conditions described therein as speedily as possible.

"The Council attaches the utmost importance to this resolution and is persuaded that the two Governments will set themselves to the complete fulfilment of the engagements which they assumed on September 30th.

"*Paragraph 2.* — It is an unfortunate fact that, since the last meeting of the Council, events have occurred which have seriously aggravated the situation, and have given rise to legitimate apprehension. It is indispensable and urgent to abstain from any initiative which may lead to further fighting, and from all other action likely to aggravate the situation.

"*Paragraph 4.* — Under paragraph 4, the Members of the Council other than the parties are requested to continue to furnish the Council with information received from their representatives on the spot.

"Such information having proved of high value in the past, the Powers which have the possibility of sending such representatives to various localities have agreed to do all that is possible to continue and improve the present system.

"For this purpose, these Powers will keep in touch with the two Parties, so that the latter may, should they so desire, indicate to them the localities to which they would desire the despatch of such representatives.

"*Paragraph 5* provides for the institution of a Commission of Enquiry. Subject to its purely advisory character, the terms of reference of the Commission are wide. In principle, no question which it feels called upon to study will be excluded, provided that the question relates to any circumstances which, affecting international relations, threaten to disturb peace between China and Japan, or the good understanding between them, upon which peace depends. Each of the two Governments will have the right to request the Commission to consider any question the examination of which it particularly desires. The Commission will have full discretion to determine the questions upon which it will report to the Council, and will have power to make interim reports when desirable.

"If the undertakings given by the two parties according to the resolution of September 30th have not been carried out by the time of the arrival of the Commission, the Commission should as speedily as possible report to the Council on the situation.

"It is specially provided that, 'should the two parties initiate any negotiations, these would not fall within the scope of the terms of reference of the Commission, nor would it be within the competence of the Commission to interfere with the military arrangements of either party'. This latter provision does not limit in any way its faculty of investigation. It is also clear that the Commission will enjoy full liberty of movement in order to obtain the information it may require for its reports."

On December 10th, the Japanese representative informed the Council that his Government would agree to the draft resolution.

As regards paragraph 2, he said "I am happy to accept it on behalf of the Japanese Government, on the understanding that it is not intended to preclude the Japanese forces from taking such action as may be rendered necessary to provide directly for the protection of the lives and property of Japanese subjects against the activities of bandits and lawless elements rampant in various parts of Manchuria. Such action is admittedly an exceptional measure called for by the special situation prevailing in Manchuria, and its necessity will naturally be obviated when normal conditions shall have been restored in that region."

The Chinese representative, M. Sze, declared that he accepted the resolution, as interpreted by the President of the Council, but, as the entire arrangement was a practical one designed to meet a pending emergency, it became necessary for him, in the interest of a complete understanding, to record certain observations and reservations on points of principle as follows:

I. China must and does fully reserve any and all rights, remedies, and juridical positions to which she is or may be entitled under and by virtue of all of the provisions of the Covenant, under all the existing treaties to which China is a party and under the accepted principles of international law and practice.

II. The present arrangement evidenced by the resolution and the statement made by the President of the Council is regarded by China as a practical measure embodying four essential and interdependent elements:

(a) Immediate cessation of hostilities;

(b) Liquidation of the Japanese occupation of Manchuria within the shortest possible period of time;

(c) Neutral observation and reporting upon all developments from now on;

(d) A comprehensive enquiry into the entire Manchurian situation on the spot by a Commission appointed by the Council.

The said arrangement being in effect and in spirit predicated upon these fundamental factors, its integrity would be manifestly destroyed by the failure of any one of them to materialise and be effectively realised as contemplated.

III. China understands and expects that the Commission provided for in the resolution will make it its first duty to enquire into and report, with its recommendations, on the withdrawal of the Japanese forces if such withdrawal has not been completed when the Commission arrives on the spot.

IV. China assumes that the said arrangement neither directly nor by implication affects the question of reparations and damages to China and her nationals growing out of the recent events in Manchuria, and makes specific reservation in that respect.

V. In accepting the resolution laid before us, China appreciates the efforts of the Council to prevent further fighting and bloodshed by enjoining both China and Japan to avoid any initiative which may lead to further fighting or any other action likely to aggravate the situation. It must be clearly pointed out that this injunction should not be violated under the pretext of the existence of lawlessness caused by a state of affairs which it is the very purpose of the resolution to do away with. It is to be observed that much of the lawlessness now prevalent in Manchuria is due to the interruption of normal life caused by the invasion of the Japanese forces. The only sure way of restoring the normal peaceful life is to hasten the withdrawal of the Japanese troops and allow the Chinese authorities to assume the responsibility for the maintenance of peace and order. China cannot tolerate the invasion and occupation of her territory by the troops of any foreign country; far less can she permit these troops to usurp the police functions of the Chinese authorities.

VI. China notes with satisfaction the purpose to continue and improve the present system of neutral observation and reporting through representatives of other Powers, and China will from time to time, as occasion requires, indicate the localities to which it seems desirable to despatch such representatives.

VII. It should be understood that, in agreeing to this resolution, which provides for the withdrawal of the Japanese forces to the railway zone, China in no way recedes from the position she has always taken with respect to the maintenance of military forces in the said railway zone.

VIII. China would regard any attempt by Japan to bring about complications of a political character affecting China's territorial or administrative integrity (such as promoting so-called independence movements or utilising disorderly elements for such purposes) as an obvious violation of the undertaking to avoid any further aggravation of the situation.

The British representative, Lord Cecil, was glad to note that both China and Japan had accepted the resolution. As regards paragraph 2, he said, "There can be no doubt that the situation in Manchuria is difficult and exceptional, and that circumstances may well arise there which will cause danger to Japanese lives and property from elements of the population out of control. If an emergency of that kind should arise, it might become inevitable that Japanese forces in the neighbourhood should take action against bandits and the like. But I welcome the recognition by my Japanese colleague of the exceptional character of the situation, and that the necessity for

such exceptional action will come to an end as soon as normal conditions have been restored. In saying this, I do not mean to suggest that the Japanese declaration weakens the obligation set out in paragraph 2 of the resolution to avoid any action which might lead to a recrudescence of fighting between the Chinese and Japanese troops, or a further aggravation of the situation.

M. de Madariaga (Spain) associated himself with Lord Cecil's words.

The draft resolution was then unanimously adopted.

The President, after noting with satisfaction the results of the vote, recalled that the situation between China and Japan had been brought before the Council under Article 11, of the Covenant. In such a special case the Council could not be expected to draw up a model settlement which could serve as a precedent for the future. Article 11, which required a unanimous vote, obliged the Council to seek a solution on the lines of conciliation and compromise. While the Council fixed no time-limit for the complete evacuation of the Japanese troops into the railway zone, it was none the less firmly convinced that the withdrawal would be carried out as rapidly as possible, under the conditions laid down in the resolution of September 30th. The despatch to the spot of a Commission of Inquiry would enable the Council to continue its effort with due regard to all the factors of the problem, which was of a very special character, owing to the exceptional nature of the treaty or customs relations existing in normal times between the two countries, and also because the special status of one of them was governed by the international obligations of the Nine-Power Convention concluded at Washington in 1922, which it was not within the Council's competence to interpret. After noting that the resolution which had just been adopted could therefore in no way affect the doctrine of the Council as regards the occupation of territory and the operation of the Covenant which had been laid down in reports and endorsed in resolutions, the President added:

"Except in the case of an express stipulation in treaties in force, the Covenant of the League of Nations does not authorise a State, however well founded its grievances against another State, to seek redress by methods other than the pacific methods set forth in Article 12 of the Covenant. For Members of the League that is a fundamental principle, in the same way as the 'scrupulous respect for all treaty obligations', on which such stress has rightly been laid in the Preamble to the Covenant. These two principles are of equal value. Any infringement of either lays a grave responsibility on Members of the League. This responsibility was reaffirmed in the Pact of Paris, whose signatories assumed or renewed the undertaking to resort to pacific means alone for the settlement of international disputes."

The President then summarised the first results obtained. The war which had threatened had been averted. A League Commission was about to leave for China and, long before it had been set up, both parties had freely agreed that neutral observers should be sent to the spot. The President concluded by thanking the United States for having assisted in the work of the Council by means of parallel and incessant activities within the limits it had itself determined.

Lord Cecil (Great Britain) associated himself with the observations of the President. He pointed out that under Article 11 the Council was not called upon to arbitrate; its rôle was mediation and persuasion. The success of the settlement arrived at by the Council depended upon the parties. "It is easy for them", he said, "if they desire to do so, to destroy the work of conciliation on which we have been engaged. I am confident that that will not happen. If it did, the party that so acted would bear a heavy load of responsibility before the public opinion of the world."

M. de Madariaga (Spain) noted that a first stage had been accomplished; in his opinion, however, the conflict had proved the necessity for recasting as quickly as possible the methods available for dealing with all international difficulties.

M. Matos (Guatemala), speaking as "a representative of a small Power", said he was anxious that the principles of international law should be safeguarded. It was inadmissible that disputes arising between States should be settled by other than pacific means. Nor could the respect for and the execution of treaties between countries be allowed to depend upon the will of one of the parties. In particular, the resort to measures of coercion for the recovery of contractual debts was contrary to the principles of the Porter Resolution adopted at the Hague Conference of 1907. Although the protection of the lives and property of nationals abroad was a generally recognised obligation, the fulfilment of that obligation must be subordinated to respect for the fundamental rights of States. The Guatemalan representative added that he had voted for the resolution in the spirit which was reflected in the words of the President and because it embodied the principle that the military occupation of the territory of a Member of the League could not be used by another Member to impose direct negotiations on questions pending.

The German representative, M. von Mutius, expressed his satisfaction at the settlement which had been obtained, recalling that the pacific settlement of disputes was the principal task of the League.

M. de Chlapowski (Poland) emphasised the complicated and special character of the conflict which had obliged the Council to adopt a very exceptional procedure and methods.

M. Gonzalès-Prada (Peru) said that nothing in the text approved by the Council must be interpreted as affecting certain principles without which the existence and the rights of weak countries would not have sufficient security; some of these principles he set forth as follows:

(1) No State has the right to effect the military occupation of the territory of another in order to ensure the execution of certain treaties;

(2) No State is entitled to oblige another — having invaded its territory — to enter upon direct negotiations on the bearing and legal value of treaties previously existing between the two States;

(3) The exercise of the right possessed by each State to ensure the protection of the lives and property of its nationals must be limited by respect for the sovereignty of the other State; no State being entitled, in order to provide such protection, to authorise its military forces to penetrate into the territory of the other for the purpose of carrying out police operations;

(4) The fact that a State has certain rights, claims, economic concessions, etc., in regard to another State does not entitle the former to effect the military occupation of the territory or to seize the property of the debtor State. Any recovery of debts by compulsion is illicit, in accordance with the principles accepted by the Second Peace Conference (The Hague, 1907).

M. Garay (Panama) noted that the resolution was purely practical in character and could not be invoked as a precedent. While far from denying the right of another State to safeguard the lives and property of its nationals abroad, he pointed out that this right must not be regarded as absolute, and ended as soon as it began to encroach upon the sovereign rights of a foreign State, rights which could not be disregarded. He recalled that the Porter proposal approved in 1907 at The Hague was, in its turn, based upon the Drago doctrine, which declared that it was not allowable to use compulsion for the recovery of public debts of States in general. He added that the intention of the Covenant was to deprive the signatories of the right of taking the law into their own hands. Any return in international life to methods of force must be viewed with the greatest anxiety.

The special character of the question having been emphasised by several speakers, the Chinese representative, M. Sze, declared that his country could not be expected to admit that the operation of treaties and of accepted principles of international law should stop at the border of Manchuria.

CONSTITUTION OF THE COMMISSION OF INVESTIGATION.

After the session, the President studied, with the assistance of the Secretary-General, the question of the constitution of a Commission of Investigation. He submitted first to the parties, then to the other Members, a list of five names, which was finally approved on January 14th, 1932.

The Commission is constituted as follows: Count Aldrovandi (Italian), General Claudel (French), Lord Lytton (British), General McCoy (American), Dr. Schnee (German).

After electing Lord Lytton as Chairman, it left for the Far East at the beginning of February. It arrived in Japan on February 29th.

JAPANESE OPERATIONS IN THE CHINCHOW DISTRICT.

During the closing days of December, the Japanese Government, in a series of communications, pointed out that the security of its forces was, in its opinion, imperilled by the operations of bandits in Manchuria. On December 27th, in a declaration which was communicated to the Council, the Government stated that the increased activity of marauding bands threatened to destroy completely all peace and security throughout the whole of Southern Manchuria. In these circumstances the Japanese troops had begun a general movement with a view to a more extensive campaign against the bandits, in particular in the region of Chinchow. The Chinese Government drew attention to the advance of the Japanese troops towards that town and, on December 26th, asked the President-in-Office of the Council to take effective measures to enforce the second paragraph of the resolution of December 10th.

In forwarding this communication to the Secretary-General for the information of the Members of the Council, the President-in-Office of the Council said that he had already told the Chinese representative that "the French Government, and, to his knowledge, several other Governments also, had already taken steps at Tokio to draw the Japanese Government's attention to its engagement under the resolution of December 10th that it would refrain from any initiative that might aggravate the situation."

On December 31st, the Chinese Government forwarded a memorandum to the effect that the Japanese army continued to advance to the west of the River Liao, and that the Japanese forces in Manchuria were being increased.

On January 3rd, 1932, the Japanese troops entered Chinchow, after Marshal Chang-Hsueh-Liang had ordered his forces to retire behind the Great Wall. The Japanese army then advanced as far as Shanghaikwan at the foot of the Great Wall.

On January 14th, the President of the Council, in notifying his colleagues officially of the appointment of the Commission of Enquiry under the resolution of December 10th, said:

“The conditions under which the Commission will begin its work are by no means such as we might justifiably have hoped for when we separated. But, in view of the solemn undertakings embodied in the two resolutions unanimously adopted by the Council, which form a definite guarantee against the pursuit of any territorial aims in Manchuria, we may regard the exceptional situation as a strictly temporary one, which must in normal circumstances end as rapidly as possible under the conditions laid down in the resolution of September 30th.

MEETING OF THE COUNCIL IN ORDINARY SESSION, JANUARY 25TH, 1932.

On January 25th, 1932, the Council met again in ordinary session. When the agenda was proposed for adoption, the Chinese representative asked that the Sino-Japanese question should be discussed at the afternoon's meeting, in view of the very critical situation existing between China and Japan, especially as it seemed that the Japanese military and naval forces were at the very doors of China — namely, at Shanghai — where the lives of thousands of foreigners were being threatened as well as those of hundreds of thousands of Chinese, and where hundreds of millions of pounds of international capital were invested.

At the afternoon meeting on January 25th, the Chinese representative described the situation in the following terms:

“Since the Council adjourned six weeks ago, the aggression has been relentlessly continued, until, in the words of the American Secretary of State, ‘the last remaining administrative authority of the Government of the Chinese Republic in South Manchuria, as it existed prior to September 18th, 1931, has been destroyed’. Chinchow and the territory to the south, including Shangaikwan, have gone the way of Mukden, Changchun, Antung, Yinkow, Kirin, Tsitsikar and other cities. Japan is now invading the province of Jehol, hundreds of miles from the railway from Mukden to Peiping, and endangering cities in north, central and even south China, as witness the latest threats to occupy Foochow, Tsingtao and Shanghai — points far away from the borders of what hitherto has been known as Manchuria.”

The Japanese representative said:

“The representative of China has just said that a vast area was in Japanese military occupation and that, contrary to the resolution adopted by the Council, Japan had invaded the whole of Manchuria, which was completely occupied by Japanese troops. That is not the situation. Is it conceivable that so vast a territory as Manchuria could be occupied by our troops numbering 25,000 men at the most? That is not possible. Manchuria is still Manchuria, with its Chinese population. The Mukden authorities alone have felt the results of the recent events. There is, therefore, no complete occupation by our troops. The Chinese authorities remain, although there have been changes to some extent in the local authorities...”

“With regard to Shanghai, I realise that the situation is extremely grave, but the responsibility is not ours.”

The Japanese representative then gave particulars of the incidents which had occurred at Shanghai since January 10th. He added:

“One newspaper, an organ of the nationalist party at Shanghai, even went so far as to express regret that on the occasion of the attempt against my sovereign, another carriage only had been damaged. These disgraceful words caused profound emotion in Japan, particularly in the Japanese colony in Shanghai. Two days later, Japanese monks were attacked and nearly killed by a Chinese crowd. The feeling of exasperation of the Japanese nationals, which for a long time had been kept in check, broke out in spite of the efforts of the authorities to calm them, and thus unfortunate incidents occurred, which I communicated to the Council this morning...”

This communication mentioned, in particular, that on January 20th, a group of Japanese had set fire to the Chinese factory where the workmen who had attacked the Japanese monks were employed; that there had been a clash between the Chinese police and the Japanese crowd; that further disturbances had occurred in the afternoon; and that the Japanese Government had decided to send a cruiser and a number of destroyers to Shanghai, together with reinforcements, some 400 men strong.

He concluded his statement by an exposition of the policy of the Japanese Government in regard to the principle of the “open door” in Manchuria, and quoted in this connection the words of the Minister for Foreign Affairs, spoken in the Japanese Parliament on January 21st:

“Japan harbours no territorial designs in Manchuria, and she will uphold the principles of the ‘open door’ and equal opportunity, as well as all existing treaties relating to that territory. What Japan desires is only to secure peace and order for Manchuria and to make that region safe both for Chinese and foreigners and open to all for economic development.”

After a reply by the Chinese representative, who observed that his country had been invaded three times by the Japanese since 1914, so that it was not surprising that the Chinese people should be exasperated and irritated beyond all expression, the President said that some of the facts referred to by the parties occurred before the resolution of December 10th and others after it; the latter category of facts, in which were included the incidents, fears and threats to which the Council's attention had been drawn in connection with Shanghai, would have to be considered by the Council, and the latter would have to study what measures could be taken. The Council would undoubtedly be unanimous in at once urging the two Governments to take all the necessary measures to prevent Shanghai from becoming a new centre of trouble.

On the following days the members of the Council, other than the representatives of the two parties, proceeded to an exchange of views. The Chinese and Japanese delegations, moreover, informed the Council that clashes between the forces had taken place in the suburbs of Shanghai. As a result, the Chinese representative addressed to the Council an appeal, dated January 29th, invoking fresh articles of the Covenant.

II. APPEAL OF THE CHINESE GOVERNMENT UNDER ARTICLES 10, 11 AND 15 OF THE COVENANT.

The new appeal of the Chinese Government was worded as follows:

“Under instructions from my Government, I have the honour hereby to give notice as follows:

“1. A dispute between two Members of the League of Nations — to wit, China and Japan — arising from the aggression of the latter against the territorial and administrative integrity and political independence of the former, in violation of the provisions of the Covenant of the League of Nations, exists.

“2. This dispute has not been submitted to arbitration or to judicial settlement in accordance with any of the articles of the Covenant.

“3. The said dispute has now reached a stage when it is likely to lead to an immediate rupture between China and Japan.

“4. China hereby invokes the application (not in derogation of the measures taken, or which may be taken, by the League in the exercise of its functions under Article 11, but in addition thereto) both of Article 10 and of Article 15 of the Covenant to the said dispute, and formally submits the said matter to the Council for all appropriate and necessary action under both of the said articles.

“5. For this purpose, China begs leave to refer to, and hereby adopts as and for the statement of its case comprising the relevant facts and papers in relation to the said matter, all the statements and papers heretofore made and submitted by China in the proceedings of the Council taken in the said controversy under Article 11 of the Covenant from September 18th, 1931, to the date hereof.”

The Council immediately held another meeting. After the Secretary-General had read China's appeal, the President referred to the fact that discussions had taken place between the members of the Council other than the parties, during the previous days. He had drawn up a declaration which, if events had not unfortunately taken the recent serious turn, might have been expected to conclude, for that session at any rate, the dispute engaging the Council's attention.

“This declaration”, said M. Paul-Boncour, “began by stating that the resolutions of September 30th and December 10th retained their full executory force. We considered that the resolution of December 10th, by which the Council's action was indicated and defined, made it unnecessary for us, so long as no new facts occurred, to pass a fresh resolution pending receipt of the report from the Commission of Enquiry.

“We said that, in these circumstances, we had no intention of relaxing the continuous efforts which, with the co-operation of the parties and the invaluable support of the United States Government, we had pursued during the past four months to bring about a just solution as speedily as the complicated nature of the facts permitted. We considered that, so long as the present situation remained unchanged, not only was there a constant threat to the maintenance of peace in the Far East, but also the feeling of uncertainty and suspense which was inevitably engendered in the minds of the citizens of China and Japan, as well as in those of the foreigners settled in the Far East, would remain unallayed. That situation was deplorable in itself, and especially deplorable inasmuch as it added to the difficulties which were hindering the world in its efforts to recover from the present economic depression.

“We reminded the two countries that, entirely irrespective of the solemn undertakings, which represent legal obligations, good relations between States could only be secured by co-operation and mutual respect, that no permanent solution could be achieved by force, whether military or merely economic, and that the longer the present situation continued,

the wider the breach between the two peoples would become and the more difficult the solution would be, with all the disasters that that would mean, not only for the two nations directly involved, but for the world in general.

"We said that we were convinced that the League of Nations could only exist and develop in an atmosphere of truth and that we owed it to truth not to overestimate the results which the League had obtained and to acknowledge that, to the League's regret and despite its efforts, the *de facto* situation had not improved, but that the reverse was the case. At the same time we were justified in pointing out that the League's efforts had, in a certain measure, secured results which likewise should not be underestimated.

"We noted that an advance had been made in the direction of conciliation, since a Commission of Enquiry, which both Powers had freely accepted, had been set up, and that the Commission had begun work and was on the point of departing early next week.

"We noted also, as a tranquillising and hopeful factor, the words spoken in the Council by the Japanese representative, who, moreover, explicitly referred to the assurance given by the Japanese Minister for Foreign Affairs—namely: 'Japan harbours no territorial designs in Manchuria and she will uphold the principles of the open door and equal opportunity, as well as all existing treaties relating to that territory'.

"We further mentioned the very important Note addressed on January 8th to the two Governments concerned by the United States Government, and I may be allowed to say how highly we appreciated the fact that in that Note the Government of the United States expressed its belief that the work of the Commission set up by the Council might be expected to facilitate the solution of the existing difficulties. In the same Note the United States Government called the attention of the parties to the treaties that are binding upon them. We, from the League standpoint, asserted that a settlement of the difficulties between the two Governments, Members of the League, must not be sought in arrangements inconsistent with international obligations, more especially those arising out of Article 10 of the Covenant, by which they have undertaken to respect the territorial integrity and political independence of all Members of the League.

"We terminated our declaration by stating that it would be impossible for the League to endorse a settlement secured by methods at variance with the obligations mentioned above.

"I have made the declaration we drew up known, notwithstanding the new request which has been brought before us and which, while imposing other duties on the Council, places the question on a new plane (that of Article 15), because I consider, in conformity with the spirit of the League and with what, I believe, is a correct legal interpretation of its procedure — it has repeatedly been confirmed as such, in particular in a report of 1927 that was at that time regarded as a valuable guide for the League — that the procedure mentioned in Article 15 does not have the effect of suspending the action which is being taken to reach a friendly settlement and to prevent hostilities and which the League must pursue under Article 11.

"Subject to this express reservation, I do not think that it is within the Council's power to escape the duty imposed upon it. It is clear from the terms of the Covenant, which is our common safeguard, that, as soon as one of the parties appeals to Article 15, the procedure stipulated in that article must at least be initiated."

The Chinese representative stated that Japan's disregard of her engagement under the Covenant was flagrant. The use of armed force without submitting the entire matter to arbitration or judicial settlement, and without awaiting the outcome of enquiry by the Council, was in direct violation, not only of the spirit, but of the letter of the Covenant. As a victim of persistent external aggression in one of its most violent forms, China could no longer refrain from seeking remedies under other provisions in addition to those of Article 11.

He added that, according to news he had received, the reply of the Chinese Municipal Government (regarding Sino-Japanese clashes in the past few days) was received by the Japanese Consul-General with satisfaction at 1 p.m. on January 28th. At 11.20 p.m. the Municipal Government and the Bureau of Public Safety had received an ultimatum from the Japanese Naval Commander demanding the withdrawal of Chinese troops. While the Chinese authorities were protesting against such an ultimatum, the Japanese troops commenced firing with machine-guns on the Chinese troops in the Chapei-Jiukiang Road district. This took place at 12.20 a.m. Fighting was still continuing.

The Japanese representative, in reply to this statement, explained that, according to information in his possession, the Japanese marines did not take the initiative to land. The landing was preceded by a council of the officers commanding the foreign forces. This council assigned to the different forces the areas that they were to protect. Under this decision the Japanese commanding officer landed marines, and the latter were attacked by the Chinese troops. That was the immediate cause of the Shanghai incident, as a result of which China had invoked Article 15 of the Covenant.

¶ In his request the Chinese representative had also invoked Article 10. He had stated that Japan had never submitted the present dispute to arbitration or pacific settlement according to the obligation defined in Article 10. That was quite correct. But it was common knowledge that

Japan was not prepared to accept arbitration with anyone indiscriminately. That was why she had not up to the present been able to sign Article 36 of the Statute of the Permanent Court of International Justice.

The Chinese representative had also accused the Japanese of committing an act contrary to the principle of respect for territorial integrity. M. Sato's reply was that in the Far-Eastern zones they had already had similar incidents followed by similar procedure. In 1927, for instance, there was a bombardment in which the Japanese had taken no part. They had now unfortunately been obliged, in order to protect Japanese nationals and residents, to resort to a measure of legitimate defence in view of the conditions prevailing in China.

The Japanese representative then made certain observations raising legal points regarding the admissibility of the new Chinese request.

The President of the Council pointed out that it was not for the Council, when a request had been submitted to it under Article 15 of the Covenant; to decide whether this request was justified. In accordance with Article 15, it was sufficient for one of the parties to notify the Secretary-General of a dispute for the latter to be compelled to make all necessary arrangements for a full investigation and consideration thereof.

The President therefore asked the Secretary-General if he had yet considered how information could speedily be obtained for the Council.

Arrangements made by the Secretary-General in execution of Article 15: Constitution of a Committee of Enquiry at Shanghai.

On the following day, January 30th, the Secretary-General proposed that the Members of the Council, other than the parties to the dispute, who had official representatives at Shanghai should instruct those representatives to form a Committee to report on the situation in that city and neighbourhood, and on its causes and development. The Secretary-General added that he did not propose for the present to take any other steps with a view to an enquiry, as those which the Council had already taken seemed to him to be adequate.

The Committee of Enquiry proposed by the Secretary-General was immediately constituted at Shanghai. The Government of the United States authorised its Consul-General to co-operate in the work. On February 6th, the Committee forwarded its first report to the Secretary-General. This report and the subsequent reports submitted by the Committee are contained in a special document (document A. 3. 1932.VII) distributed to the Assembly, so it would not appear necessary to attempt to give a summary of them here.

On February 1st, the Chinese Government denied foreign Press reports to the effect that China was prepared to declare war upon Japan. China was merely "exercising the right of self-preservation which is inherent in the sovereignty of the Chinese State".¹ On the same day, the Japanese representative on the Council communicated to the Secretary-General an official telegram from Tokio² concerning an interview which the Minister for Foreign Affairs had on January 31st with the Ambassadors of Great Britain, the United States and France, at which he supplied them with information concerning the origin and development of the incidents at Shanghai. After stating that the truce concluded by the Consuls-General of Great Britain and the United States which was to take effect on January 29th at 8 p.m. had been broken by the Chinese, and that Marshal Chiang-Kai-Shek was bringing up the 19th Army and the 3rd Defence Division, the Minister had asked the three Powers to instruct their several representatives in Shanghai to make an effort to induce the Chinese to cease hostilities and withdraw their troops.

BRITISH COMMUNICATION CONCERNING THE ACTION OF THIRD POWERS AT SHANGHAI.

On February 2nd, the Council met at the request of the British representative. The latter stated that his Government thought it impossible that the present situation in the Far East should be allowed to continue, where over a wide area around Shanghai "war in everything but name was in progress".

Mr. Thomas added:

"To such a state of things the Members of the League of Nations cannot be indifferent. If it is allowed to go on, the Covenant, the Pact of Paris and the Nine-Power Treaty must inevitably lose the confidence of the world.

"It is not without significance to Members of the League that the United States Government take entirely the same view of the situation. In all the efforts for peace put forth by the Council during the last four months, we have been happy to receive the wholehearted sympathy and support of the United States. On several recent occasions the Council has pressed its Members to second its efforts by diplomatic representations to the two Governments concerned. His Majesty's Government and other Governments Members of the League have shown themselves ready to respond to that appeal. Unfortunately, these efforts have been so far unsuccessful. His Majesty's Government therefore, in concert with the Government of the United States, have decided to make a further effort to bring the present lamentable state of things to an end, and they trust that other Governments will see their

¹ Document C.156.1932.

² Document C.161.1932.

way to take similar action. They have accordingly presented at Tokio and Nanking a formal request:

"1. That all acts of violence and preparations for hostilities shall be brought to an end;

"2. That in the Shanghai area both sides shall withdraw their troops and that, as a further protection to the International Settlement, a neutral zone shall be arranged;

"3. That negotiations shall then be immediately begun to settle outstanding differences in the spirit of the Pact of Paris and the Council resolution of December 9th last."¹

The British representative then communicated the text of a statement which the British Government was making at the same time in the House of Commons. This declaration referred, in particular, to the events at Shanghai and to the despatch by the British Government of military and naval reinforcements. Mention was also made of the fact that, on the previous day at about 11 p.m., Japanese warships had opened fire with several rounds of live shell in the direction of Nanking. After reading this statement, the British representative added that the British Government was satisfied that the measures it had taken would be approved and supported by all Members of the Council.

The President, M. André Tardieu, replacing M. Paul-Boncour, who was absent from Geneva, said that the French Government had instructed its representatives in Tokio and Nanking to support the action taken by the United States and Great Britain. M. Grandi (Italy) made a similar communication. M. von Weizsäcker (Germany) said that he would at once inform his Government, so that the latter might issue immediate and appropriate instructions to its representatives in the two capitals.

M. Yen (China) said that his country was deeply appreciative of the steps taken by the Powers.

M. Sato (Japan) reminded the Council that it was the Tokio Government which had asked Great Britain, France and the United States to confer immediately on the action that might be taken at Shanghai to put an end to hostilities. He also observed that the idea of creating a neutral zone between the two armed forces had also been put forward by the Japanese representative at Shanghai. With regard to the bombardment of Nanking, his own information was to the effect that the Nanking forts had fired three rounds at the very time when a detachment of Japanese marines had been attacked, and that, in order to assist the marines until they re-embarked, two Japanese vessels had fired a few rounds at intervals.²

After these statements, the President observed that, as regarded the local incidents, the Council could only await the reports of the Committee which had been set up at Shanghai. Moreover, in communicating its proposal to the Council, the Government of the United Kingdom, whose action had been supported by other Governments, desired to associate the Council's authority with the step taken by those various countries with a view to a pacific settlement of the dispute. He noted that this object had been attained.

DEVELOPMENT OF THE SITUATION AT SHANGHAI AND IN MANCHURIA.

On February 7th, the representative of the Chinese Government called for an immediate meeting of the Council to consider the first report from the Shanghai Committee. He added that, during the last ten days, thousands of men, women and children had been killed and wounded at Shanghai by bombardment by Japanese aeroplanes and gun-fire.³

On the same day, the Japanese representative forwarded a statement published in Tokio concerning the despatch of troops to Shanghai,⁴ where "the Japanese marines, opposed to forces outnumbering them by more than ten to one, were wearied to exhaustion, while the predicament of Japanese residents, facing as they do imminent danger, was beyond description".

The Japanese Government concluded its statement by reasserting that it cherished no political ambitions in the region of Shanghai, nor any thought of encroaching there upon the rights and interests of any other Powers.

On February 9th, the Council again considered the situation.

The representative of China, after referring to the statement made by the British representative a week previously, asserted that Japanese troops were being drafted in steadily increasing numbers into the Shanghai area, and that their operations had also been extended in Manchuria, where Harbin had been occupied. According to his information, 75,000 Japanese soldiers were in Manchuria and over 25,000 round about Shanghai. In addition, 27 warships and two divisions of

¹ For the exact terms of the five proposals submitted to Tokio and Nanking, see document C. 181.1932 (Chinese communication of February 4th).

² In reply to these explanations by the Japanese representative, the Chinese Government communicated other information concerning the bombardment of Nanking (document C.165.1932).

³ Document C.186.1932.

⁴ Document C.187.1932.

reinforcements had just left Japan. The present state of affairs was, in his opinion, an intolerable one, not only for China, but for the League and the Powers whose proposals, accepted by China, had been "rejected by Japan in their very essence".

The Japanese representative, after asserting that the Chinese representative had, in his statement, been more than once guilty of exaggeration — in particular, when he spoke of the number of troops in Manchuria — referred, as regards the events in Shanghai, to the Committee's first report.

He then said that negotiations were proceeding on the spot with a view to putting an end to hostilities and the creation of a neutral zone.

Both the local Japanese authorities at Shanghai and the new commander of the Third Squadron, Admiral Nomura, had received instructions to that effect.

Sir John Simon reminded the Council that, in co-operation with other Powers, his Government had placed at the service of the Council all the influence it possessed on the spot, in order to assist as far as possible in putting an end to hostilities.

The President of the Council noted that the procedure prescribed by Article 15 had operated rapidly. A Committee had been formed immediately at Shanghai and had sent a first report to the Council. Moreover, the Council had been informed that the negotiations on the spot for the cessation of hostilities were not closed. For the moment, therefore, any more detailed discussion by the Council would seem to be inexpedient.

III. CHINA ASKS THE COUNCIL TO REFER THE DISPUTE TO THE ASSEMBLY.

On February 12th, the Chinese representative to the Council addressed to the Secretary-General the following communication:

"With regard to the Sino-Japanese dispute, which has been laid before the Council under Articles 10, 11 and 15 of the Covenant of the League of Nations, I have the honour to observe that, according to Article 15, paragraph 9, of the said Covenant, it is within the competence of the Council to refer the case to the Assembly. At the same time, it is also provided that the dispute shall be so referred, provided that such request be made within fourteen days after the submission of the dispute to the Council.

"In view of the time-limit imposed, the Chinese Government is constrained hereby to request that the said dispute be referred to the Assembly. If, however, it should be the pleasure and intention of the Council to refer the said dispute at its own initiative to the Assembly or in virtue of the general powers vested in it to summon the Assembly for consideration of the dispute, the Chinese Government will then be prepared to withdraw the request on its part."¹

On February 16th, the members of the Council, other than the parties, after a further exchange of views on the situation — particularly the situation at Shanghai — concluded that it was necessary to address an urgent appeal to the Japanese Government. To this appeal, published in document C.237.1932, the Japanese Government replied on February 23rd by a note and a declaration published in document C.266.1932.

JAPANESE ULTIMATUM OF FEBRUARY 18TH AND URGENT CONVOCATION OF THE COUNCIL.

On February 18th, the representative of China informed the Council that the negotiations at Shanghai between the Chinese and Japanese Officers Commanding had broken down. The Japanese had demanded in an ultimatum the entire withdrawal of the Chinese forces to a distance of 20 kilometres, north, east and west from the International Settlement by 5 o'clock p.m. on February 20th, failing which, the Japanese Commander would take the necessary action. Consequently, the Chinese representative requested that the Council should meet on the morrow.²

On February 19th, the Council met.

The representative of China stated that more than 40,000 Japanese soldiers and 40 war vessels were at present in the Shanghai area. He noted that, according to the second report of the Committee, there had existed since February 3rd a state of open war, the offensive being conducted entirely by the Japanese. In spite of the appeal addressed to Japan on February 16th by the members of the Council other than the parties, the negotiations begun between the Chinese and Japanese had failed, and the Japanese had presented an ultimatum, the time-limit of which was about to expire. A great battle was therefore imminent, simply because the Japanese demanded that the Chinese troops, who were on their own national territory, should withdraw, while the Japanese soldiers were to remain in their positions. The Chinese representative therefore requested that the Council should, in virtue of the powers with which it was invested by the Covenant, adopt conservatory measures to prevent the battle.

The Japanese representative replied that his country had repeatedly explained that, if Japan had resorted to force, it was solely to defend Japanese interests and the lives of Japanese nationals. In spite of all the efforts made by Japan to stop hostilities a critical moment had arrived. Conservatory measures, if they could have been found, ought to have been proposed long ago.

¹ Document C.219.M.114.1932.

² Document C.246.1932.

Explanations given by the Japanese Representative regarding the dispute.

As, however, the Council was, at the request of China, about to adopt a resolution transferring the question to the Assembly, the Japanese representative wished to avail himself of this last opportunity to give the Council once more as full an explanation as possible, so that, when the matter came before the Assembly, the latter might be in possession of all the facts of the dispute.

The origin of the difficulties between China and Japan was to be found, he said, in the fact that for the last ten years China had been living in a state of civil war, disorder and anarchy. As the Preamble to the Covenant specifies explicitly, the Covenant applies to organised peoples, and regulates the relations between such peoples. If Japan had experienced these difficulties with a country possessing a properly organised and efficient administration, she would have accepted any peaceful settlement and would have been able to observe literally the provisions of the Covenant. Countries which had interests in China had often been compelled to employ measures which would not have been permitted in a really organised country. If Japan were to be censured for having committed acts of aggression, similar acts should have been censured when committed by certain other Powers having interests in China. Had the position been normal in China, the Powers which in the past had had recourse to extreme measures would have appealed to the League Council to settle their dispute by pacific and regular methods. They had been unable to do so, because the League could not in this case apply the Covenant to its full extent, and in accordance with the strict interpretation of its wording.

Japan was to-day under the same imperious necessity. Retirement from Shanghai would mean the abandonment of the defence of all her rights and interests. No Government could do that.

After mentioning the importance of Japanese interests in Shanghai, M. Sato declared that his country could not entrust the protection of its interests to Chinese authorities, or to anyone. Had the League or the Council been able to devise effective measures to safeguard Japanese interests and the interests of other Powers, Japan would not have been obliged to resort to measures similar to those which other Powers had adopted a few years previously.

Coming to the situation in Manchuria, the Japanese representative said that a number of leading men had on February 17th, at Mukden, formed an Executive Committee of the four North-Eastern Provinces, and had then proclaimed the independence of these Provinces and the breaking of relations with the Central Government of China. He added that there need be no surprise at the use of the word "independence", which, for the Chinese, had a meaning quite different from that attached to it by Europeans or Americans. Independence in China was equivalent to autonomy. Japan, who had suffered so much from the arbitrary methods of the Mukden authorities, had felt great sympathy for a powerful movement whose motto was "Manchuria for the Manchus". When China had a properly organised and co-ordinated Central Government, Manchuria would perhaps enter into negotiations with that Government with a view to settling her status.

Japan had often been charged with failing to conform to the resolutions adopted by the Council in September and December 1931, but those resolutions provided for the withdrawal of the Japanese forces within the railway zone as soon as the lives and property of Japanese nationals in Manchuria had been safeguarded. The abnormal situation had, however, continued, and the Japanese had so far been unable to withdraw their troops. The anti-Japanese movement had developed in China. Japan had lost all her trade with China and her place had been taken by others.

Japan to-day was in an unfavourable situation, particularly with regard to emigration. There was now almost no country to which Japan could send her emigrants. In America, all countries save one or two were closed to the Japanese. The same applied to Oceania and South Africa. Japan had been compelled to accept this situation. When she became a Member of the League of Nations, she had asked for equitable treatment for her people and trade, but had immediately encountered insuperable barriers. Japan had to accept the *status quo*, and was subjected to treatment which was derogatory to her dignity and against which she constantly protested. Driven now from Central and Southern China, where she had lost her entire trade, she was bound to seek a solution and look near Japan — in Manchuria.

While having no territorial ambitions, Japan desired to preserve in Manchuria a field of action for the Japanese, while respecting the principle of the "open door". Foreign capital would be welcome, since Japanese capital alone would not suffice to open up so vast a territory.

With regard to Shanghai, the Japanese had only one desire — to protect themselves. As soon as that had been achieved, they would withdraw and leave it to neutral forces to guard the neutral zones which would ultimately be set up.

Reply by the Chinese Representative.

M. Yen, after pointing out that only four or five hours remained in which to prevent the battle, admitted that there was a certain amount of disorder in China. He reminded the Council, however, that China was as large as the whole of Europe, and had a population of 400 million people. Moreover, China, formerly an absolute monarchy, had suddenly been transformed into a republic. The process of adjustment could scarcely have been carried out without some amount of unrest. Reference had been made to "a well-organised State"; but in Japan the army and navy were out of control of the Government; Japanese diplomats had given the Council promises which were immediately broken; Chinchow had been occupied despite the promises given to two or three Powers not to do so; Chinese had been massacred in Japan and in Korea. Further, since Japan accused China of not having a well-organised Government, why did she insist on negotiating directly with that Government?

Moreover, a large part of the responsibility for the disorders in China must be attributed to Japan, who had often helped one party against another. Japan did not want to see China united and strong, but to-day, chiefly by reason of the Japanese aggression, China was more united than she had ever been.

After disputing the statement that other Powers had committed against China acts of aggression similar to those committed by Japan, the representative of China declared that Japan was fighting against a country reduced to distress by terrible floods, without a declaration of war, taking all the advantages of war and refusing to shoulder its responsibilities.

If, moreover, Japan required an outlet for her excess population, the fact remained that in spite of all Government encouragement and the supply of funds, there were to-day in Manchuria only two hundred thousand Japanese, whereas a million Chinese immigrants settled there every year. To-day, Manchuria was purely Chinese and the majority of the Manchus, who constituted one of the five races of China, were scattered all over the Republic.

The representative of China was gratified that Japan should repeatedly have given an assurance that she had no territorial ambitions in Manchuria, but pointed out that the same thing had been said some years ago about Korea and yet to-day Korea was an integral part of the Japanese Empire.

The representative of China concluded his statement by requesting the Council again to take measures of a conservatory nature to put a stop to the bloodshed which was imminent at Shanghai.

After the representative of Japan had stated in reply that his country, far from fomenting unrest in China, only desired order and calm to prevail in that country, the President addressed the Council.

Appeal for the Cessation of Hostilities.

Now that the Council, the President said, by the convening of the Assembly, would no longer have the duty or the possibility of deciding on the substance of the dispute, he would ask the representative of Japan to believe that the Council had overlooked none of the considerations which he had placed before it. The recommendations which the Council might have made with regard to the substance of the dispute would have shown — as will most certainly those made by the Assembly — the greatest impartiality and also the fullest understanding of any very special conditions in the relations of the two countries concerned in the dispute. The League, within the limits of the Covenant, must adapt its decisions to meet those diverse conditions. But an ultimatum would perhaps expire in a few hours. Since the representative of Japan had given an assurance once again that his country intended to respect Article 10 of the Covenant, there appeared to be an appalling inconsistency between Japan's freedom from territorial interests and the fact that a battle was about to be joined on territory which Japan proposed, whatever the outcome, to evacuate as soon as she had achieved her only object — namely, the safeguarding of the security of her nationals. In those circumstances, would it not be possible to agree at once on the creation of a neutral zone? The President of the Council appealed to the representative of Japan urgently to prevent the ultimatum expiring within a few hours.

Turning to the Chinese representative, the President reminded him that conservatory measures could only be adopted with the agreement of the Parties. At the present time, if an agreement was to be brought about, it would only be on the spot. The Council had not resigned to another the duty of making these *démarches*, but, since its meeting of February 2nd, when the British representative had given information as to the negotiations which had been undertaken, it had placed its hope in those negotiations. The President urged once more that the ultimatum should be extended long enough to allow the negotiations to be reopened.

After the other members of the Council had associated themselves with the President's words, the Japanese representative stated that he had been much moved by the sincere and urgent appeal which had been addressed to him, and he gave an assurance that his whole country would rejoice if peace could be maintained. He said he would forward his colleagues' appeal to his Government. He was nevertheless obliged to express regret that the Council did not think it possible to make as urgent an appeal to the other Party to the dispute. For several weeks past the situation of the Japanese at Shanghai had been distressing and they had been constantly threatened. To abandon the position assigned to them would have been equivalent to the complete abandonment of a situation which had been acquired with the expenditure of so much energy and effort. Should the Council recommend Japan to withdraw, the representative of that country would be unable to forward this request to his Government. At this critical moment there was one thing which still appeared possible. The cessation of firing was the first desideratum, but that depended on both Parties. The Council would therefore be taking useful action if it addressed as urgent an appeal to the Chinese representative.

The President replied that, if he had ventured to make a more pressing appeal to the Japanese representative, it was because all prospect of mediation and negotiation depended on the ultimatum of the Japanese Government. It was, however, unnecessary to state that he was making an equally pressing appeal to the Chinese representative asking him to give an assurance that, if the ultimatum were prolonged, the armistice would, as a first condition, be scrupulously respected by both sides and that subsequently the Chinese Government, like the Japanese Government, would give its most careful consideration to any proposals that might be advanced by the representatives of the Powers at Shanghai.

IV. THE COUNCIL REFERS THE DISPUTE TO THE ASSEMBLY.

The Council then adopted the following resolution referring the dispute to the Assembly:

“The Council,

“(1) Considering the request submitted by the representative of China, under the provisions of paragraph 9 of Article 15 of the Covenant, to the effect that the Sino-Japanese dispute should be referred to the Assembly:

“Decides that the said dispute is referred to the Assembly in accordance with Article 15, paragraph 9, of the Covenant.

“(2) Considering that delegations from almost every Member of the League are now present in Geneva in order to take part in the Conference for the Limitation and Reduction of Armaments, thereby enabling the Assembly to meet at short notice;

“Decides that a meeting of the Assembly shall be held on March 3rd.

“(3) Notes that the measures which have already been instituted in order to obtain information necessary for the consideration of the dispute will be continued.

“(4) Requests the Parties to the dispute to use all diligence in communicating to the Secretary-General, for the use of the Assembly, the statements of their case with all the relevant facts and papers as provided for in Article 15, paragraph 2.

“(5) The duty of the Council to continue its work for the maintenance of peace in accordance with the Covenant remains unaffected by the present decision.”

V. PROPOSALS WITH A VIEW TO THE CESSATION OF HOSTILITIES AND THE RE-ESTABLISHMENT OF PEACE IN THE SHANGHAI REGION.

Hostilities continued during the following days in the Shanghai region. On February 29th, the Council met again.

The British representative informed his colleagues that his Government had received further news from its representatives at Shanghai. On the previous day the commanders or representatives of the Japanese and Chinese forces had met on board the British flagship, in the presence of Admiral Kelly, with a view to arranging for a cessation of hostilities.

According to Admiral Kelly's report, the principle of mutual and simultaneous withdrawal on either side had been agreed to and there had been detailed discussions as to how the evacuated area could best be controlled with the assistance of neutrals.

The proposed arrangements had been referred to Tokio and Nanking for consideration.

The President then made the following statement:

“1. The imminence of hostilities on the largest scale in the Shanghai region between Chinese and Japanese forces, with the inevitable consequence of heavy loss of life and further embitterment of feeling, makes it at this critical moment the duty of all of us to lose no opportunity of seeking means by which this deplorable armed conflict between two Members of the League may be suspended and a way of peace may be found and followed.

“The news that we have received from the British representative that conversations actually took place yesterday at Shanghai with a view to making arrangements for a cessation of hostilities and that the proposed arrangements have been referred to the respective Governments is welcomed by us all, and the Council of the League is ready to make its contribution towards the consolidation of peaceful conditions in the way and at the time which is most useful.

“2. I have therefore called together my colleagues on the Council for the purpose of laying before them a proposal which might serve to this end. For its effective execution, this proposal will require, not only the acceptance of the Governments of China and Japan, but the co-operation on the spot of the other principal Powers who have special interests in the Shanghai Settlements and whose representatives are therefore readily available to make the local contribution of their friendly aid which is no less necessary than the positive and sincere agreement of the Chinese and Japanese authorities to the plan proposed.

“3. This plan is as follows:

“(1) A conference to be immediately set up in Shanghai composed of representatives of the Governments of China and Japan together with representatives of the other

Powers above referred to for the purpose of bringing about a final conclusion of fighting and the restoration of peaceful conditions in the Shanghai area.

“(2) The Conference would be undertaken on the basis (a) that Japan has no political or territorial designs and no intention of establishing a Japanese settlement in Shanghai or of otherwise advancing the exclusive interests of the Japanese, and (b) that China enters the conference on the basis that the safety and integrity of the International and French Settlements must be preserved under arrangements which will secure these areas and their residents from danger.

“(3) The meeting of this conference is, of course, subject to the making of local arrangements for a cessation of hostilities. The Council trusts that this will very speedily be brought about. It is proposed that the military, naval and civilian authorities of the other principal Powers represented in Shanghai will render all possible assistance in consolidating the arrangements.

“4. To this proposal, which is aimed at the immediate re-establishment of peace in the Shanghai area, without prejudice to, or qualification of, any position previously taken up by the League of Nations or any Power in relation to Sino-Japanese affairs, the President desires, in the name of himself and of his colleagues, to invite the adherence and co-operation both of China and Japan and of the other Powers referred to, whose local position enables them to make a special contribution to the common purpose of stopping armed conflict and restoring peace.”

The Italian representative immediately gave an assurance that the proposal made by the President met with his entire approval. As the representative of one of the Powers having special interests in the Shanghai Settlement, he added that the collaboration of Italy in the plan outlined was already definitely assured.

The British representative said he would instruct his Government's representatives in Shanghai to co-operate with the other Powers and that the British Government would give this co-operation in its character as a Member of the League of Nations, resolved to support its moral authority and sustain its influence in the work of maintaining and restoring peace.

He added that there was another Government whose citizens had great interests in the International Settlement, who were devoted to the cause of peace and who desired to promote a just conclusion of the Sino-Japanese conflict; he referred to the Government of the United States of America. The British representative was able to announce that he had been in close consultation with the United States Government, which had authorised him to communicate the assurance of the United States that it was prepared to associate itself with the step taken by the Council, and to instruct its representatives in the Shanghai area to co-operate with the Powers, Members of the League of Nations, in carrying out the plan proposed by the President of the Council.

The President stated that, as the representative of France, he was authorised to give the same adhesion and a promise of the same support.

The Japanese representative, after stating that he was not yet authorised to inform the Council as to details regarding the negotiations which had taken place in Shanghai, accepted the proposal made by the President, subject to the approval of his Government, to whom he would immediately transmit it.

He made the following statement:

“(1) In the Shanghai question, the sole aim of the Japanese Government is to remove from the International Concession, and also from its own nationals, an imminent danger and to restore peaceful conditions.

“(2) The Japanese Government will be prepared to co-operate with other Powers with a view to settling the situation at Shanghai as soon as calm is re-established under conditions such as will guarantee the security of the Concession and the Japanese nationals. For this purpose, and particularly with a view to ensuring the future security of foreigners in the Shanghai region, the Japanese Government will have no objection to the opening in that city of a round-table conference at which there will be represented foreign Powers who have interests at Shanghai.

“(3) The Japanese Government has no intention of taking advantage of the present situation in order to realise political or territorial ambitions in that region. It has no wish to establish a Japanese concession at Shanghai or to obtain exclusive advantages there for the Japanese. It desires to maintain and strengthen the international character of Shanghai.

“(4) News has been published in the Press according to which the Japanese Government is stated to be contemplating the establishment of neutral zones around some of the chief Chinese cities. This in no wise represents the intentions of the Japanese Government.”

The Chinese representative stated that the Chinese Government and people appreciated very sincerely any effort on the part of the League and of friendly Powers not Members of the League, principally the United States of America, to bring about an immediate cessation of

hostilities, and to prepare the way for a just and permanent settlement of the dispute. He then read the following telegram which he had just received from his Government:

“Last night Admiral Kelly of the British Navy invited Dr. Wellington Koo and other Chinese and Japanese authorities to a meeting. Admiral Kelly proposed cessation of hostilities and simultaneous withdrawal of Chinese troops to Chenju (a village to the west of Chapei) and the Japanese to within Settlement limits, then Chinese troops to Nanziang (a town on the Shanghai-Nanking Railway) and the Japanese to embark. The withdrawal of both sides to be supervised by neutrals. Chinese authorities find proposal reasonable and acceptable.”

Under these circumstances, the Chinese representative was only too glad to transmit the proposal presented by the President of the Council, and to recommend that it should be accepted.

M. Sato wished to add that, as soon as he had received the necessary authorisation from his Government, he would not fail to communicate to the Council the details of the arrangement which had been reached at Shanghai.

The German representative expressed the sincere hope that the negotiations and the subsequent measures to be taken with the assistance of those Powers which, on account of their position in Shanghai, were able to give special help, would be crowned with immediate success.

The Spanish representative said that success was so imminent that each one should contribute, whether in small or great measure. His contribution would consist in setting aside his special preference to see Powers other than those with immediate interests in Asia taking part in the conference at Shanghai. He expressed the hope that negotiations would reach a successful issue early enough for the Assembly to be confronted with this happy result.

After thanking those of his colleagues who had explicitly acceded to the formal proposal, the President laid particular stress on the words used by the British representative, who had associated so closely — as the text of the proposal itself did — the cessation of hostilities and the proposed conference at Shanghai. The latter would be purposeless save in the silence of arms. Like the Spanish representative, the President hoped that this cessation of hostilities might be realised soon enough to enable the Assembly to open under happier auspices than might have been hoped for.

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and the Members of the League.]

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LEAGUE OF NATIONS



REQUEST FOR ASSISTANCE

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LIBERIAN GOVERNMENT

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REPORT OF THE COMMITTEE OF THE COUNCIL APPOINTED TO STUDY THE PROBLEM ARISING OUT OF THE REQUEST FOR ASSISTANCE SUBMITTED BY THE LIBERIAN GOVERNMENT

By its resolution of January 24th, 1931, the Council instructed the Committee to enquire in what practical manner it would be possible to assist the Liberian Government to carry out its decision to give effect, in principle, to the recommendations and suggestions of the International Commission of Enquiry. It was understood that the Committee would, amongst other matters, examine the question of administrative assistance necessary to give effect to the social reforms suggested by the Commission of Enquiry, and also the question of public health assistance and of the financial provision required in order to carry out these reforms.

The Committee, considering that the preparation of a programme of assistance called for certain detailed information which only experts on the spot could supply, decided to send a mission to Liberia consisting of three experts with special competence in matters of general administration, finance and public health.

These experts — M. Brunot, Mr. Lighthart and Dr. Mackenzie — presented the report attached (Annex I).

Their report proposed to recommend a certain number of reforms to the Liberian Government in matters of general administration, public health, finance and justice. It further proposed that the Liberian Government should obtain the services of qualified foreign specialists to be chosen by the League and to be given executive power by Liberia. The report further made provision for an extensive programme in regard to public health reforms, prospecting and the development of the road system.

At the same time, the report found that the present financial resources of Liberia were inadequate to cover the cost of a programme of assistance, and that it was impossible to find the necessary funds on the market for financing the plan.

The experts accordingly suggested negotiations with the two American groups — the American Finance Corporation, which has contracted for a loan to the Liberian Government, and the Firestone Plantations Company, which had obtained a rubber concession from the Liberian Government — in order to make it possible to find a means of realising the reforms proposed. They were of opinion that this solution would be profitable to all the parties concerned; indeed, they declared that, if the general conditions of Liberia did not improve, the fate of the first block of the loan granted by the American Finance Corporation might well be compromised, and even the future of the important Firestone Plantations Company might be jeopardised.

The American Finance Corporation, on being approached, indicated that, without being prepared to commit itself for the present, it was disposed, nevertheless, to give favourable consideration to such proposals as might be made, provided always that the experts' plan formed the basis of a definite programme affording sufficient guarantees from the administrative, financial and judicial points of view. The Firestone Plantations Company also indicated that it was prepared to make the utmost possible allowance for the general interests of Liberia, and that it would be perfectly ready, in consideration of the well-being of the population, to take account of competent opinions.

The Committee carefully examined the experts' report during two sessions. In the interval between these sessions, the Liberian delegation consulted its Government and subsequently submitted a memorandum. (Annex I (a)).

The Committee has undertaken its task with the idea of safeguarding, above all, the free development of Liberia under conditions of sound economy and impartiality.

The Committee's task was, however, limited by the existence of two contracts — the Loan Contract made by the Government of Liberia with the American Finance Corporation and the Agreement with the Firestone Plantations Company. These contracts are essential facts in the situation and have necessarily limited the action of the Committee. Nevertheless, the Committee has tried within these limits to find the fairest solutions for all parties.

The Committee, in the course of the session which has just closed, was of opinion that for a number of reasons, mainly financial, the entire programme of assistance proposed by the experts should be curtailed and a limited programme put in its place.

The Committee at the same time felt that it was preferable not to increase the foreign commitments of a country already so encumbered as Liberia, but to seek a solution in an arrangement with regard to the existing debt.

The appointment of a Chief Adviser to co-ordinate the activities of the foreign specialists and to supervise the execution of the reforms was proposed.

On this new basis, the experts prepared a detailed scheme (Annex II). The Committee, however, did not deem it expedient to draw up a detailed or final programme. It confined itself to laying down the general lines of a plan (Annex III) and to recommending that, on the basis of this document (Annex III) and taking account of the detailed plan (Annex II), negotiations should be started between the American Finance Corporation and the Firestone Plantations Company on the one hand and the Liberian Government on the other hand on the basis of this plan.

The Committee agreed to recommend the following general principles :

Administration. — Three foreign specialists with three assistant specialists to lend their assistance to the Government as commissioners for the administration of the three provinces proposed by the Government.

Health. — Two foreign specialists to carry out the International Quarantine Regulations and the hospital and public health services.

Finance. — The present Financial Adviser and his assistants, for whom the Loan Agreement with the American Finance Corporation provides, to be retained, with certain new arrangements.

A Chief Adviser appointed by the League of Nations to be attached to the central Government.

In the event of difficulty in the application of the programme of assistance, provision is made for the possibility of recourse to the Council of the League.

The Council's decision in such case would be unanimous, the vote of the Liberian representative not counting for the purpose of unanimity. In urgent cases, the President in office of the Council would be entitled to act on behalf of the Council, on condition of referring the matter to the Council at the earliest possible date.

The Committee at the same time proposes to seek an understanding with the financial groups in Liberia, making it possible to obtain : (1) a moratorium on the interest and sinking fund payments of the first loan ; (2) the payment of the balance of the first block of this loan to serve as an initial fund for financing the programme of assistance ; and (3) the readjustment of existing contracts, especially in connection with the scope of the concessions, the amount of the rental due and the rate of interest of the loan.

The Committee considers that, if the League of Nations is to give a favourable reply to Liberia's request for assistance, it can only lend its support to work which is going to be efficient. It is of opinion that the general lines it has indicated are a minimum below which it would appear impossible to go, if satisfactory results are to be achieved. At the same time, the Committee cannot recommend with any hope of success the opening of negotiations with the American groups concerned if the latter are not given legitimate guarantees under the plan.

The Committee suggests that the Council should request the Liberian Government to state as early as possible whether it accepts the general principles of the recommended plan of assistance.

If the Liberian Government accepts the principles in question, the Committee considers it desirable that the negotiations proposed between the interested parties — who should be vested with the requisite full powers — should take place in August, in order that the details of the plan may be drawn up on the bases given above, and that it may be submitted to the Council at its meeting in September.

The President will convene a meeting of the Council Committee to consider the situation when the reply from the Liberian Government is known, and at any rate not later than August.

* * *

In recommending urgently the attached general programme of assistance, the Committee must at the same time draw attention to the following observations which have been put forward by certain of its members.

The Liberian delegation has made reservations — details of which are given in the Minutes — on certain points which go beyond its instructions, particularly in connection with the number and salaries of the foreign specialists who are to act as Provincial Commissioners, the appointment of a Chief Adviser, the number of foreign health specialists, and the placing of police forces at the disposal of Provincial Commissioners. The Liberian delegation has at the same time undertaken to submit its various recommendations to the Liberian Government.

The Italian and Spanish delegations stated that they accepted the proposals contained in the general plan attached, regarding them as being technically the most practical means of ensuring the success of the reforms in the administration of the country, provided that their acceptance is clearly understood to be subject to the acceptance of the Liberian Government, with whom it lies to form an opinion as to their constitutional aspects.

In respect of the clause which states that the vote of Liberia would not count in the calculation of unanimity in the Council, the Spanish and Italian delegations point out that this procedure has precedents in cases in which quasi-judicial power has been invested in the Council in administrative matters by virtue of special conventions outside the provisions of the Covenant.

With regard to the powers accorded to the President to act in the name of the Council between sessions, the above delegations consider that it should be understood that this power is only recognised in cases of urgency and of the necessity which may arise to take a decision in exceptional cases.

These delegations are of opinion that it should be understood that the Council retains full power to review the decision taken by the President under the above circumstances.

The other members of the Committee recognise, in principle, the justice of the observations presented by the Spanish and Italian delegations.

The American representative stated that his Government believes that the delegation of adequate authority by Liberia to a single official of an international agency would be the most genuinely practical solution of the problem. This would leave the details of a programme of complete rehabilitation to be put into effect step by step and on a self-supporting basis and would take advantage of all existing machinery with a minimum of lost time and a maximum of results at the smallest initial cost to Liberia. The American Government would, however, be prepared to study a proposal involving more initial changes in Liberian organisation, and consequently much greater initial expense, provided it were clearly understood that there would be the requisite delegation of authority by Liberia as an indispensable preliminary to any adjustment of the present financial situation. In the light of the above, the American Government would not be willing to recommend to the Finance Corporation, which is the interested party, any financial negotiations until a satisfactory administrative plan had been agreed to by Liberia. The foregoing constitutes a full reservation of the position of the American Government on the points mentioned. It is based upon many years of experience in endeavouring to induce the governing elements in Liberia to improve the condition of the country through "advisers" and upon the conviction that no plan can succeed until it is founded upon principles which will ensure its practicability.

* * *

Before closing the discussion, the Chairman drew the attention of the Committee to the situation in the Kru region of Liberia. According to information which has reached the Committee in identical form from a number of sources, a large number of Krus have taken refuge in the forest after the hostilities which took place between them and the Frontier Force under circumstances described in the reports of Mr. Rydings and Mr. Travell.¹ These Krus are said to be refusing to make any response owing to lack of confidence in the offers of the Liberian authorities to negotiate. The resulting situation is very serious.

The Committee was unanimous in recognising the necessity for avoiding losses of human life as a result of the highly precarious conditions of existence of this population of refugees in the forests, who, on the eve of the rainy season, are without shelter or means of subsistence.

The Committee, in complete agreement with the Liberian delegation, accordingly recommends the Council to despatch, after consultation with the Liberian Government, to the Kru region a representative to secure the pacification of the Kru tribes and to persuade them to return to their homes.

¹ Documents C.486.1932.VII and C.485.1932.VII.

Annex.

REPORT OF THE EXPERTS DESIGNATED BY THE COMMITTEE OF THE COUNCIL OF THE LEAGUE OF NATIONS APPOINTED TO STUDY THE PROBLEM RAISED BY THE LIBERIAN GOVERNMENTS REQUEST FOR ASSISTANCE

PREFACE.

At its meeting held in London on March 3rd, 1931, the Committee of the Council appointed to study the Liberian Government's request for assistance decided to send to Liberia three experts "to enable it to draw up a concrete plan of assistance to be given to the Liberian Government".

The Committee appointed M. BRUNOT as an expert in general administration, M. LIGTHART as financial expert, and Dr. MACKENZIE, at the Committee's request, was subsequently selected by the League Health Organisation as expert in medical and public health questions.

* * *

The following were the instructions given to the experts by the Committee :¹

(1) To study the present situation locally in close touch with the Liberian Government ;

(2) To suggest in what practical manner it would be possible to assist the Liberian Government to carry out its decision to give effect to the recommendations of the International Commission of Enquiry,² such enquiry to deal, amongst other matters, with the administrative, financial and public health assistance required in order to carry out the said reforms.

March and April 1931 were devoted to a study of the documentation placed at our disposal. At the beginning of May, an exchange of views took place at the League Secretariat, when the permanent delegate of Liberia and the Liberian Attorney-General were present.

On arrival at Monrovia on June 13th, we presented our credentials to the President of the Republic, and began work by a conference with the Liberian Ministers at the offices of the Secretary of State. We finally left Liberia on July 26th.

We worked throughout in close contact with the Liberian Government, which endeavoured to assist us and supplied us with such information as it possessed.

The Constitution of Liberia is modelled on that of the United States of America, the executive power being vested in the President of the Republic. It was therefore with the President that we chiefly negotiated. In addition, we worked in close touch with the Financial Adviser to the Government, the representatives of foreign economic interests, and others possessing useful information.

* * *

We are of opinion that the information we collected during our visit is sufficient to enable us to submit a full technical report supported by documentary evidence and actual facts.

In our desire to submit as concise a report as possible, we have limited ourselves to the essential. The technical data collected are, however, at the disposal of the Committee of the Council, together with any further information we may be able to supply personally.

* * *

In carrying out our mission, our sole aim has been the interests of Liberia and the prosperity and well-being of all its inhabitants.

¹ See Appendix I.

² See Appendix II.

PART I.

PRESENT POSITION.

(1) *Political and Administrative.*

Liberia, situated in the equatorial zone of West Africa, has a coast-line of some 350 miles and an average breadth of 120 miles ; the area is about 36,500 square miles.

It is one of the least known countries of the world, much of its territory being still unexplored.

The known facts regarding similar neighbouring districts suggest, however, that Liberia has the same general geographical features as the adjoining colonies of Sierra Leone and the Ivory Coast.

It certainly has a similar hot, damp climate, favourable to the growth of such valuable products as palm oil and kernels, coffee, cocoa, kola and rubber ; it probably has also the same type of soil of medium quality, the same (rather low) density of population, and similar mineral deposits.

Its general geographical aspects are those of the countries on the Gulf of Guinea — a long, straight coast-line, difficult of access owing to the dangerous surf, a central belt of undulating country covered with dense equatorial forest, and finally an elevated region, less damp and more healthy, stretching between the great forests and the savannahs of the French Sudan.

Liberia, however, lacks *means of communication* ; the numerous rivers are interrupted by rapids, and no roads¹ or railways have been built. The only mode of transport, a laborious and inadequate one at best, is head-porterage along native paths, impracticable when the rivers are flooded in the rainy season.

Liberia is populated entirely by negroes, with the exception of a few white men who are only temporary residents.

The country has the peculiarity, however, of possessing two classes of inhabitants, though both are of African origin.

There are, on the one hand, the so-called Americo-Liberians, descendants of former slaves in the United States, freed and sent back to Africa, and, on the other hand, the aboriginal natives.

From their American masters the former acquired, and have retained, some of the customs and knowledge of civilisation, and are known as the "civilised". The native population, largely isolated from the outer world, have preserved, to a great extent, their primitive customs and are called by the Americo-Liberians "uncivilised".

The "civilised", however, constitute only one hundredth part of the total population, with the result that Liberia, the only case of a free nation deliberately formed from the black race, presents the *paradox of being a Republic of 12,000 citizens with 1,000,000 subjects*².

Only negroes or their descendants possessing a property qualification may be citizens of the Liberian Republic — *i.e.*, have the right to vote.

All, or virtually all, of the citizens — there are a few exceptions of local native origin — are Americo-Liberians living in small towns scattered along the coast. These form the governing class, as contrasted with the other natives, who, in practice, are Liberian subjects.

The distinction between citizens and subjects is not merely a question of the suffrage. Liberian citizens live under a legislative regime modelled more or less on that of white countries, a "civilised" system, while the Liberian subjects live in accordance with their tribal customs.

The reasons for this state of affairs are as follows :

First, the negroes sent back to Africa from the United States of America were received by the aborigines not as brothers, still less as chiefs, but as enemies (they were not of the tribe, and in Africa a man not of the tribe is regarded as an enemy).

In the second place, the young State was to some extent left to its own resources, and did not receive financial assistance [for the education of its population or for the initial organisation and exploitation of the country.

For various reasons which would take too long to explain, the antagonism between the two classes has now become so serious as to constitute a *grave danger to Liberia*.

As a result of the investigations made by the International Commission of Enquiry in 1930, the Liberian Government now realises the necessity of reversing its native policy, and it was with a view to carrying out the Commission's recommendations, which it had accepted in principle, that the Liberian Government asked for the League's assistance.

To illustrate clearly the general framework of which the reforms contemplated will form a part, a brief description of the political organisation of Liberia appears to be necessary.

Liberia is a Republic with a Constitution (adopted in 1847) based in its main lines upon that of the United States of America.

¹ Except for the road between Monrovia and Kakata, some 55 miles in length.

² See Appendix III.

The Government consists of three forms of authority: the Legislature, the Executive and the Judiciary.

The legislative power is in the hands of a House of Representatives and a Senate.

The executive power is vested in the President of the Republic, elected direct by the people (the "civilised" class) for a term of four years.

With the consent of the Senate, the President appoints the following Ministers:

A Secretary of State, who acts as Guardian of the Seals, the Laws, and State documents;

An Attorney-General at the head of the Department of Justice;

A Minister of the Interior, dealing mainly with native affairs through the intermediary of five district commissioners — the coast counties are under superintendents;

A Minister of War, in charge of the militia, which may be formed when required by calling up the citizens, and the so-called "Frontier Force", which is really a force of gendarmes centred mainly in Monrovia;

A Minister of Education;

A Postmaster-General; and

A Minister of the Treasury, who, apart from Treasury work, is responsible for framing and carrying out the State budget.

The judicial functions are exercised by:

The Supreme Court in Monrovia, consisting of the Chief Justice of the Supreme Court and four assistants;

Circuit Courts, which act as Courts of Appeal, and Assize Courts with juries;

Monthly and Probate Courts with civil jurisdiction; and

Numerous Justices of the Peace.

It should also be mentioned that, under the 1926 Loan Agreement, an American financial adviser selected for the President of Liberia by the President of the United States of America, controls the Republic's finances, assisted by a Customs controller, an inland revenue controller and two auditors.

Under the same agreement, an American officer acts as military expert to the Frontier Force.

Such is the organisation; actually, almost all the members of the Government belong to the chief American-Liberian families.

The Government of the country and justice as administered are such that the native is beginning to leave his village and crops and take refuge in the bush or forest. This is a serious matter for the future recovery of Liberia, for, patient as he is, it takes the African native a long time to recover confidence. And what can be done with the country if its scattered and elusive inhabitants are content to lead a miserable existence on the products they can collect in the forest?

It follows from this brief description of the political and administrative situation that it is urgently necessary to *restore the confidence of the Liberian native*.

(2) Existing Health Conditions.

From a medical point of view, Liberia falls naturally into three sections: (1) the city of Monrovia; (2) the interior; (3) the coastal areas.

Owing to the difficulty of communications and the Government policy, these three areas have hitherto remained largely separate from an epidemiological point of view. Further, the fact that ships are unable to moor alongside has undoubtedly served to emphasise the isolation of the city of Monrovia, especially in connection with the importation of such diseases as plague from other countries of West Africa.

* * *

In Monrovia itself, malaria is practically universal.¹

Dysentery occurs widely in both amœbic and bacillary forms, sporadically or as an epidemic. From an international and economic point of view, the occurrence of yellow fever in Monrovia is of paramount importance (*vide infra*). Hookworm exists but does not constitute a serious problem, probably owing to the complete absence of agricultural work in the city of Monrovia. Typhoid fever appears to be rare, considering the constant pollution of the shallow wells from which the water supply of Monrovia is derived; but, owing to the absence of notification and the large proportion of the population which does not consult a doctor, it is impossible to form a definite opinion as to the extent of this disease. Elephantiasis, yaws, sleeping-sickness and schistosomiasis are rare in Monrovia itself, but occasionally occur, though probably acquired in the interior.

Owing to the very small proportion of the population in Monrovia itself occupied with the rearing of domestic animals, anthrax and other animal-borne diseases are relatively rare. Tuberculosis exists amongst the Americo-Liberians and, to a less extent, amongst the Krus in Monrovia. There appears, however, to have been a definite increase in the amount of this disease in recent years.

¹ In a survey in 1914, 30 per cent of all mosquitoes found in houses were infected (Fuszek), and, in 1931, 5 per cent (Barber). *A. costalis* appears to be the mosquito chiefly implicated.

As far as is known, the principal diseases in the interior include elephantiasis, leprosy, yaws, malaria, hookworm, schistosomiasis, dysentery, smallpox and nutritional conditions. In addition, hernia, leading to complete incapacitation, is common. These diseases almost all lend themselves to treatment in hospital or mass treatment through the medium of travelling clinics. The amount of elephantiasis and hernia alone cause a high percentage of avoidable incapacity. Under these conditions, a complete absence of Government hospitals or medical officers in the interior constitutes an urgent problem on both humanitarian and economic grounds.

With regard to the coastal areas, apart from Monrovia, there is no medical work of any kind on the whole coast of 350 miles, with the exception of a missionary doctor at Cape Mount. Little or nothing is therefore known as to the distribution or existence of diseases along this coast. The important question of the relationship of the coastal regions of Liberia to the epidemiology of yellow fever in West Africa is discussed elsewhere in the present report.

Liberia as a whole is very urgently in need of both doctors and hospital accommodation. In the whole country there are only: two doctors in Monrovia, both foreign and both engaged in private practice, a medical officer on the Firestone Plantations, and three or four missionary doctors working in the interior. Apart from two or three small missionary hospitals and the hospital for the employees of the Firestone Plantations, there is no free hospital accommodation of any kind in Liberia, including Monrovia.

In Monrovia itself, the old German cable station has been converted into a so-called general hospital; but, as a charge of six shillings a day is made in addition to other charges, it really only serves, in fact, as a private nursing home in spite of the large Government subsidy given. At the time the hospital was visited, the cost of the salaries alone of the staff amounted to three hundred pounds a month, and there were only four patients which appears to be the average number. The buildings are unsuitable for a general hospital and are in urgent need of extensive repair. In addition, there is no electric light, no running water and no proper drainage. The hospital does practically no work owing to the heavy charges made for admission and certainly fulfils no duty as far as the poorer sections of the community are concerned.

In Monrovia itself, as well as throughout the country, there is no notification of births or deaths, nor of cases of infectious disease. Liberia possesses no health service of any kind, and the boarding of ships in connection with plague and yellow fever under the International Quarantine Regulations is carried out by an unqualified man. There is no accommodation available for leprosy, tuberculosis, smallpox, yellow fever or other serious infectious diseases and no attempt is made at control.

Under these conditions, it is clear that Liberia constitutes a serious danger on the West Coast of Africa, especially from the point of view of the spread of yellow fever, a danger which is of special importance in view of the constant traffic in Kru-boys for the working of ships between this coast and other West African countries.

In the absence of notification of deaths and the declaration of cases of infectious disease, such figures as are available as to the number of cases of yellow fever in Monrovia can only be estimates.

Persons dying in Monrovia are commonly buried in the bush immediately surrounding the town. In the small proportion of burials taking place in the cemetery, a permit to open a grave is required; but it is impossible to ascertain what proportion these permits bear to the total number of deaths. Of permits to open graves, in the case of 50 per cent there is no diagnosis given, and, amongst the cases with a diagnosis, 21 per cent are said to have died from "fever".

The notification of infectious diseases is, of course, non-existent.

The great majority¹ of all mosquitoes caught in Monrovia are of a species known to carry yellow fever, and the climatic conditions are such as allow these insects to breed throughout the year.² Almost perfect breeding-places exist in all parts of the city.³

¹ In 1913 and 1914, 75 per cent of all mosquitoes caught in Monrovia were of a species known to carry yellow fever, and, of all those hatched out from larvæ, 84 per cent were of this species (Fuszek). In September 1929, in eighty compounds examined in Monrovia, 59 per cent were breeding mosquitoes; whilst in fourteen houses in Kru-town, inspected at the same time, no breeding was found (Walcott).

In March 1930, 76.3 per cent of all the houses of Monrovia, 94 per cent of the total number of wells, and 40 per cent of all the cisterns were found to be breeding mosquitoes. At the same time, in Kru-town, only 3.1 per cent of the houses and 52.6 per cent of wells were found to be breeding larvæ; 94 per cent of all the larvæ found above, upon hatching out, were found to be of the species known to carry yellow fever (Smith). In April 1931, the town of Monrovia had a larval index of 53 per cent and in Kru-town proper only 4 per cent. Of all the larvæ found, hatched out and identified, 87 per cent were *ædes*.

The low figures returned for Kru-town resulted from the difficulty of collecting rain-water from the almost universal thatch roofs. In Kru-town, storing systems, tanks, barrels, etc., were few and far between and, when found, were generally empty. The sources of breeding in Kru-town were usually tins and bottles tucked away round kitchens and outhouses and which were partially filled with rain-water (Howells).

² The coastal climatic conditions favour the development of mosquitoes at all times of the year. The mean temperature, as far as this is known, is, at the Firestone Plantations, some forty miles from Monrovia, about 78.6° F., with a mean maximum of 84.6° F., and a mean minimum of 74.4° F. The average rainfall is approximately 160 inches, the greater part of which falls during the months of April to November. Except in the dry season, there is always a high degree of humidity.

³ The principal breeding-places are dumps of tins and bottles in the compounds or elsewhere. In order to give an idea of the quantity of thrown-out bottles and tins in Monrovia, it may be mentioned that, in spite of clean-up work done in 1929 and in 1930, no less than 1,300 lorry-loads of tins and other forms of refuse were removed during the clean-up

Owing to the large proportion of Liberians who do not consult a doctor in the case of illness and the complete absence of any health service, it is only when white residents are attacked, with the resulting enquiries through the consulates, that the world at large becomes aware of the existence of yellow fever in Liberia.

Yellow fever appears to have been undoubtedly present amongst the white population in 1925 (Bouet), 1927 (Fuszek), 1929 (Fuszek) (Rice), the diagnosis of a number of these cases being confirmed by animal inoculations in the Rockefeller Laboratory at Lagos. Nothing whatever is known as to the number of cases occurring in Monrovia amongst the general population. That the number of cases amongst the Liberians must be high is shown by the fact that, in the last epidemic in which Europeans were attacked, during the two months in which the first two of these white cases occurred, no fewer than twenty-six other definite cases amongst Liberians came by various unofficial channels to the notice of the European practitioners in Monrovia.

If the information regarding yellow fever is almost non-existent as regards the city and port of Monrovia, this fact is much more true for the long coast-line of Liberia. The population in this section of Liberia consists of Bassas, Grebos and Krus, a considerable proportion of whom are employed as cargo workers on the ships on the West African coast. As early as 1688, Draper mentions the fact that ships called for Kru-boys in the Liberian section of West Africa, and, since this date, the men from the coast of Liberia have been constantly engaged in service on ships along the West African coast, where they must have frequently visited sections in which yellow fever was existed and, as has been demonstrated in the case of Monrovia, must have repeatedly introduced yellow fever to the Liberian coastal towns, even if the disease has no, always been endemic there.

In view of the extreme difficulty of communication, yellow fever may well exist and, indeed be widespread in the coastal towns without the authorities in Monrovia being aware of the fact. This will be understood when it is realised that, though most of the ports are served by steamers, these only call at long and irregular intervals, depending on the cargo to be shipped. The other means of reaching the coast towns are either by the long, and in many seasons dangerous, trip in a native boat or by long trails through the bush, which are only passable at certain times of the year. In actual fact, very few visits are ever paid by officials of any kind from Monrovia to the larger ports and none to the smaller towns. Apart from Monrovia, no medical survey of any kind has ever been made in any of the coastal areas of Liberia in respect of yellow fever; but it is highly probable that the disease is endemic on the 350 miles of coast-line, and that the disease reaches epidemic proportions from time to time. These epidemics die out naturally and pass unnoticed in the coastal towns owing to the lack of communications with Monrovia and the absence of any health service.

In connection with yellow fever control, it should be mentioned that no proper accommodation is available in Liberia either for the treatment of yellow fever cases, cases of plague or other serious infectious diseases; nor is there a proper quarantine station.

A description of the present state of Liberia¹ cannot be complete without reference to two medical dangers with which the country is faced—that of the introduction of plague in the first place and, in the second, the spread of yellow fever and tuberculosis into the interior, and the spread of infectious diseases from the interior into Monrovia as the country is gradually opened up and more constant communications become established. Smallpox, yaws, leprosy, elephantiasis, while all very common in the interior, are almost unknown in Monrovia itself.

As far as is known, Monrovia has not yet suffered from plague, although all the conditions for the spread of this disease exist in the city in almost perfect form. The rat population may fairly be described as swarming, the wooden and corrugated-iron houses lend themselves to rat harbourage, and there is abundant food supply for rats both in the houses themselves and in the rubbish dumps in almost all the compounds. The temperature is at almost all periods of the year favourable for the propagation of plague. The freedom of the city of Monrovia from this disease is undoubtedly to be attributed to the fact that ships, many of which come from plague-infected ports, moor out at sea, and, hitherto, no plague-infected rats have happened to be brought ashore either in cargo or by other means. No steps are taken by the Government to control what is certainly a very grave and constant danger to the city. It is only necessary to live in Monrovia a short time to realise the complete catastrophe for the population that the introduction of plague would entail.

The absence of any attempt by the Liberian Government, not only to take effective steps to control yellow fever or plague, but even to arrange for the notification of yellow fever, as well as the complete lack of medical supervision of ships touching the Liberian coast, constitutes, in the opinion of the experts, a grave international danger which is particularly regrettable at

work of 1931. In addition, excellent breeding-places are furnished by the tanks, cisterns, etc., used for storing water in and about houses, in broken-down and sagging roof-gutters, water containers in fowl runs, husks of fallen coconuts, cavities in broken-off trees and low depressions in the rocky outcrops in the city.

¹ Detailed information regarding the general sanitary conditions in Monrovia is available in the documents collected by the experts, which are at the disposal of the members of the Council Committee.

a time when energetic measures are being taken against yellow fever in all the other countries of the West Coast of Africa.

Further, the lack of confidence in the notification and the control of yellow fever by the Government of Liberia which is current amongst the steamship companies and foreign trading concerns who have already lost personnel in Monrovia on account of yellow fever must have a marked effect on the economic conditions of the country.

(3) *Economic and Financial.*

Liberia, like the whole of West Africa, is a country of small farmers dispersed over an area so much in excess of human requirements that a man can own all the cultivable land he needs and never feel compelled to hire his services to an employer. Liberia, moreover, is still at the stage of wild crops, the proceeds of which enable the natives to earn the little money they require to live in the independent economic units constituted by their villages.

A large rubber plantation has just been laid out in Liberia by the Firestone Plantations Co., Ltd. Forty-eight thousand acres have been entirely cleared and planted, permanent roads and bridges constructed, a hospital erected and modern plant installed. This great achievement is due to the large capital invested and the really remarkable energy and effort displayed.

At the outset, the Firestone Plantations Co. obtained most of the labour needed for clearing the ground and planting the rubber trees through the Liberian Government.

It is now only a question of keeping the ground clear and letting the trees grow normally; very little labour is, therefore, required.

The plantation, however, will soon be ready for tapping, and the labour problem will then become serious, as a large number of trained gatherers will be regularly required.

Our conviction is that Liberia's future depends, generally, on the prosperity of the small native cultivators; but we also believe that, if those in charge of the Firestone interests introduced a labour policy which would attract the necessary native labour to the plantation and keep it there, the problem could be solved. If model native villages were erected near the plantation, cultivable land allotted and seeds and machinery advanced; if these villages were furnished with the conveniences and amenities of a normal — *i.e.*, a happy, healthy, family life¹ there is no doubt that numerous natives would leave their miserable forest haunts and become regular plantation workers.

The result, too, would be advantageous both to the Firestone Co. in particular and to Liberia in general, as the latter would develop into a country of small, well-to-do cultivators, with a prosperous industrial plantation into the bargain. The two things are neither incompatible nor impossible.

We might also point out that, from the philanthropic standpoint, such model villages might have a highly salutary influence in raising the Liberian negroes from their present state of dejection. Very good work could be done here.

Little known as it is, Liberia can, compared with other similar parts of the world, be considered as comparatively wealthy: it exports palm kernels and oil, coffee, cocoa, rubber and piassava fibre. A table annexed² shows the amount of these exports for the last four years.

According to this table and to the partial results for 1931, the total exports are decreasing from various causes, which will be explained later. It is, however, extremely important, particularly in Liberia, for exports to increase, as it is the only way in which a new country can pay for imports and for the sinking fund and interest on loans.

In recent years, the trade balance has shown a deficit, imports being much in excess of exports.

At the present time, in addition to imports, transfers have to be made for payment of interest and sinking fund on loans and for the savings of foreigners, so that, if payments are to be kept balanced, imports will have to be very much reduced and exports increased.

There can be no growth in exports unless the country is helped to reach a higher degree of development. For the time being, therefore, imports must go on decreasing and trade must fall off.

So far, the balance of payments has been maintained in equilibrium by the following invisible items:

- (a) Sums transferred to the representatives of foreign Powers and to missions for charitable work, hospitals, education, etc.;
- (b) Wages received by Kru-boys employed as sailors on foreign steamers;
- (c) Amounts received by the Firestone Co. for the rubber plantations;
- (d) Unknown exports across the land frontiers;
- (e) Probable export of instruments of payment.

¹ Dancing and the cinema attract the African negro even more than high wages.

² See Appendix IV, page 000.

The insufficiency of instruments of exchange must necessarily result in a rise in the value of the currency — that is, in a fall in the price of the country's products. The balance of trade will become unfavourable to Liberia, since the price of imported goods will not fall, being independent of the internal conditions in Liberia. The result will be a smaller trade turnover, a fall in imports owing to high prices and a decrease in exports on account of low prices.

Trade has slackened so much that it might even be said to have stopped entirely, and, if there is no change in the position, a collapse is highly probable. The direct effect of the present general depression is that the revenue from Government taxation is inadequate. What can be collected is allotted primarily to paying the interest and sinking fund on the loan, so that the Treasury is nearly always empty.

Liberia's financial situation is tragic. She has no budget ¹, no accounts, no money. Salaries have not been paid for months past, and the same is true of traders' bills: In addition, nothing has been paid on the loan for the second half of 1931, neither for interest nor for the sinking fund.

In the conditions above described, the impoverishment of the population is disturbing. As production is no longer remunerative and officials are no longer being paid, the latter almost inevitably take the fullest possible advantage of their position, so that the population complains seriously of food products being requisitioned, taxes being levied twice and no payment being made for work done. In times of depression, corruption is usually at its height.

We realise, on the other hand, that the foreign capital essential to the country's recovery will not be attracted to Liberia unless it finds the necessary conditions of legal and judicial security there. We have therefore had to include in our programme a scheme for the organisation of justice in Liberia.

It follows from this brief description that, economically and financially, Liberia is *in imminent danger*.

* * *

We think it better to leave the history of the various loans and the necessary information regarding budgets and taxation to the Appendices.² We need only mention here that *almost all the proceeds of loans have been devoted to non-productive expenditure, mainly to the successive funding of previous loans.* About 1925, embarrassed by the increase in the floating debt, particularly by the arrears of unpaid salaries of officials and members of the Frontier Force, the Liberian Government again bethought itself of the old expedient of concluding a new loan to relieve itself temporarily of pressing claims. At this point, the Firestone Company submitted its proposals for the concession referred to above, and the situation must assuredly have become very difficult for the Government to have attached so much importance to the company's promise of help in securing a loan of \$5,000,000.

The loan was concluded with the Finance Corporation of America on September 1st, 1926.³ No financial group, it is true, would have agreed to lend money to Liberia at a cheaper rate, but the advantage of the loan to the lenders was undoubtedly that they secured a large concession on very favourable terms.

The loan, which was largely designed to repay existing loans at a lower rate of interest, proved to be very burdensome for many reasons, which will be explained in this report.

However that may be, only the first instalment of this \$5,000,000 loan was put at the Liberian Government's disposal.

The second instalment, which, including a balance of \$300,000 due on the first instalment ⁴, was to amount to about \$2,800,000, was, under the terms of the loan agreement, only to be paid out when the Customs revenue rose to almost double the present figures.

Naturally, such a level can only be reached when Liberia has recovered economically and it cannot do so without financial aid from abroad.

The result is a vicious circle, from which there is no escape except by modifying the terms of the loan, in agreement with the Finance Corporation of America.

¹ See Appendix VI.

² See Appendix V.

³ See Appendix VII.

⁴ See Appendix VI.

PART II.

PROGRAMME OF ASSISTANCE.

The conclusion from the description we have just given of the existing state of affairs is that foreign financial aid is essential to enable Liberia to carry out its decision to give effect to the recommendations of the International Commission of Enquiry.

We believe, however, that such foreign financial aid, for which the Liberian Government itself appeals, can only be obtained if the general situation inspires confidence, and if real guarantees can be given for the judicious expenditure of the money lent and for the service of the interest and sinking fund.

We have thus, in execution of our terms of reference, been forced to take a general view of the problem of the restoration of Liberia.

The programme we shall submit, which is complete in itself, is the only one, we think, which can afford those guarantees to lenders, as well as the only one which can make the reforms contemplated really efficacious.

(1) ADMINISTRATIVE ASSISTANCE.

Abolition of Slavery and Forced Labour.

The Liberian Government has passed the necessary laws, and it only remains to put them into force. To that end the action to be undertaken by the suggested district commissioners must be immediate and gradual.

It must be immediate in the sense that, from the moment they come into contact with the population, their duty will be to make the laws passed and the sanctions attaching to them publicly known through "palavers and notices", and to warn paramount chiefs personally of the responsibilities they incur if they hinder the liberation of domestic slaves or bondsmen who *desire their freedom*.

Furthermore, with a view to facilitating emancipation, "Liberty Villages", with sufficient tillable land, will be established at each administrative post.

The action must be gradual in the sense that, in such a delicate matter, certain to cause a disturbance, however salutary, in the domestic economy of tribes some of which are still savage, heads of districts must, as circumstances demand, temporise somewhat before making a direct search for slaves or hired workers who might be detained against their will. It must, moreover, be understood that this period of compromise should not last longer than the time necessary for exploring and penetrating the hinterland.

In a word, the law will be executed in two stages: first, notice should be given everywhere of the complete abolition of slavery and former slaves helped to freedom. Secondly, penalties should be imposed on recalcitrant slave-owners. The history of the neighbouring countries shows that a few examples will suffice.

As regards forced labour, *only communal work for the construction and maintenance of roads in the territory of the tribe in question* should remain compulsory; this corresponds both with the customs of the natives and with the provisions of the Convention on forced labour which Liberia has ratified.

Native Policy.

It is essential that the paramount chiefs should enjoy both prestige and authority. They will have both if they are recognised by their people as legitimate according to custom, and if they have adequate powers.

Thus, the appointments of the present chiefs will have to be reviewed. Chiefs should be *elected* by their tribes and *merely recognised* by the Government (which retains the right to object to their installation and the right to revoke the appointment of a chief who is openly hostile). The Government itself cannot appoint a chief of its own choice, as he would then become an official and not the representative of his tribe.

Furthermore, the chief must always act as an intermediary between the head of the district and the natives, and he has also been invested with very far reaching powers as a judge in civil and criminal cases, and as a tax-collector. He will, moreover, receive 5 per cent of the direct taxation levied on his territory through him.

Apart from his own merits, the chief's personal prestige will largely depend on the Commissioner's attitude towards him. No rules can be laid down, but it is stipulated that he cannot be punished otherwise than by a fine or dismissal.

The question of the chiefs is merely one aspect of native policy. It is a direct form of action and nothing more.

Indirect methods of curing the natives of their depression are much more important. The real indirect method is to revive in the small native cultivator the *taste for work*, and this taste will only develop if there is absolute certainty that the produce of his labour will remain entirely in the hands of the worker.

Consequently, it should be absolutely prohibited to requisition food or produce without payment.

Direct taxation (hut tax) can, if necessary, be increased. What all African natives want is, on the one hand, to know exactly what they have to pay the Government, and, on the other hand, to be sure, that once the tax has been paid, they cannot be asked for anything further.

In addition to these psychological factors, the native must be guaranteed the undisputed ownership of the land on which he works.

To this end, the rights of the natives (it is immaterial whether they are considered to have all the privileges of ownership or merely the usufruct) must be inviolable. The amount of unoccupied and unowned land in the Republic is large enough to satisfy amply the requirements of the Government and of foreign enterprises.

* * *

The Government has taken the step of declaring illegal the " Human Leopard ", Negee, Susha, Toyn, Kela and Yama-Yama societies, and of enacting effective penalties for stamping out the crimes committed by their members.

Severe punishment should also be provided for cannibalism, which still appears to exist among the tribes in the hinterland of Maryland and Sinoe County.

Future Policy.

The foregoing relates to the measures to be taken immediately.

As regards the future, the aim to be achieved is obviously simultaneous development in the economic and in the intellectual and moral spheres. To these ends, two means are indispensable — the construction of a system of communications and the opening of schools.

For the former, the first essentials, before undertaking road construction which might otherwise be useless, are to make a map of the country, take a census of the population, and carry out a mining and agricultural survey of the territory.

The purpose of a road is to furnish easy access to a large centre of actual or potential production ; otherwise, an improved native trail would be sufficient. It is therefore necessary, in the first place, to know where the wealth lies, and, in the second place, to ascertain which route to it can most easily be constructed.

To start such a work without a map of the country is to march blindfold. Consequently, arrangements must be made to send two or three professional cartographers to Liberia. Specialists in topography are plentiful, and it should be quite easy to engage them comparatively cheaply, as young specialists ought to be strongly attracted by such interesting work as the mapping of a partly unexplored country. In this connection the possibility of using air observations might be borne in mind.

In the case of mining and agricultural surveys, it would also be very useful to have the natural wealth of the soil ascertained by specialists before constructing a road system.

* * *

Only by an improved system of education can Liberia possibly become a united negro republic.

The chief efforts hitherto have been made by missions, and the disinterested work of philanthropists should be encouraged. It will be a long time before the Government can afford to keep up the large number of schools needed in a country where the population is so sparse.

As regards the scheme suggested in the draft Regulations for the Interior, according to which schools should be supported by the tribes, we have already pointed out that, apart from the tax, no other burdens should be imposed on the natives, in view of the *absolute necessity* of restoring confidence among the workers.

Liberia, like all the similar regions of West Africa, should be a country of small, prosperous native farmers working in full assurance on their own land and with every facility for selling their produce.

When Liberia has reached this stage, it will also be at the point where education can (financially) and should (morally and economically) be universal. The educated native child will not then try, as he does now, to escape from his debased environment and loaf about on the coast looking for a job in the Government offices, which are already overcrowded with Americo-Liberians.

Then, too, the advice of agricultural specialists will have its full effect in the improvement of farming, as it will be given to people able both to understand and to profit by such instruction.

* * *

These results can be secured by the following administrative organisation :

(1) *Administrative Divisions.* — The territory of the Republic (apart from the city of Monrovia, which is an independent municipality) should be divided into three provinces :

- (a) The Western Province ;
- (b) The Central Province ;
- (c) The Eastern Province.

The boundaries of these provinces would be those laid down in Article 2 of the Administrative Regulations for governing the Interior of May 31st, 1931.¹

(N.B. — There would appear to be a printer's error in paragraph (a) : " St. Paul River which shall form the south-eastern boundary ", not " south-western ".)

Each province would be divided into counties and districts.

(a) The Western Province would comprise :

Cape Mount County and that part of Montserrado County situated on the right bank of the St. Paul River ;

A northern district containing all the Buzzi, Gbalin, Gissi, Mendi and Gbandi tribes.

The Golas sections would be administered direct by the Provincial Commissioner and his deputy, residing either at Cape Mount or near the St. Paul River.

(b) The Central Province would comprise :

That part of Montserrado County on the left bank of the St. Paul River, and Grand Bassa County ;

The district of Sanoquelleh in the northern area.

The central section, at present unexplored, would be organised in accordance with the proposals of the Provincial Commissioner after it has been penetrated.

The capital of this province might be provisionally fixed at Kakata — *i.e.*, the terminus of the road from Monrovia into Montserrado County.

(c) The Eastern Province would comprise :

Sinoe and Maryland Counties and their hinterland, which is still too unexplored to necessitate the provision of a district there.

The penetration into this hinterland would start from the coast, and no district should be organised in the northern hinterland until that part of it has been opened up.

The capital of the province would be Harper-Cape Palmas.

In a word, the experts' programme as regards territorial divisions differs from the Government's only in abolishing four districts (two in the Western Province and two in the Central Province).

The reason for such abolition, apart from financial motives, is that, in the view of the experts, the foreign and Liberian administrators referred to below should not be separated from one another, but should, on the contrary, work together ; in other words, effort should not be dispersed, but concentrated.

(2) *Choice of Administrators.* — We agree with the suggestion of the International Commission of Enquiry that for some time to come the country will need foreign specialists in administration. Incidentally, the Liberian Government itself had already decided to appoint two foreign Commissioners to collaborate in reforming the country's internal administration. We think that the administrative appointments should be distributed as follows :

(a) Western Province :

A Provincial Commissioner (foreigner) assisted by a Deputy Commissioner (foreigner) at the capital of the province.

A County Superintendent (Liberian) at Cape Mount for Cape Mount County.

A District Commissioner (foreigner) for the Northern District, together with a Deputy Commissioner (Liberian).

(b) Central Province :

A Provincial Commissioner (foreigner) assisted by a Deputy Commissioner (foreigner) at the capital of the province.

A County Superintendent (Liberian) for the part of Montserrado County on the left of the St. Paul river and the Careysburg and Marshall territories.

A County Superintendent (Liberian) for Grand Bassa County.

A District Commissioner (foreigner) for Sanoquelleh district, assisted by a Deputy Commissioner (Liberian).

(c) Eastern Province :

A Provincial Commissioner (foreigner) assisted by a Deputy Commissioner (foreigner) at the capital of the province.

A County Superintendent (Liberian) for Maryland County.

A County Superintendent (Liberian) for Sinoe County.

There would thus be in all :

Eight foreign administrators ;

Seven Liberian administrators.

In the provincial and district capitals, native clerks and interpreters would assist the commissioners in keeping the administrative, fiscal and judicial records. These clerks would form a natural nursery for the training of future Liberian administrators, to be recruited by competition after the present unsatisfactory elements have gone or been eliminated.

¹ See document filed in the Secretariat.

They would be chosen and appointed by the Central Government, and it would be well to organise for them, and for officials generally, a system of promotion so as to encourage keenness.

(3) *Powers of Heads of Districts, Powers of Provincial Commissioners.*

(a) *Administrative.* — The Provincial Commissioner would be the representative of the Executive in the province, and, as such, would come under the Secretary of the Interior. It would be his duty to see that the laws and regulations were carried out, and he would be responsible for public peace and order. He would have rights of supervision and control over all the services represented in the province. All the non-technical administrative services would be under his direct orders, whereas the technical services, such as Customs, health, posts and telegraphs, and education, would remain under the direct orders of the heads of those departments at Monrovia, and be only subject to general supervision by the Provincial Commissioner as regards the efficient working of the department and the professional conduct of its officials.

Official correspondence and reports from the representatives of the technical departments would be sent to the Central Government through the Provincial Commissioner, in order that he might have the necessary general idea of the position in his province.

The Provincial Commissioner would represent in his province the special departments existing or to be created which are not represented in the province by officials of those departments (State Lands, Land Conservancy, Treasury, Agriculture, Immigration, etc.).

He would control and direct, as instructed by the Central Government, the exercise of authority by the native chiefs over their tribes.

He would draw up, submit for the Government's approval and carry out the programme be framed after the whole country has been surveyed and local examinations made of the to country's urgent requirements in the matter of roads.

(b) *Financial.* — He would draw up the tax rolls, and, when they had been approved by the Government, ensure their collection either directly or through the county superintendents or district commissioners, or, in the case of the native tribes, through the paramount chiefs, the latter receiving a commission of 5 per cent of the taxes collected through them.

He would also collect liquidation fees (except those levied by the Customs and post office) and fines.

At the end of the year, so that it could be approved by the Government before the beginning of the following year, he would draw up a "provincial" budget, the revenue of which would be derived from a part (to be determined) of the direct taxation and fines, and the expenditure allotted to major public utility works (roads and bridges, erection of dispensaries and schools, construction and maintenance of administrative posts, etc.), so that a large part of the taxes levied would be expended in the same province and no contribution other than the tax (the rate of which will probably have to be increased) would be levied on the natives.

As Treasury representative, he would administer a fund, the accounts of which would be audited by the Treasury and incorporated in the State budget. This fund would accept on deposit all the sums collected in the province for a Government department, and would settle all the State's liabilities (apart from the independent funds of the Customs department and post office).

(c) *Native Judiciary.* — (See hereunder special scheme of organisation for native justice.)

(d) *Police.* — The experts think it essential that the provincial commissioners should have at their disposal a force with which they can maintain public security and enforce their orders.

Such a force already exists in Liberia in the form of the "Frontier Force", which, at the present time, is neither a military force nor a body of frontier police, but rather what is really needed — *viz.*, a gendarmerie.

Apart from headquarters in Monrovia, detachments of the present Frontier Force should be stationed with each provincial commissioner, district commissioner and county superintendent, under the orders of Liberian officers and N.C.O.s for discipline and training, the offices taking direct orders from the Commissioners.

The general supervision and military training of the Frontier Force would remain in the hands of a foreign specialist officer. Detachments of the force would be stationed as follows :

50 rank and file, plus officers and N.C.O.s at each provincial centre of administration ;
30 rank and file, plus officers and N.C.O.s at each district centre of administration ;
15 rank and file, plus officers and N.C.O.s at each county centre of administration
isolated from the provincial centre ;

making altogether :

150 men at the provincial centres of administration ;
60 men at the district centres of administration ;
45 men at Cape Mount, Grand Bassa and Sinoe ;

255 rank and file, plus officers and N.C.O.s, which would leave slightly more than 100 men in Monrovia, a seemingly adequate force.

Naturally, no province should contain a military camp which is not directly subordinate to the Provincial Commissioner, it being essential to maintain the principle embodied in the Liberian Constitution whereby the military is subordinate to the civil authority.

(4) *Powers of District Commissioners and County Superintendents.*

These officials, who would be under the direct orders of the provincial commissioners, would have, generally speaking, the same rights and powers in their areas as their chiefs, except in judicial matters; their powers in this respect are described in the special scheme for the organisation of justice.

Administratively, they would have the same rights of control over departments, but would correspond only with the provincial commissioner.

As regards finance, they would not administer a district budget, but merely the funds allotted to them by the provincial commissioner as authorisations for expenditure. The district treasury would be subordinate to the central treasury of the province.

The foreign or Liberian deputies of both provincial and district commissioners might be given powers of attorney by their chiefs to act for or replace them when they were detained or absent.

The main object of this arrangement would be to enable one of the two commissioners, the chief or the deputy, to make frequent tours with the necessary full authority, while the departments at the administrative centre continue to operate uninterruptedly.

Finally, provincial, district and county commissioners would have such disciplinary powers over the uncivilised natives as would secure obedience without the delay and the formalities entailed by regular court judgments. These powers would consist of the right to impose summarily penalties not exceeding ten days' imprisonment and five dollars fine in the following cases :

- (1) Disobedience to the orders of the representatives of authority in cases provided for in the laws and regulations ;
- (2) Any act of disrespect towards representatives of authority in the discharge of their duties ;
- (3) Failure to pay taxes or to carry out administrative obligations ;
- (4) Refusal to appear before the representatives of authority when duly summoned.

The proceeds of such fines would be paid to the district or provincial treasuries as " administrative fines " and added to the revenue of the State budget.

No disciplinary action could be taken against native chiefs recognised by the Government. Apart from those imposed by the regular courts and provided for by law, and those imposed by heads of districts in cases clearly specified in the regulations defining their disciplinary powers, no other fine could be imposed by any authority whatsoever in the territory of the Republic.

Organisation of Native Justice.

No programme for the re-organisation of the interior and the reform of native policy can possibly be framed which does not include the administration of justice.

Civil Cases. — At the base, the Court of the Tribal Chief, acting as *conciliator*, all of whose decisions may be brought before the Court of the Paramount Chief ;

As a court of first instance, the Court of the Paramount Chief, having jurisdiction in all civil cases affecting only uncivilised natives of the same tribe ;

As a Court of Appeal with final jurisdiction, the Provincial Commissioner's Court.

In cases where the paramount chief himself was one of the parties, or where the parties to the case belonged to different tribes, the court of first instance for civil cases would be the District Commissioner's Court. The Provincial Commissioner's Court would then still be the final Court of Appeal.

Criminal Cases. — The Court of the Paramount Chief would judge all offences the penalties for which do not exceed five years' imprisonment or \$500 fine, appeals from such decisions being submitted to the Provincial Commissioner's Court for final judgment.

Where the paramount chief himself was a party, either as accused or accuser, or where natives from different tribes were involved, either as accused or accusers, the court of jurisdiction would be, up to five years' imprisonment or \$500 fine, the District Commissioner's Court, with a possible appeal to the Provincial Commissioner's Court as the court of final jurisdiction.

In cases of felony — *i.e.*, where sentences exceed five years' imprisonment or \$500 fine — the competent court would be that of the provincial commissioner, whose decisions in such case would have to be confirmed by the Supreme Court of Monrovia.

In regions where there are no organised districts, the deputy provincial commissioner would act as district commissioner for the purpose of presiding over the district court.

* * *

In their own courts, the paramount chiefs and district and provincial commissioners would administer justice alone, but would rely on the advice of two native notables for information regarding native customs.

A summary of all the decisions of these courts would be entered in a register kept for the purpose by a special clerk acting as registrar.

Theoretically, counties extend for a distance of forty miles from the coast to the interior. This zone is inhabited by a large population of uncivilised natives, organised tribally. It should be understood that the latter are amenable to the jurisdiction of the above-mentioned courts, and not of the county courts, which have jurisdiction only over the civilised population (Liberians or foreigners).

A rule should be made that no corporal punishment may be inflicted in the territory of the Republic.

2. PUBLIC HEALTH ASSISTANCE.

Emphasis must be laid on the fact that the medical programme here, as in all countries, must depend for its development on the financial resources available.

In view of the fact that, at the present time, a number of the recommendations are impossible on financial grounds, it is considered advisable to submit a general programme, laying special stress on the most urgent necessities and those which could be carried out at the present time at a minimum cost.

For this purpose Liberia may be divided into three sections : (a) the coastal areas, including the Port of Monrovia and the other ports along the coast ; (b) the hinterland ; (c) the city of Monrovia.

It is necessary, in order to co-ordinate the medical work in these three areas, that there should be a Director-General of Medical Services, who would be stationed in Monrovia.

Such an official must necessarily give his whole time to the service and at the same time give an undertaking to accept the position for a definite number of years, with the possibility of re-appointment. On the other hand, the Government should give the Director security of tenure.

The Director-General of Medical Services should be directly responsible to the President.

Medical Administration in the Coastal Areas.

For the purpose of medical administration, these areas would not only include the coast and the ports, but, in the case of the city of Monrovia, would also include the port and city itself as far as mosquito control is concerned and other measures necessary for the control of ship-borne diseases.

On humanitarian and economic grounds, it is essential that immediate and effective steps should be taken in connection with the control of yellow fever and the possible introduction of plague.

For this purpose, two whole-time foreign medical officers would be required in order to provide for travelling along the coast, leave in Europe and sickness. The duties of these medical officers would be as follows :

- (1) The carrying out of the International Quarantine Regulations, including the boarding of ships ;
- (2) The supervision of the arrival and departure of Kru-boys ;
- (3) Mosquito control in the port and city of Monrovia, including the supervision of the inspectors and gangs engaged in this work ;
- (4) Periodical visits to the coastal towns for inspectional purposes in the meantime and later for the supervision of inspectors stationed along the coast ;
- (5) The performance of post-mortem examinations when considered necessary. The necessary powers to do this in all suspected cases should be conferred by regulations ;
- (6) The training of sanitary inspectors and subordinate medical personnel ;
- (7) The supervision of visiting by sanitary inspectors of houses where persons are thought to be suffering from infectious diseases. It is essential for the effective work of the medical officers that proper notification of deaths should be available and that the law regarding the notification of infectious diseases should be enforced.
- (8) The organisation of Public Health propaganda in the schools and amongst the population generally.

Furthermore, any information as to the actual occurrence of cases of yellow fever on the West Coast of Africa should be at once made available and close contact maintained with the general practitioners in Monrovia.

It is very important that this work should follow as a continuation of the excellent work already carried out by Dr. Howells.

In connection with the control of yellow fever, emphasis must again be laid on the fact that there do not exist suitable hospitals for the treatment of this disease, nor for that of plague or any other of the serious infectious diseases. It may be possible to construct at a minimum cost a number of buildings of the usual African type suitable for the purpose.

It is envisaged in the plan that, in the immediate future, owing to the complete lack of subordinate medical personnel, medical preventive work in the coastal areas apart from Monrovia could not go further than periodical tours of survey by one of the two medical officers stationed in Monrovia for the maritime service ; but later, as Liberian inspectors trained in other West African countries become available, it is anticipated that these officials would be stationed along the coast with small cleaning gangs, and gradually a coastal health service would be built up which would serve as a minimum to keep the authorities in Monrovia informed as to the existence of yellow fever or plague in epidemic form. At present, no knowledge in respect of this is available regarding this long stretch of the West African Coast.

* * *

Medical Work in the Interior.

Apart from three or four missionary doctors, there are in the interior only witch doctors and native herbalists. Up to the present, no attempt at any medical preventive work of any kind has been made in the interior. This is due, not only to the lack of personnel and funds, but also to the extreme difficulty of communications.

It is realised that the development of a proper medical service for the interior is quite beyond the present resources of the country. At the same time, it is considered that a beginning should be made by the appointment of at least one medical officer to the staff of each provincial commissioner, whose work would be, in the first instance, a careful study of the problems in his district and the preparation of a plan for future medical development. In the meantime, it is very desirable that Liberian subordinate personnel, willing to serve in the bush, should be trained in West African countries or in other countries offering similar problems to those of the hinterland of Liberia.

* * *

The City of Monrovia.

The most urgent need for the city of Monrovia at the present time is hospital accommodation.

The absence of facilities for treatment, including the impossibility of any operation amongst the poor of the city of Monrovia or of the neighbouring hinterland, is most unfortunate, especially in view of the large number of cases of elephantiasis, cataract, etc., occurring in Liberia. Finally, the need for accommodation for complicated confinement cases and for general and special clinics, especially for the treatment of tuberculosis, leprosy, venereal diseases, and diseases of children, cannot be too strongly emphasised.

From a public health point of view, the following constitute the most urgent needs of the city of Monrovia :

- (1) Effective birth and death registration, in the first instance, in Monrovia itself, and, later, gradually developing in the suburban and neighbouring districts. All deaths should be notified and regulations made that no body is to be buried or removed from the city without a permit ;
- (2) Enforcement of the notification of all cases of infectious diseases ;
- (3) Definition of the urban and suburban areas of Monrovia for health purposes ;
- (4) Legislation for the control of new buildings and works, especially the creation of new pit privies and wells ;
- (5) The allocation of definite sanitary areas in the city, including the provision of a new cemetery ;
- (6) The gradual introduction of the pail closet system. The pails would be purchased by the householder from the municipality and each household would pay a small fee for emptying ;
- (7) The disposal of garbage, which would fall, as is at present the case, within the cleansing work carried out in connection with mosquito control. As soon as possible, it is desirable that closed refuse bins be provided at the various rubbish dumps at present existing in the city in connection with anti-mosquito work. Suitable areas for garbage disposal exist outside the city ;
- (8) Control and inspection of the market and foodstuffs. A slaughter slab should be provided and no animals killed elsewhere ;

(9) Supervision and treatment of the cases of leprosy at present in the town and neighbouring districts ;

(10) Arrangement for vaccination against smallpox either locally or wherever an outbreak occurs ;

(11) The development of a school medical service with special study of the nutrition of children in relation to the high cost of living in Monrovia and the widespread use of expensive tinned foods ;

(12) Anti-tuberculosis work ; at present this probably cannot consist of more than the treatment of advanced cases in one section of a Government hospital and the instruction of early cases in the methods of the prevention of the extension of the disease to others in the same house ;

(13) As there is no possibility, owing to the cost, of a general water supply for the town, the matter is not dealt with in this report, but stress should be laid on the extremely unsatisfactory character of the majority of the shallow wells and the methods of water storage at present existing in Monrovia.

At as early a date as possible, the question of the removal of Kru-town should be considered. A considerable proportion of the above programme could be at once carried out with a minimum cost as soon as personnel becomes available.

Later, and as a further step, leprosy, tuberculosis, maternity and child welfare work should be co-ordinated by forming a health centre for Monrovia.

* * *

In all health work, the help of the population should be sought, as far as possible, without prosecution ; but, for the success of the work, it is necessary that the Government should give full support to the programme and prosecutions where these are considered necessary by officials.

It need hardly be added that every effort should be made to encourage young Liberians to qualify in medicine in order to replace later the foreign medical officers referred to above.

Furthermore, immediate steps should be taken to train Liberians as auxiliary medical personnel, either in English speaking countries in West Africa or elsewhere ; but, in the meantime, it will be necessary to engage one or more foreigners as subordinate medical personnel.

(3) FINANCIAL ASSISTANCE.

As already stated, financial assistance from abroad is essential if Liberia is to put the suggested reforms into practice, the country's own resources being wholly inadequate.

Nothing effective can be done at present to increase revenue on account of the general impoverishment of the country, the world depression, the burdens which Liberia assumed as a result of the loan contracted, and the inadequate administration at present prevailing. However, closer acquaintance with Liberian conditions and a comparison with the neighbouring countries justify the hope that the country may reach a state of economic development much above its present level.

A long period of convalescence must be expected ; but it is certain that, on the one hand, the effects of the existing world crisis will diminish, and that, on the other, the position of Liberia will improve as soon as native producers can work in full confidence and bring their produce more easily down to the coast. There is also no doubt that the efforts of administrative specialists will result in a larger revenue from taxation, if only because a satisfactory tax department, which is essential, will be created. Moreover, revenue can be increased in future by putting an export duty on coffee and rubber. Without going into detail, our examination leads us to believe that the average annual revenue of Liberia can be increased, when our programme is put into effect, to

\$650,000 ¹.

Against these receipts there are prior existing obligations on account of the 1926 loan, including interest, sinking fund, commission, and the salaries of the present American Financial Controllers, amounting in round figures to \$279,000.

Steps should also be taken to consolidate (as previously) — say, by 3 per cent bonds repayable in twenty years — the amount of the arrears of salaries and unpaid supplies amounting

¹ This average revenue, although very conservatively computed, may possibly not be reached in the first year, but we have made provision in our estimate for a sufficient margin.

approximately, as there are no exact accounts) to \$500,000. This would represent, in the first year, for interest and sinking fund on the consolidated debt, an amount of \$40,000.

Next, it would be necessary to defray the ordinary expenditure of the Republic, which at present consists almost entirely of the salaries of officials. For 1931 this expenditure is estimated at \$419,195.¹

If these estimates of ordinary expenditure were adhered to, Liberia's future budget would show a deficit of \$88,195.

However disagreeable, therefore, absolutely drastic economies must be made in expenditure and staff.

After a thorough study of the budget of the Republic, we are convinced that these economies are possible, and we are prepared to give details if called upon. We would merely specify here that they would amount approximately to \$100,000.

The reductions suggested would bring the total existing expenditure in future budgets down to about \$584,545.²

We have shown that the average annual revenue of Liberia might be raised to \$650,000, so that, even with the economies made, the future budget would only have a margin of \$65,000. Such a margin is not sufficient to cover maintenance costs, unforeseen expenditure, and the necessary improvement of existing material and services, for which there is at present no provision, and which can no longer be neglected.

The following is the solution which immediately occurs to us, and which follows logically from the circumstances.

We suggest that negotiations should be opened with the Finance Corporation of America and the Firestone Company for the conclusion, in a spirit of mutual understanding, of fresh agreements, which take into account the conditions we have described and the legitimate interests involved. This solution would be advantageous to all parties; for if general conditions in Liberia have not improved, and the fate of the first block of the loan granted by the Finance Corporation might well be jeopardised (it should be borne in mind that no interest or sinking-fund payments can be made this year); and the future of the large Firestone plantation might also be endangered. In these circumstances, if negotiations can be opened, we think that an agreement ought first to be concluded between Liberia and the Finance Corporation for the abolition of the provisions requiring the annual revenue from Customs duties to reach \$800,000 before the second block of the loan can be paid. We have already shown that this requirement led to a vicious circle.

For general information, and without wishing to influence the future negotiations or restrict their scope, we think that, in the common interest, it is necessary to conclude :

- (1) An agreement regulating the payment of interest and sinking fund for the part of the present loan already paid over, as Liberia cannot meet these obligations from 1931 on ;
- (2) An agreement to advance the amount of the second block in instalments spread over a period of ten years, at a rate of interest to be fixed and on special conditions as regards repayment, which should not commence in less than five years, and should then proceed at a very gradual rate over, say, forty years.

It is certain that, in proportion to the progress made as a result of applying the programme that we propose, the Republic's revenue would increase. It would hence be advisable to arrange for annual payments of large amounts at the beginning, diminishing successively during the last five years. We believe that the payments during the first five years should be at the average rate of \$300,000 per annum.

¹ The budget estimates for 1931 (including the expenses of the present Financial Advisers) are as follows :

| | <i>Estimates for 1931</i> |
|---|---------------------------|
| | \$ |
| Parliament | 29,058.— |
| Head of the Executive | 23,518.80 |
| County Executives | 4,025.— |
| State Department | 18,099.39 |
| Treasury Department | 143,439.60 |
| Post Office | 16,019.20 |
| Department of Justice | 22,286.40 |
| Department of Education | 3,936.40 |
| Department of the Interior | 30,139.20 |
| War Department (Liberian Frontier Force) | 61,920.— |
| Courts of law | 39,186.80 |
| Financial Adviser's offices | 16,716.80 |
| Commonwealth townships | 10,000.— |
| | <u>419,195.59</u> |
| ² Loan contract charges | 279,000.— |
| Service of the Consolidated Internal Debt | 40,000.— |
| Current expenses (as proposed) | 265,545.59 |
| | <u>584,545.59</u> |

* * *

We have already pointed out that our programme will only be effective if in other important spheres reforms are introduced which will provide adequate guarantee for the lenders, who are entitled to reckon on the recovery of Liberia.

Thus, we believe that the first essential is to ensure proper financial administration (regular collection of revenue, prudent use of funds, establishment of a budget balanced in accordance with the country's resources and needs).

To this end, Liberia will require foreign specialists, whom the Government should invest with the necessary powers.

Three financial advisers would, we think, be necessary : a chief adviser at \$12,000 and two deputies, one at \$6,000 and the other at \$5,000, making altogether about \$24,000 without allowances.¹ After two years, the third financial adviser, who would be needed at the start to teach the Liberian officials how to draw up and administer the budget and keep the accounts, might be dispensed with.

We might point out that the loan contract with the Finance Corporation already provides for financial advisers, so that an arrangement would have to be made with the Corporation on this question.

Certain reforms would also have to be made in the existing administration of justice,² the operation of which, as already stated, is defective. These reforms should be carried out under the direction of a foreign legal adviser, assisted by a deputy, both of whom should be invested by the Liberian Government with the necessary judicial powers.

The following would be the organisation of justice :

(1) The jurisdiction as at present existing of justices of the peace and monthly and probate courts would be retained, although their number should be reduced (there are 215 justices of the peace).

(2) One single circuit court, instead of five, would be retained as a Court of Appeal from the lower courts. It would sit at Monrovia, or go on circuit. It would consist of : (a) a President (who would be the legal adviser of the Government); (b) two senior Liberian judges. Its hearings would be attended by the Attorney-General or his representative and a registrar.

(3) The circuit court would continue to exercise jurisdiction in criminal cases. The principal change we would suggest is the *temporary suspension of the jury system*, which is not adapted to the existing general conditions in the country.

(4) The Supreme Court would retain its jurisdiction in the cases provided for by the Constitution, and would also act as a court of cassation and ratification for cases of absence of jurisdiction, action *ultra vires*, violation of the law, and defects of procedure.

The number of the judges might be reduced from five to three, which was the number before the 1926 loan.

As already explained, our reason for extending our investigation into the judicial sphere is that we feel bound to submit a complete programme for the rehabilitation of the country, a condition which is necessary for the security of the loan.

Before translating our programme into figures, we would point out that it is essential to undertake a geographical, mineralogical and botanical survey of the country, to arrange for the upkeep of existing buildings and roads, and to build new roads ; for the latter operations a works superintendent is necessary.

The cost of our programme would be as follows :

| | | | |
|--|---------|---------|------------------|
| A Financial Adviser | | \$ | 12,000 |
| A first Deputy Financial Adviser | | | 6,000 |
| A second Deputy Financial Adviser | | | 5,000 |
| A Legal Adviser | | | 8,000 |
| A Deputy Legal Adviser | | | 6,000 |
| A Military Adviser | | | 6,000 |
| 8 Administrators : | | | |
| 3 at | \$ | 8,000 = | \$ 24,000 |
| 2 at | | 6,000 = | 12,000 |
| 2 at | | 5,000 = | 10,000 |
| | | | <u>52,000</u> |
| 6 Medical Officers : | | | |
| 1 Director of Public Health at | 9,000 = | | 9,000 |
| 2 Medical Officers at | 7,000 = | | 14,000 |
| 3 Medical Officers at | 6,000 = | | 18,000 |
| | | | <u>41,000</u> |
| Travelling expenses of above staff | | | 8,000 |
| Geographical, mineralogical and botanical survey | | | 20,000 |
| Public health (sanitary squads and material) | | | 34,000 |
| Upkeep of existing buildings and roads, including salary of a works superintendent | | | 50,000 |
| Roads and bridges | | | <u>150,000</u> |
| | | | |
| Total | | | <u>\$398,000</u> |

¹ The total cost of the present financial advisers is \$46,150 (allowances included), excluding the military adviser.

² This refers to the justice administered to Liberian citizens and foreigners.

After two years, the third financial adviser necessary at the outset to instruct the Liberian officials how to frame and administer a budget and keep books might be discharged. The appropriations for the upkeep of works and buildings might also be reduced from \$50,000 to \$10,000. The amounts thus released might be allocated to expenditure on education (more particularly vocational training in the early stages).

We have only eliminated expenditure on education from our initial programme because the first essential is to establish order, health and prosperity in the country¹; but education alone, of course, will enable the Liberian Republic to attain its ideal and its aim — that of a free and united negro nation.

After two years, the survey of the country would be finished. The funds thus released would be transferred, partly to education, partly to public health (whose needs are immense), and partly to roads, the programme for which could be more energetically pursued once the survey of the country had been completed.

Future revenue and expenditure would therefore be as follows :

| REVENUE | | EXPENDITURE | |
|--|-----------|---|-----------|
| | \$ | | \$ |
| Future average annual revenue. | 650,000 | Loan charges (on the present basis), less salaries of foreign advisers | 226,350 |
| Payments on account of the second block of the loan . . . | 300,000 | Service and sinking fund of the internal debt | 40,000 |
| | | Ordinary expenditure (with the economies proposed) | 265,000 |
| | | Cost of the programme (see page 21) | 398,000 |
| | | Balance for unforeseen expendi- ture | 20,650 |
| | \$950,000 | | \$950,000 |

This table is merely an approximate indication of receipts and expenditure, not a budget.

FINAL OBSERVATIONS.

In conclusion, we would again stress our belief that foreign financial assistance must not (in view of past experience), and cannot (in view of the present position), be given to Liberia unless it will enable the country to recover. We firmly believe that such recovery can only be secured by the programme of *practical assistance* which we have drawn up, and not by *advice*.

As regards the period for which the collaboration of specialist advisers will be necessary (a question which, under our terms of reference, we must consider), we believe that it is impossible at present to say how long it will take to train the Liberian officials to whom the foreign specialists will naturally hand over their departments as soon as such officials can carry them on properly.

Moreover, as already stated, the presence of foreign specialists is really a necessary guarantee for lenders, and we have no idea, at the moment, how long the lenders will consider these guarantees necessary for the interest and sinking fund services.

It is to be hoped that no difficulties will be encountered in carrying out the programme of assistance ; but, should they arise, we feel bound to draw the attention of the Committee of the Council to the necessity of arranging for their settlement on the lines previously followed in similar cases by the League of Nations.

We would finally draw attention to the general consideration that the value of a work depends on the men responsible for it ; and, in the particular case of Liberia, the choice of foreign specialists is a question of paramount importance. Every precaution should be taken to choose them carefully.

Such specialists should have genuine experience of tropical countries, and the administrators, in particular, must have a practical and thorough knowledge of men and affairs in Africa.

We hope that some of these foreign specialists may be recruited from among the representatives of the negro race, who in various countries of the world have gained the experience which their Liberian brothers still lack.

Note. — We feel it our duty to submit a joint report chiefly because the general position of Liberia must be taken as a whole, and we are all three unanimous as to the methods to be employed. Each expert, of course, assumes, responsibility for the section dealt with by him, for which he was specially appointed.

¹ It would nevertheless be advisable to organise from the outset, so far as available funds permit, vocational training for the staff necessary for the work described in our programme — construction of roads and bridges, upkeep of buildings, etc.

Appendix I.

**RESOLUTION OF THE COUNCIL COMMITTEE FOR THE APPOINTMENT
OF EXPERTS AND THE INSTRUCTIONS TO BE GIVEN TO THEM.**

Adopted on March 3rd, 1931, in London.

1. The Committee, having carefully considered the information placed before it, is of opinion that the advice of technical experts competent in general administrative, financial and health matters will be necessary to draw up a concrete plan of assistance to be given to the Liberian Government in accordance with the request addressed by the latter to the Council of the League of Nations.

2. The Committee designates M. BRUNOT as expert in general administration, L. LIGTHART as expert in finance, and asks the Secretary-General to request the Health Organisation of the League to designate an expert in health matters.

3. These experts will proceed as soon as possible to Liberia to study the present situation on the spot, in accordance with the present instructions, and in close touch with the Liberian Government. It will be for the experts to suggest in what practical manner it would be possible to assist the Liberian Government to carry out its decision to give effect to the recommendations and suggestions of the International Commission of Enquiry. They will, amongst other matters, examine the question of administrative assistance necessary to give effect to the social reforms suggested by the Commission of Enquiry, and also the question of public health assistance and of the financial provision required in order to carry out these reforms.

4. The experts will advise on the general lines on which the reforms should proceed, and, in particular, the order in which they should be undertaken.

5. The experts will in this connection examine the possibility of proceeding by stages, first giving the assistance most urgently required, and then extending that assistance as resources permit.

6. With regard to the appointment of specialists, which has already been contemplated in the report of the International Commission of Enquiry as well as in the reforms envisaged by the Liberian Government, the experts will consider, in addition to the general question, the number of such specialists, the powers which will be necessary, as well as the length of time during which their assistance will be required.

7. The expenditure involved by the proposals of the experts will require examination by them and it will be necessary for them to make a survey of the resources available to carry out these proposals.

8. The experts may make interim reports, by telegraph or otherwise, as and when necessary, and shall make a final report to the Committee of the Council on the results of their mission. Such reports will be communicated to the Liberian Government. It will no doubt be necessary to consult the Financial Committee and the Health Committee respectively in regard to those parts of their report or reports which refer to those subjects.

9. The Liberian Government will ensure every facility and assistance to the experts and will supply them with all information which they may require.

Appendix II.

**SUMMARY OF THE SUGGESTIONS AND RECOMMENDATIONS
OF THE INTERNATIONAL COMMISSION OF ENQUIRY**

The policy of the "open door".
Extension of education to all alike.
Native policy to be radically reconstructed.
Barrier between civilised and uncivilised to be broken.
Policy of suppression to be abandoned.
Humiliation and degradation of Chiefs to cease.
Re-establishment of tribal authority of Chiefs.

Complete re-organisation of administration of the interior.
 Removal of present District Commissioners.
 Substitution of European or American Commissioners with assistant Commissioners.
 Institution of some form of Civil Service.
 Re-arrangement of the Political Divisions of the country.
 Pawning and domestic slavery to be made illegal as preliminary to total abolition.
 Shipment of labourers to Fernando Po to cease.
 Road programme to be curtailed.
 Much stricter control of Frontier Force soldiers.
 Reconsideration of duties of Frontier Force soldiers.
 American immigration to be encouraged.

Appendix III.

POPULATION OF LIBERIA.

An approximate figure can be fixed for the population of Liberia, part of which is unexplored, only by a comparison with neighbouring regions for which an exact census has been taken.

The adjoining territories of the Ivory Coast and Guinea (which are geographically comparable with Liberia) have respectively a population of 1,800,000 and 1,600,000 inhabitants for an area nearly three times as large.

There is no reason to suppose that the density of the population is greater in Liberia than in these countries.

Even taking into account the mountainous district of Fouta Jalon in Guinea and the almost desert region of Kong in the Ivory Coast, the most liberal estimate cannot allow Liberia a population of more than *one million inhabitants*.

This estimate is endorsed by those who are best acquainted with the country.

Appendix IV.

TABLE OF EXPORTS.

| <i>Palm kernels in bushels of 56 lb.</i> | | | <i>Coffee :</i> | | |
|--|-------------------------------------|-------------|-----------------|-----------|-------------|
| | Bushels | Value in \$ | | Lb. | Value in \$ |
| 1927 | 357,266 | 551,493.85 | 1927 | 2,392,451 | 390,312.27 |
| 1928 | 303,374 ³ / ₄ | 509,249.09 | 1928 | 2,637,974 | 423,085.59 |
| 1929 | 343,566 | 487,757.16 | 1929 | 3,076,391 | 328,816.55 |
| 1930 | 252,518 | 280,873.30 | 1930 | 1,666,450 | 123,992.94 |
| <i>"Boechina" palm-oil :</i> | | | <i>Cocoa :</i> | | |
| | Gallons | Value in \$ | | Lb. | Value in \$ |
| 1927 | 598,130 | 147,334.42 | 1927 | 649,510 | 43,533.96 |
| 1928 | 443,014 | 102,877.71 | 1928 | 756,993 | 50,725.30 |
| 1929 | 603,856 | 145,093.97 | 1929 | 807,115 | 56,616.84 |
| 1930 | 525,302 | 105,118.70 | 1930 | 724,962 | 30,513.23 |
| <i>"Nechina" palm-oil :</i> | | | <i>Rubber :</i> | | |
| | Gallons | Value in \$ | | Lb. | Value in \$ |
| 1927 | 1,151 ¹ / ₂ | 397.12 | 1927 | 384,619 | 125,972.18 |
| 1928 | 911 ¹ / ₄ | 339.41 | 1928 | 210,827 | 38,527.30 |
| 1929 | 1,185 ¹ / ₂ | 514.98 | 1929 | 512,295 | 47,099.30 |
| 1930 | 1,285 | 519.80 | 1930 | 214,988 | 24,901.32 |
| <i>Piassava fibre :</i> | | | | | |
| | Lb. | Value in \$ | | | |
| 1927 | 13,343,095 | 238,170.70 | | | |
| 1928 | 14,058,537 | 249,379.48 | | | |
| 1929 | 12,785,289 | 199,348.20 | | | |
| 1930 | 15,491,505 | 290,840.48 | | | |

Appendix V.

THE MONETARY CIRCULATION IN LIBERIA.

The monetary circulation in Liberia is somewhat confused, because the standard adopted is the American dollar, but the only money in circulation is silver shillings. Thus prices are officially fixed and expressed in dollars, but are paid, after conversion, in shillings and pence. This situation cannot be prolonged indefinitely ; but, for the moment, there are so many other grave problems that there is no time to give serious attention to this question. ¹

It has been decided by law that there should be Liberian money consisting of silver coins of 5 cents, 10 cents, 25 cents and 50 cents, and copper coins of 1 cent and 2 cents on the basis of the American monetary unit. Copper coin is still sometimes found in circulation, but pennies and halfpennies are in general use.

The United States dollar is too large a unit for a poor country like Liberia. When the monetary system is revised — which should be as soon as possible — it would be advisable to adopt as unit the quarter dollar (25 cents), to divide this unit into a hundred parts, and to create preferably small coins of half a hundredth. When the interior of the country is opened to monetary circulation, the chief need will be for coins of small denominations for the exchange of articles of small value, and the half-cent coin will be found to be too large to be used as a medium of exchange for the purchase of foodstuffs, etc.

Appendix VI.

BRIEF OUTLINE OF LOANS, BUDGETS AND TAXES.

1. LOANS.

We can only give a very short outline here of the history of the various loans, however interesting this may be from the point of view of the financial policy of the State. It is sufficient to emphasise the fact that *nearly all the sums derived from loans have been used for unproductive expenditure, so that the country has obtained no lasting advantage from the various loans contracted.*

The first loan was that of 1870, concluded for a sum of \$500,000 at 7 per cent interest, and issued at 70 per cent. This loan was to be used, in the first place, up to a total of \$100,000 “ for the sole purpose of purchasing by tender on the basis of the lowest offer all cheques, notes, paper currency, bonds and other obligations of the Government, of all denominations ”. This loan was followed by that of 1906 for a total of £100,000 at 6 per cent, of which £5,000 was to be used “ to meet the most pressing obligations of the Republic of Liberia ”.

In 1911, a further loan of \$2,000,000 at 5 per cent was granted. Article 1 stipulates that, “ unless otherwise provided in the present contract, the loan must be used for the sole purpose of redeeming all the pecuniary debts and obligations of the Republic of Liberia, whether these debts be foreign or internal, funded or not ”.

During the war, Liberia received from the United States an advance of \$35,000, which proved quite insufficient to tide the Republic over its financial difficulties. These difficulties are clearly revealed in the text of the Acts of August 17th, 1917, February 5th, 1918, January 20th, 1923, and February 5th, 1924, copies of which are annexed to the present document. The purpose of these Acts was the forced funding of all the internal floating debts by the payment of arrears on these debts, in the first place by means of 3 per cent bonds redeemable in twelve years, then by 3 per cent bonds redeemable in twenty years, and lastly by 5 per cent bonds redeemable in thirty-five years.

This method of meeting current difficulties was no novelty for Liberia, having already been utilised in 1912. On that occasion, it was accompanied by a reduction of one-third in the salaries of officials, and resulted in the redemption of a sum of \$198,763.54 of debts falling due immediately by means of 3 per cent bonds repayable in twenty years.

There can be no doubt that this method of meeting immediate and pressing needs is attractive from the point of view of the Government ; but it cannot be justified unless provision is made in advance for the payment of interest and redemption during the ensuing years without fresh floating debts being contracted. This latter point is always lost sight of in Liberia, and,

¹ The abandonment of the gold standard by Great Britain and the variations in sterling rate on the dollar give this question a much more urgent character.

since the last Funding Act of February 5th, 1925, the floating debt has again steadily increased and the chronic trouble from which the administration suffers — *i. e.*, the accumulation of arrears on the salaries of officials — has again been seriously felt. Difficulties grew more and more serious, and the Government naturally bethought itself again of the old solution, the conclusion of a new loan to get rid for a short time of the most pressing demands.

The loan was concluded on September 1st, 1926, with the Finance Corporation of America, and a copy of the loan agreement is annexed.

Serious financial objections were put forward against this scheme by the Secretary of the Treasury, and legal objections by the Attorney-General, but the Government nevertheless put it into force.

Liberia had a debt on part of which it paid from 3 to 5 per cent interest, and another part of which was not funded ; and it was chiefly to get rid of these debts that she concluded a loan at 90 per cent, carrying interest at 7 per cent. The funded and floating debts amounted to approximately \$2,000,000, while the new loan was to be \$5,000,000. There was thus the illusion that an amount of \$3,000,000 would, in any case, be available for productive expenditure ; but this was only an illusion, as Article X, 4 of the Agreement said :

“ It is understood by the parties hereto that the Government may offer for sale, in such amount as it may decide, the bonds covering the remaining \$2,500,000 authorised under this Agreement when the total annual amount of the assigned Customs duties and head monies has exceeded the sum of \$800,000 for two consecutive years.”

When the agreement was concluded, the Customs duties and head monies were estimated to bring in \$384,881 and \$20,947 respectively, or about half the amount indicated in the contract. It was therefore impossible to anticipate when the second part of the loan could be obtained. It has, in fact, not been paid, and, as is clearly shown by the following figures, the portion of the loan actually obtained was not used for productive expenditure.

Table showing the Employment of the Sums obtained from the 7 per cent Loan of September 1st, 1926.

| | RECEIPTS. \$ | EXPENDITURE. \$ |
|--|-----------------|--------------------|
| Proceeds of the sale of \$2,253,000 of 7 per cent bonds at 90 | 2,027,700 | |
| Article XI, Section 1 : | | |
| Redemption of 5 per cent bonds and coupons | | 1,146,716.12 |
| Interest on 5 per cent bonds | | 28,667.50 |
| Article XI, Section 2 : | | |
| Expenditure connected with the redemption of 5 per cent bonds | | 5,285.65 |
| Legal fees, printing, etc. | | 22,350.57 |
| Article XI, Section 4 : | | |
| Repayment of the debt to the United States Government | | 35,610.46 |
| Article XI, Section 5 : | | |
| Purchase of 3 per cent internal bonds and coupons | | 175,085.84 |
| Article XI, Section 6 : | | |
| Redemption of 5 per cent debt certificates and interest on the certificates | | 115,673.37 |
| Various debts of the War Department | | 28,258.24 |
| General floating debt, including salaries in arrears | | 41,300.57 |
| Debt to the Bank of British West Africa, Ltd. | | 65,000.— |
| Arrears of pay of the Liberian Frontier Forces | | 151,239.86 |
| Repayment of the debt to the War Department of the United States | | 9,141.13 |
| Payment to the Firestone Co. on the contract for the supply of timber | | 5,600.— |
| Payment to the Bureau of Arts and Letters | | 2,596.80 |
| Payment of contributions in arrears to the League of Nations | | 12,339.12 |
| Article XI, Section 7 : | | |
| Special health measures | | 11,730.39 |
| Public works labour, plant, etc. | | 156,439.34 |
| Balance with the United States Trading Co. Banking Department at December 31st, 1930 | | 14,665.04 |
| Approximate total | \$2,027,700 | \$2,027,700.— |

Up to the present, the following sums have been utilised :

- \$11,730.39 for special health measures ;
- \$156,439.34 for public works, labour, plant, etc.

Out of the first instalment it is still possible to obtain \$247,000 at 90 per cent — *i.e.* \$222,300, plus the balance of the United States Co. amounting to \$14,665.04 ; while from these sums must be deducted an amount of \$37,668.29, which, according to the 1931 draft budget, is still outstanding for old debts. The exact amount still available out of the first instalment of the loan for productive expenditure is, therefore, \$367,466.48.

The interest and redemption of a loan should primarily be provided for by means of an increase in receipts due to the development of the country, and it is clear that the trifling sum available for this purpose is much below the most modest requirements.

The distressing thing is that the above-mentioned amount of \$156,000 has been squandered as a result of the deplorable advice given to the Liberian Republic by the Financial Adviser at that time in office. It is generally recognised that what Liberia needs is roads ; and it is painful to note that the money available was employed for the following purposes :

(a) An electric power house for the lighting of Monrovia. In a poor country, such lighting cannot be reckoned among absolutely urgent requirements, and in present conditions such an enterprise should not be undertaken by the Government. So Monrovia has an electric power house, lamp-posts, cables, etc., but — no light.

(b) A wireless station. This is still working and absorbs considerable sums every year.

(c) Construction of a telephone line with White Plains. No one who goes to this small village can fail to ask what is the use of this telephone and how many calls per month there can be on this line.

Furthermore, the telephone system in Monrovia and between Monrovia and outside has not been working for a long time past.

(d) Construction of a new Customs building. This is not a luxury, but such defective plans were prepared that the work has not yet been completed and the building threatens to collapse as a result of atmospheric conditions.

(e) An installation for the cleaning, sorting and drying of coffee at White-Plains. The idea of creating an installation for improving the quality of the coffee in this coffees-producing district is not a bad one, but the machinery was worthless and the installation therefore cannot work.

(f) Prolongation of the roads along the Monrovia quays.

(g) Placing of boundary-stones on the road leading to the quay.

(h) Construction of the pavilion in which the ceremony of the President's inauguration took place.

(i) Construction of a provisional pavilion next to the Executive Palace, etc.

It is clear that very little constructive work has been done, and that the expenditure does not promise any future return. Apart from the list of activities mentioned above, an idea can also be gained of the way in which this money has been squandered from the large number of unfinished buildings at Monrovia, the steam-rollers abandoned along the road from Monrovia to Kakata, the unfinished bridges, etc.

The situation to-day is that the sums derived from the loan have been spent without material advantage, while the annual charge represented by the salaries of the American advisers, the interest and redemption of the loan, etc., remains.

The following table gives an idea of the charges to be borne by the Liberian Republic in 1931 as a result of the loan. The sum obtained was 90 per cent of \$2,253,000, — *i.e.* of \$2,027,700.

| | | |
|--|-----------|--------------------|
| | \$ | |
| (a) Interest at 7 per cent per annum | 157,710.— | |
| (b) Redemption, Article V of the Loan Agreement, 2 by \$28,162.50 at 102 per cent | 57,451.50 | |
| (c) Commission of the fiscal agent, Article XXI : | | |
| $\frac{1}{4}$ per cent of \$157,710 | \$374.28 | |
| $\frac{1}{8}$ per cent of \$63,087 | \$78.86 | |
| | <hr/> | 473.14 |
| | \$ | |
| (d) Salary of Financial Adviser | 12,500 | |
| Office rent | 200 | |
| House rent | 800 | |
| Removal expenses | 800 | |
| (e) Auditor | 6,000 | |
| Assistant Auditor | 4,500 | |
| Removal expenses | 2,000 | |
| Allowances | 1,750 | |
| | <hr/> | |
| Carried forward | \$28,550 | <hr/> \$215,634.64 |

| | | |
|---|-----------------|--------------|
| | \$ | \$ |
| Brought forward . . . | 28,550 | 215,634.64 |
| (f) Supervisor of internal revenue | 6,000 | |
| Removal expenses | 1,600 | |
| (g) Customs Supervisor | 8,000 | |
| Removal expenses | 1,000 | |
| Allowance | 1,000 | |
| (h) Commander of the Frontier Force | 7,500 | |
| | <u>53,650.—</u> | |
| | | \$269,284.64 |

This table does not indicate all the expenses, since, in addition to the above officials, there is also a depositary for the service of the loan *i.e.*, a bank at Monrovia at which the tax receipts must be deposited. The Firestone Co. has set up for this purpose a bank at Monrovia under the name of the United States Trading Co., which has concluded an arrangement with the Liberian Government. Under the terms of this arrangement, this bank is designated as depositary and receives as such a commission of 1½ per cent on the sums derived from taxation and deposited with it, and 1 per cent on transfers to New York.

At certain places along the coast, the Oost Afrikaansche Co. acts as depositary in return for a commission of ½ per cent.

The amount of \$269,284.64, calculated as above, already gives some idea of the charges incurred by Liberia as a result of the loan, especially if it is considered that the tax receipts were estimated at :

| |
|--------------------|
| \$ |
| 713,040 in 1924-25 |
| 930,966 in 1925-26 |
| 930,966 in 1926-27 |

and that the financial difficulties encountered during these years, the arrears of salaries and the growing total of the floating debt prove that these taxes were insufficient for Liberia's scale of expenditure, which was, however, modest compared with the scale subsequently adopted.

It is impossible to examine Liberia's financial situation without taking into account the fact that there is a close connection between this loan and the Firestone concession, as we have explained under the heading "Firestone Plantations, Ltd." This concession was granted on conditions very favourable to the lessee. The situation may be expressed in figures if we calculate the receipts which the Liberian Government obtains under this concession. Reckoning that an area of 50,000 acres will shortly have been planted, it will take about five years for the whole plantation to reach its full output. If the crop is estimated at 400 lb. per acre, the exports will amount to about 9,000 tons. The price of rubber at New York is at present about 5½ cents per lb. But *even assuming a price of 20 cents per lb.* — which in present circumstances seems impossible to attain in five years — the crop would fetch \$4,032,000, of which the Liberian Republic would receive 1 per cent or \$40,320. In addition, Firestone pays a rental of 6 cents per acre, which gives \$3,000. The Republic of Liberia thus receives from Firestone \$43,320, *an amount which is not sufficient even to pay the officials responsible for the service of the loan* (\$53,650). If the contributions to be paid by Firestone are reckoned on the basis of the present price of 5½ cents per lb. for rubber, the amount is only \$13,188, instead of \$43,320.

Two other points must be mentioned in order to make the situation clear.

The Liberian Republic must pay its officials during the period when there is no crop as well as during the period of full production.

When the contract was concluded, the price of rubber was much higher (in 1926, 48 cents on an average), so that a greater profit was reckoned on.

The burdens placed on the Liberian Republic by the contract are aggravated by the fact that the economic situation of the country is bad, and that Liberia's revenues are rapidly diminishing as a result of the fall in prices provoked by the world crisis. Out of the monthly yield of the taxes a sum of approximately \$23,000 must be set aside for the service of the loan, and the gravity of this obligation is clearly shown by the following table :

Treasury receipts (in round numbers) :

| | | |
|--|-----------|---------------------|
| | \$ | |
| October 1st, 1927, to September 30th, 1928 | 1,289,200 | |
| October 1st, 1928, to September 30th, 1929 | 1,028,100 | |
| October 1st, 1929, to September 30th, 1930 | 848,300 | |
| Fourth quarter 1930 | 180,600 | |
| | \$ | |
| January 1931 | 63,800 | } 163,000 |
| February 1931 | 54,000 | |
| March 1931 | 45,200 | |
| April 1931 | 58,500 | } 125,200 |
| May 1931 | 32,500 | |
| June 1931 | 34,200 | |

The falling-off in the commercial turnover is clearly shown by the reduction in yield of Customs duties :

| | | |
|-------------------------------|--------|--------------------|
| | \$ | |
| 1927-28 | | 767,600 |
| 1928-29 | | 585,000 |
| 1929-30 | | 461,100 |
| Fourth quarter 1930 | | 86,000 |
| | \$ | |
| January 1931 | 31,700 | } 86,200 |
| February 1931 | 33,000 | |
| March 1931 | 21,500 | |
| April 1931 | 28,400 | } 69,400 |
| May 1931 | 20,000 | |
| June 1931 | 21,000 | |

The situation is now so bad that it is no longer possible to offer financial assistance pure and simple. To be of any use, financial assistance must be accompanied by reforms, as, otherwise, it would simply constitute an aggravation of the annual burdens. Moreover, under Article XV of the Loan Agreement, no new loans may be made.

2. THE BUDGET.

For any re-organisation of the administration of Liberia to be possible, the Secretary of the Treasury must first of all devote his attention to the drawing up of the budget. The returns which have to be supplied each year do not usually give a clear view of the expenditure necessary for upkeep and development. At present, the budget is in reality nothing more than a recapitulation of the salaries which must be paid.

If the budget sometimes contains an item denoting some action connected with the development of the country, such as the creation of schools or the building of roads, this item is so vague that no supervision can be exercised by the Secretary of the Treasury. Hence, it is not surprising that, when the construction and improvement of the Monrovia-Kakata road was undertaken, large sums and considerable quantities of material were utilised for the building of private houses in the capital. Where there is no supervision, wastage is bound to occur.

The conclusion of the Loan Agreement of 1926 had a very marked influence on the budget. The staff of all the Government offices was increased, a new Department — that of Public Works — was created, and the salaries of all the high officials were raised. For example : the salary of a senator was raised from \$1,200 to \$2,000 ; that of a deputy from \$1,200 to \$2,000 ; that of the President from \$5,200 to \$15,000 ; that of the Vice-President from \$3,000 to \$4,000 ; that of secretaries of departments from \$3,000 to \$4,000, etc.

The budgets of all the Departments were also greatly increased, and some idea may be gained of the extent to which expenditure was augmented by comparing the total budget expenditure of the years preceding the loan and those following it.

| | \$ | Amount obtained from the loan \$ |
|-------------------|--------------|--|
| 1924-25 | 591,420.— | |
| 1925-26 | 859,464.— | |
| 1926-27 | 859,464.— | |
| 1927-28 | 1,529,840.86 | 292,500.— |
| 1928-29 | 1,654,869.73 | 310,691.70 |

This is abundant proof that the governing class in Liberia has no idea of how a State should use its financial resources. In this connection, Liberia needs expert advisers, and will need them for many years to come. These advisers should not only give advice, which would not be sufficient, but should have actual authority, and should see in the first place :

- (a) That all ordinary expenditure which regularly recurs should be covered by ordinary receipts ;
- (b) That ordinary receipts should not be applied solely for the payment of salaries ;
- (c) That the budget should have a margin for productive expenditure.

The administration was obviously heading for a collapse, which would have occurred earlier if the considerable capital that flowed into Liberia as a result of the repayment of all the floating debts and the money spent by Firestone Plantations, Ltd., had not led to a period of inflation and boom. These circumstances brought about a lively period of activity, which concealed the dangers of a collapse. One item of the budget showed, however, that the country was on the road to ruin. Already the 1926-27 financial period had closed with a deficit, which had to be carried over to the following financial year under the chapter of

expenditure. This item of the budget was entitled " Estimated Total of Unpaid Bonds and Liabilities ", which meant that the sums entered had not been covered out of the receipts of the budget year.

The amounts entered under this head were estimated as follows :

| | \$ | |
|-------------------|------------|---|
| 1927-28 | 61,648.65 | (deficit of the 1926-27 financial year) |
| 1928-29 | 43,272.26 | |
| 1929-30 | 147,756.01 | |
| 1930-31 | 220,000.— | |

The 1927-28 financial year was a very favourable period for Liberia, and the new Financial Adviser, who had meanwhile succeeded the one mentioned above, wrote in his report of September 30th, 1929, to the President of the Liberian Republic :

" At the end of the 1927-28 fiscal year, the Government's books show larger receipts than ever before obtained in the history of the Republic."

The Adviser pointed out, however, that a favourable year could not serve as a pretext for a large increase in ordinary expenditure, and rightly insisted on the necessity for an energetic policy of economy. Unfortunately, this advice came too late, for meanwhile the world crisis, which had just begun, involved a considerable decrease in the receipts of the Liberian Republic.

Difficulties arose between the Financial Adviser and the Liberian Republic with regard to the policy to be adopted. The result was that the Financial Adviser was unable to approve the 1931 budget, so that, under Article XII, 8 of the Loan Agreement, the 1930 budget had to be taken as basis for the 1931 expenses.

All the receipts derived from the " assigned revenues " were deposited with the " depository agent " and were used, in the first instance, for the execution of the clauses stipulated in Article XIII of the Loan Agreement. As the receipts are not sufficient to meet the liabilities under the Agreement, and as there will probably be no redemption of the loan on November 1st, 1931, the Government will only have at its disposal the money derived from " non-assigned revenues " and the resources which the Financial Adviser may consent to leave it in agreement with the fiscal agent of the Finance Corporation. The consequence is that the Government is no longer able to meet its most pressing obligations, and that it has actually suspended payments. It is not too much to say that the situation is catastrophic.

The mistaken policy previously noted has been continued. The sums derived from a new loan have first of all been used to repay old loans and pay off arrears, after which fresh arrears have been formed, which have gone on increasing until the moment when a new loan is again contracted to save the situation provisionally.

It need hardly be said that we cannot advise a continuation of this process, even if it were possible to find fresh loans to-day.

3. TAXES.

To form an idea of the financial possibilities of Liberia, the question of the taxes levied must be examined, and, if necessary, these taxes must be gone into in detail. We propose to speak of these taxes in the order given in the " Estimated Revenue for the 1931 Fiscal Year ", taken from the budget of that year, which the Financial Adviser did not approve.

Customs Duties and " Head-Money "

The import and export duties constitute more than 50 per cent of the total revenue of the Republic of Liberia. They are defined in the Act of January 26th, 1922. The general tariff on imported goods is 15 per cent *ad valorem*; exceptions to this tariff are made according to the list annexed to the Act.

Export duties are charged on the following products :

| | |
|--|----------|
| Fibre, per lb. | 1/2 cent |
| Ivory, per lb. | 10 cents |
| Palm kernels, per bushel of 56 lb. | 2 cents |
| " Bochina " palm-oil, per gallon | 1 cent |
| " Nechiva " palm-oil, per gallon | 10 cents |
| Piassava fibre, per lb. | 1/4 cent |
| Kola nuts, per lb. | 2 cents |

The principal products come from the oil-palm and the piassava fibre. Taking the figures for exports in the years 1927 to 1930, and calculating the duties on the basis of these figures, we get the following table of the tariff level :

'Palm kernels : exports 1927 to 1930 : 1,256,724 3/4 bushels ; value : \$1,829,373.40 ; duties at 2 cents = \$25,134.50, or 1 3/8 per cent.
 " Bochina " palm-oil : exports 1927 to 1930 : 2,177,110 gallons ; value : \$500,424.80 ; duties at 1 cent = \$21,771.10, or 4.3 per cent.
 " Nechiva " palm-oil : exports 1927 to 1930 : 4,543.25 gallons ; value : \$1,771.31 ; duties at 10 cents = \$454.33, or 25.6 per cent.

Piassava fibre : exports 1927 to 1930 : 55,678,426 lb. ; value : \$977,738.86 ; duties at $\frac{1}{4}$ cent per lb. = \$139,196.07, or 14.2 per cent.

These duties levied on the products of the population are very high compared with the fixed duty of 1 per cent imposed on the rubber of the Firestone Plantations Company.

It hardly needs demonstration that import and export duties are not, as a rule, taxes to be recommended, and that, in any case, they should not constitute the main source of revenue of a country. They are not levied according to the capacity to pay, and constitute a heavy and disproportionate burden on the poorest section of the population. Nevertheless, for a primitive country like Liberia, these taxes are the most suitable, because they are easy to collect, and, in an unorganised country, it is impossible to levy direct taxes according to the paying capacity of the population. This granted, there is reason for surprise that coffee is tax-free and that rubber should also be exempted by recent provisions.

Rubber and coffee are at present suffering severely from the world crisis, but this is no reason why they should be free from duty, since conditions for these products will certainly change.

* * *

Every Liberian liable to the poll tax or the hut tax must, on leaving the country, pay one ollar headmoney.

Poll Tax and Hut Tax.

The poll tax is levied on all settled inhabitants of the male sex over 21 years of age and not possessing landed property. As the "uncivilised" display a preference for taxation by dwellings, they are liable to a hut tax instead of the poll tax.

The hut tax falls on the inhabitants of the interior, who pay no import and export duties. Their commodities are exported and imported by the neighbouring colonies. As long as there is no road system, the transport of products to and from the coast will be impossible, and, up to the present, it has not been possible, for various reasons, to establish Customs offices along the land frontier.

Thus the population is only lightly taxed, and serious consideration should be given to an increase in the hut tax ; but, if such a measure is to be undertaken, it will be necessary to see :

- (a) That the hut tax is levied honestly and fairly — *i.e.*, after an exact census. Otherwise, those who stay will pay for those who have gone.
- (b) That a stop should be put to the requisitioning of products by officials.
- (c) That part of the taxes should also be utilised for the benefit of the population of the interior.

Land Tax.

This is a tax levied on the owners of landed property. As the tax on improved lands is lower than the tax on unimproved lands, this constitutes an encouragement to the cultivation of the soil.

Stamp Duty.

This duty is levied on all deeds, contracts, receipts, bills of exchange, drafts, cheques, etc.

Emergency Fund for Exceptional Circumstances.

An additional duty of 20 per cent is added to the import and export duties for this fund.

School Tax.

This is a tax of one dollar levied annually on each male inhabitant over 21 years of age for the maintenance of the public schools. The receipts derived from this tax must be paid to a special fund for education. This tax is not levied in areas where there are no schools and which are inhabited exclusively by uncivilised tribes.

Licences.

This tax is levied on all persons possessing a business, lawyer's office, or bank, and on persons operating mines, on hunters of big-game, etc. The licence for which the highest rate is charged is that payable on the wholesale trade in liquor, big-game hunting and labour recruiting ; it amounts to \$250. A licence is only valid for one business locality. Special licences for other localities may be obtained on application.

Duty of 6 per cent on Dry Goods.

This tax was originally introduced for a period of two years to make good the deficit of the 1923-1924 financial period. As is usually the case in Liberia, however, bad financial conditions have not so far permitted of the repeal of any exceptional taxes.

The duty of 6 per cent on the articles in question is a special import duty levied on all articles of clothing and goods generally described under the name of "dry goods".

Road Maintenance Tax.

This is a special tax of 4 cents per imperial gallon on lubricants, and 2 cents per imperial gallon on petrol, crude oil and other fuels imported into Liberia.

The proceeds of this tax are intended for the construction of roads and main lines of communication, for their upkeep, and for the construction and maintenance of bridges.

Liberia's continual state of financial distress has prevented the application of a plan for the constitution of this fund. All the money is swallowed up at headquarters and goes to meet, as far as possible, the chronic deficits.

There are also some other taxes of less importance, such as the tax on residence permits, consular fees, harbour and mooring fees, etc.

When this long list of taxes is examined, it cannot but be noticed that the system lays a very heavy burden on the *poor* inhabitants of the coastal belt of Liberia. No tax is adjusted to the taxpayer's paying capacity; the poor worker who earns a bare 25 cents a day thus pays almost as much as the official who receives a high salary, and at most can be presumed to bear a somewhat higher proportion of the import taxes, stamp duties, etc.

Appendix VII.

**GOVERNMENT OF THE REPUBLIC OF LIBERIA AND FINANCE CORPORATION
OF AMERICA : LOAN AGREEMENT.**

THE NATIONAL CITY BANK OF NEW YORK, FISCAL AGENT.

PREAMBLE.

AGREEMENT, dated, for convenience, as of the 1st day of September, 1926, by and between the Government of the Republic of Liberia, of the first part (hereinafter referred to as the Government); Finance Corporation of America, a corporation organised and existing under and by virtue of the laws of the State of Delaware, United States of America, of the second part (hereinafter referred to as the Corporation), and the National City Bank of New York, a national banking association organised and existing under the laws of the United States of America, of the third part (hereinafter referred to as the Fiscal Agent):

WHEREAS, the Government represents to the Corporation that it desires to provide for the adjustment of its outstanding indebtedness, and to arrange for:

- (a) The construction of certain public works in the form of roads, bridges and wharves, and the development of its harbours and communications;
- (b) Encouraging and development of agriculture;
- (c) The development of the sanitary organisation, including the establishment and maintenance of hospitals;
- (d) Construction of schools and the encouraging of education among the peoples of the Republic;
- (e) The maintenance of the frontier force and its development;
- (f) The general economic development of the country; and

WHEREAS, the Government represents to the Corporation:

A. That Schedule A hereto embraces a statement as of December 31st, 1924, of the entire funded debt of the Government, external and internal, and all indebtedness of the Government incident to the current administration of the Government and all claims against the Government, including claims disputed by the Government as to their validity or amount, or both;

B. That Schedule B hereto embraces all funded debt of the Government, external and internal, and all indebtedness of the Government and claims against the Government, payment of which is or has been directly or indirectly charged, or is claimed to be charged, on any of

the Customs of the Government, on exports or imports, or on head monies, or on any part of any thereof, or on other revenues of the Government from whatever source derived :

Now, THEREFORE, this Agreement witnesseth ;

ARTICLE I.

Bonds to be issued.

The Government covenants with the Corporation that it will cause to be sanctioned, created and issued its " External Forty Year Sinking Fund Seven Per Cent. Gold Bonds " (hereinafter referred to as the " Bonds ") in the aggregate principal amount of five million dollars (\$5,000,000), gold coin of the United States of America, to be dated as of January first, 1926, to mature on January first, 1966, to bear interest from the date thereof at the rate of seven per cent (7%) per annum, payable semi-annually on July first and January first in each year, to be executed by the Secretary of the Treasury of the Government, or by such other officer of the Government as may be designated in writing to the Fiscal Agent by the President of the Government, to be imprinted with the seal of the Government or a facsimile thereof, and to have interest coupons attached, executed with the facsimile signature of its Secretary of the Treasury, and to be authenticated by the signature of the Fiscal Agent thereon indorsed, which Bonds, interest coupons and Fiscal Agent's Certificate are to be substantially in the forms hereto attached, marked Exhibit " A ". Only such Bonds as shall be so authenticated shall be valid or obligatory for any purpose, and such authentication upon any outstanding Bond shall be conclusive evidence and the only competent evidence that such Bond is one of the Bonds of this loan. The Bonds shall be issued in the denomination of \$500 or \$1,000, as the Corporation may designate, and shall be registerable as to principal, but not as to interest.

The Government hereby appoints the National City Bank of New York as Fiscal Agent of the Government, with the duties and powers hereinafter set forth. The Fiscal Agent shall maintain at its Head Office in the Borough of Manhattan, City and State of New York, United States of America, a book or books in which shall be kept a record of Bonds registered as to principal, and it may establish such regulations with reference to the registration of Bonds as it may deem necessary or advisable ; the cost of such registration to be paid, as and when stated to it, by the Government.

ARTICLE II.

Payment. Fiscal Agent and Bonds.

The Government covenants that both principal and interest of the Bonds will be paid promptly as they respectively become due, and that any and all sums and expenses in connection with the service of the issue will be paid in conformity with Article V hereof, and that payments shall be made in the Borough of Manhattan, City and State of New York, United States of America, at the head office of the Fiscal Agent, in gold coin of the United States of America of or equal to the present standard of weight and fineness and shall be paid, without deduction for or on account of any taxes, assessments or other governmental charges or duties now or hereafter levied or to be levied by or under the authority of the Government or any taxing authority thereof.

ARTICLE III.

The Fiscal Agent shall be entitled to treat the person in whose name any Bond shall at the time be registered as to principal as the owner thereof for the purpose of receiving payment of such principal, and payment of or on account of the principal of any Bond which shall at the time be registered as to principal shall be made only to or upon the order of such registered owner. The bearer of any Bond which shall not at the time be registered as to principal, and the bearer of any interest coupon pertaining to any Bond (whether such Bond shall be registered as to principal or not) shall be deemed to be the absolute owner thereof for any and all purposes, and neither the Government nor the Fiscal Agent shall be affected by any notice to the contrary.

ARTICLE IV.

Bonds lost or destroyed.

In case any Bond, with interest coupons, shall be mutilated, destroyed or lost, the Government, in its discretion, may issue, and thereupon the Fiscal Agent shall authenticate and deliver, a new Bond of like series, denomination, tenor and date, in exchange and substitution for, and upon the cancellation of, the mutilated Bond and its interest coupons, or in lieu of and in substitution for the Bond and its interest coupons so destroyed or lost, upon receipt, in each case, of indemnity satisfactory to the Government and to the Fiscal Agent, and, in the case of the destruction or loss of any Bond or its interest coupons, upon the receipt, also, of evidence satisfactory to them of such destruction or loss.

ARTICLE V.

Payment of Interest and Sinking Fund.

For the payment of the interest on the outstanding Bonds and the amortisation of the principal thereof at or prior to maturity, the Government will remit or cause to be remitted to the Fiscal Agent in the City of New York, United States of America, semi-annually on May first and November first in each year (so long as any of the Bonds remain outstanding and unpaid and there shall not have been deposited with the Fiscal Agent a sum in cash sufficient to pay, and for the purpose of paying the same), an amount in cash sufficient to pay the interest to become due on all the Bonds then outstanding, on the next subsequent interest payment date ; and, in addition thereto, on or prior to November first, 1930, and on or prior to May first and November first in each year thereafter, such proportion of the sum of \$70,000 as the aggregate principal amount of Bonds theretofore issued shall bear to the total authorised issue of \$5,000,000.

From the sums so remitted from time to time, the Fiscal Agent shall first set aside a sum sufficient to pay the interest on the outstanding Bonds on the next subsequent semi-annual interest date, and, after setting aside such sum, the Fiscal Agent shall apply the remaining sums so received, from time to time, as a Sinking Fund for the retirement of the Bonds, after January 1st, 1931, in the following manner :

The Fiscal Agent shall apply the moneys in the Sinking Fund, as the same accrue and become available thereto, from time to time, to the purchase of Bonds in the open market (including, as well, any stock exchange) if obtainable with reasonable diligence at prices not exceeding 102 per cent of the principal amount thereof, and accrued interest.

Any moneys in the Sinking Fund which shall not have been applied to the purchase of Bonds at least seventy days prior to the first day of October in each year shall be applied on such first day of October to the redemption of Bonds, by lot, at the redemption price of 102 per cent of the principal amount thereof, as follows : the Fiscal Agent shall select by lot an aggregate principal amount of such Bonds equal as nearly as may be to, but not exceeding, the moneys then in the Sinking Fund, and shall thereupon give notice of redemption of the Bonds so selected, by publishing the same at least once a week for four consecutive weeks, in each of two newspapers of general circulation, published in the Borough of Manhattan, City and State of New York, United States of America, the first publication to be at least sixty days prior to the date designated for redemption, and by mailing a copy of such notice to each registered owner of such Bonds at his address appearing upon the bond registry books, on or before the date of the first publication of the notice. Such notice shall call upon the holders of the Bonds mentioned therein to surrender the same, with all unmatured interest coupons attached, at the Head Office of the Fiscal Agent in the City of New York for redemption at the said redemption price on the date designated for such redemption. Notice of such redemption having been given as herein provided, the said Bonds shall, on the date designated in such notice, become due and payable, at the said Head Office of the Fiscal Agent, at the said redemption price, plus accrued interest, anything herein or in the said Bonds contained to the contrary notwithstanding. After such redemption date, the Bonds designated for redemption shall cease to bear interest.

ARTICLE VI.

Bonds to be cancelled.

Any and all Bonds purchased or redeemed pursuant to any of the provisions of this Contract shall forthwith be cancelled by the Fiscal Agent and permanently retired and disposed of at the direction of the Government, and no further Bonds shall be issued in lieu thereof.

ARTICLE VII.

Bonds to be Lien on the Revenues.

The Government agrees that it will forthwith undertake negotiations with the present holders of the external and internal debt of the Republic for the adjustment of such debt and for the settlement of such claims as may be approved by the Financial Adviser hereinafter referred to, and that the Bonds herein provided to be issued by the Government and hereinafter termed " The Loan " shall be charged as a first lien,

On all customs duties of the Republic receivable on and after the date of the execution and delivery of this Agreement by the Government, whether in respect of imports or exports, and

On all the revenues received on and after said date from head monies, and

The Government further agrees that, in the event that the above revenues should prove insufficient for the service of the loan, the Government shall first allocate from its other revenues such sums as shall be sufficient to make up the deficiency.

Import and export duties of every kind and character whatsoever, head monies and all other taxes, imposts and revenues of the Republic shall be collected through the Customs,

postal and internal revenue administration, to be maintained by the Government under the supervision and direction of the Financial Adviser and certain assistants appointed as hereinafter stipulated who shall co-operate with the Treasury, Postal and Interior Department officials in the manner hereinafter prescribed. The Government obligates itself to appoint from time to time during the entire life of the loan the fiscal officers required by the terms of this agreement, who, during the life of this agreement, shall supervise and direct the collection of the revenues of the Republic from whatsoever source they may arise, and the application of the assigned revenues thereof to the service of the loan, which shall be administered in accordance with the terms of this agreement under rules and regulations to be made and to become effective for the purpose of carrying out the terms and provisions hereof.

ARTICLE VIII.

Appointment of Financial Adviser.

As an additional guarantee of the prompt payment of the loan and to ensure the efficient organisation and functioning of the Liberian fiscal services, the Government covenants and agrees to appoint to its service said Financial Adviser, who shall be designated by the President of the United States of America to the President of the Republic of Liberia and, subject to his approval, appointed to the said office. The said Financial Adviser shall at all times be subject to removal by the President of the Republic of Liberia, upon the request of the President of the United States.

ARTICLE IX.

Customs and Internal Revenue Administration.

The organisation of the Customs and internal revenue administration of the Republic shall be supervised by the following officers, who shall be nominated by the Financial Adviser to the President of the Republic of Liberia (the Financial Adviser having first reported the names of the officers nominated to the Secretary of State of the United States), and shall be by the President of the Republic of Liberia appointed and commissioned to the respective offices with duties as defined in this Instrument. These officers shall hold their appointment during good behaviour but shall be subject to removal by the President of Liberia, for cause, or upon the withdrawal by the Financial Adviser, for sufficient cause stated, of his recommendation of such officer or officers.

The auditor and assistant auditor shall be appointed by agreement between the Government and the Fiscal Agent, and the Liberian Assistant Auditor shall be appointed by the President of the Republic of Liberia, to serve during his pleasure.

The officers to be so designated shall be qualified as to education and as to previous experience in similar or analogous positions in foreign service; and the President of the Republic of Liberia, before commissioning them for service hereunder, shall have the right to require satisfactory proof of such qualifications, with the exception only of the Financial Adviser :

1. A Financial Adviser, who shall be designated and appointed as hereinbefore stated, at a salary of \$12,500 per annum ;
2. An official, who shall be designated Supervisor of Customs ;
3. An official, who shall be designated Supervisor of Internal Revenue ;
4. A bonded Auditor appointed by agreement between the President of the Republic of Liberia and the Fiscal Agent ;
5. A bonded Assistant Auditor, appointed by agreement between the President of the Republic of Liberia and the Fiscal Agent ;
6. A bonded Assistant Auditor who shall be appointed by the President of the Republic of Liberia.

The officers above mentioned shall perform such duties and employ such persons as may be defined by law or prescribed by the Government, with or upon the advice of the Financial Adviser, as provided in Article XII. Said officers in the performance of their duties as above shall be responsible to the Financial Adviser. The salaries of said officers, with the exception of the Financial Adviser, shall be fixed from time to time by agreement between the Financial Adviser and the Government, but the total aggregate salaries of said officers, excepting only the Financial Adviser, shall not exceed the total aggregate sum of thirty-two thousand dollars (\$32,000) ; *provided, however*, that, in the event of substantial changes in money values, the salary of the Financial Adviser and the above aggregate total amount for salaries of other officers may be from time to time increased or diminished by agreement between the Government and the Fiscal Agent.

In the absence or during disability of the bonded Auditor, the bonded Assistant Auditor appointed by agreement between the President of the Republic of Liberia and the Fiscal Agent shall act in his place and stead, and he shall be assisted by the bonded Assistant Auditor appointed solely by the President of Liberia. The salary of the bonded Assistant Auditor appointed solely by the President of Liberia is not incorporated herein, but is to be determined by the Budget appropriation as made from time to time.

Such salaries paid to the Financial Adviser and the fiscal officers to be appointed as above stated shall include all allowances of any kind or character whatsoever ; *provided, however,* that said officials shall, in addition to such salaries, be furnished suitable quarters by the Government ; should the quarters furnished not be desired, commutation in lieu thereof will be given for the actual expense of quarters not to exceed the sum of eight hundred dollars (\$800) annually ; shall be furnished suitable medical care and attendance ; shall be reimbursed for their actual travelling expenses incurred by them on official duty ; and shall receive travelling expenses from the point of departure in the United States at time of appointment or employment, to their post in Liberia and return to the United States on termination thereof ; and not more often than once in two years, shall receive their actual travelling expenses by ordinary route to the United States and return.

The Financial Adviser and the officers appointed by virtue of the provisions of this agreement shall be entitled to receive reasonable leaves of absence, cumulative over not more than two years, at full pay.

ARTICLE X.

Purchase and Sale of Bonds.

1. The Corporation agrees to purchase from the Government and the Government agrees to sell, at the rate of \$900 per bond of \$1,000, together with interest accrued thereon from time to time, pursuant to the terms and provisions hereof, and in the manner hereinafter stated, such an amount of said Bonds as will provide funds to be used by the Government for the purpose stated in the preambles hereof, not to exceed, however, the total aggregate amount of \$2,500,000 face value of said bonds.

2. Said Bonds shall be certified to by the Fiscal Agent for the purposes of identification, and from time to time delivered to the Corporation, or its nominee, as against payment therefor at the rate above stated, to be credited by the Fiscal Agent, out of moneys provided for that purpose by the Corporation, to the account of the Liberian Government in the City of New York. Said Bonds shall be so certified and delivered from time to time by the Fiscal Agent, at the request of the Secretary of the Treasury of the Government, with the written consent and approval of the Financial Adviser but not otherwise, and payment for said Bonds shall not be called for in excess of the following schedule, to wit ;

3. During the calendar year 1927, not to exceed the total aggregate amount of \$1,500,000 face value of said Bonds ;

4. During the calendar year 1928, not to exceed the aggregate face amount of \$500,000 of said Bonds ;

5. During the calendar year 1929, not to exceed the aggregate face amount of \$500,000 of said Bonds.

If the Government shall fail to call for the full amount of said bonds provided for any one year the uncalled balance thereof shall not be cumulative except with the Corporation's consent.

It is understood by the parties hereto that the Government may offer for sale, in such amount as it may decide, the Bonds covering the remaining \$2,500,000 authorised under this Agreement, when the total annual amount of the assigned Customs duties and head monies has exceeded the sum of \$800,000 for two consecutive years. Such additional bonds shall only be sold in the American financial market and to or through the Finance Corporation of America or other American financial concern, bank or bankers, doing business in the United States of America, and the Finance Corporation of America shall be given the first opportunity to purchase such bonds.

ARTICLE XI.

Application of Proceeds.

1. The Government hereby authorises the redemption of all of its Bonds now issued and outstanding, commonly called the 5 % Sinking Fund Gold Loan due July 1, 1952, under the agreement for Refunding Loan dated March 7, 1912, between the Republic of Liberia of the first part and Messrs. J. P. Morgan & Co., *et al.*, of the second part. The redemption of said Bonds shall be promptly carried out by the Fiscal Agent for the account of the Government in such manner as it may deem to be to the best interests of the Government, pursuant to the terms and provisions of the indenture of March 7, 1912. For this purpose the Fiscal Agent shall use the first proceeds which it may receive from the sale of bonds as hereinbefore provided.

2. The Government further authorises the payment of all costs and expenses incident to the preparation of this Agreement, and the preparation and execution of said Bonds, including fees of the Corporation's counsel, which the Fiscal Agent is hereby authorised and directed to pay from the first proceeds of said Bonds, as aforesaid.

3. The remaining proceeds of said Bonds purchased by the Corporation shall be from time to time paid out by the Fiscal Agent for the account of the Government for the following purposes, in the following order of priority, to wit :

4. Thirty-five thousand dollars, or such less amount as shall be sufficient to enable the Government to repay the advances heretofore made to it by the Secretary of the Treasury of the United States under the Act of September 24, 1917, known as " Second Liberty Loan Act " as amended and supplemented, and the interest thereon ;

5. Such amount as shall be certified by the Financial Adviser as being sufficient to enable the Government to pay its internal funded debt, and the interest thereon ;

6. Such amount as shall be certified by the Financial Adviser as being sufficient to enable the Government to pay its internal floating debt ;

7. Improvements and developments as set out in the preamble on page 1, sub-paragraphs (a), (b), (c), (d), (e) and (f).

Such payments shall be made from time to time by the Fiscal Agent from funds available in its hands therefor to the credit of the Government, upon the request of the Secretary of the Treasury of the Republic of Liberia, certified and approved in manner and form satisfactory to the Fiscal Agent by the Financial Adviser.

ARTICLE XII.

General Covenants of the Government.

1. The Government agrees that the Secretary of the Treasury, Secretary of the Interior, Secretary of War, Postmaster-General, and other officials shall co-operate with the Financial Adviser to bring order and system into the finances of the Government, and to that end the Financial Adviser shall devise for the Republic of Liberia and for any local governmental authority therein such methods of accounting, rules and regulations for the collection, and administration of the public revenues and receipts as may be necessary to assure the collection of such revenues and the enforcement of the laws, rules and regulations pertaining thereto ; and such administrative orders or regulations having been approved by the President of Liberia (such approval, however, shall not be withheld provided said rules and regulations as provided for in this article are not contrary to law and apply to the collection and administration of the public revenues and receipts) shall be issued at the request of the Financial Adviser by the department head for whose department or under whose jurisdiction any such regulations, rule or order applies. The Government shall fix penalties not inconsistent with the constitution and laws of Liberia for the violation of such administrative order, rules and regulations as may be issued as above.

2. Only the Financial Adviser as such is authorised to communicate directly with any official or branch of the Government, but by agreement between the Government and the Financial Adviser, any official appointed under this Agreement may be authorised to correspond directly with any official of the Government with whom he may have business.

3. For the further security of the revenues and receipts, the Government shall maintain the Liberian frontier force, and shall further maintain patrol service by sea as may be necessary from time to time. The patrol service by sea shall be administered by the Treasury Department Customs Service. The frontier force shall be administered by the War Department and the strength of the force shall be fixed by agreement between the President of Liberia and the Financial Adviser, and it shall not be increased or reduced in number without the agreement of the Financial Adviser, except temporarily in case of emergency declared to be such by the Government. Two duly qualified and experienced officers shall be recommended by the President of the United States to the President of Liberia, and, if approved by the President of Liberia, shall be appointed by him to the said Frontier Force. These officers shall be one Major and one Captain. The total aggregate salaries of said officers shall not exceed the sum of eight thousand dollars (\$8,000) per annum ; provided, however, that such sum may be at any time increased or diminished by agreement between the Government and the Fiscal Agent. Such salaries shall include all allowances, except medical care and attendance, travel on duty, and quarters, which shall be furnished by the Government. Such officers shall serve in the frontier service during the term of said Bonds. Among their duties shall be to prepare a plan of re-organisation of the force, which shall be based on the idea of creating an efficient constabulary organisation for the purposes aforesaid and which plan shall include the qualification and disciplining of all commissioned and non-commissioned officers and the training of the men in accordance with the best practice now obtaining in similar organisations.

4. The funds for the maintenance of the frontier force shall be administered by the Treasury Department under the same plan and system as for other sections of the Government.

5. The assigned revenues and receipts shall, during the term of said Bonds, be payable only in gold, of the present standard of weight and fineness of gold coin of the United States of America, or its equivalent, and the rates and the amounts thereof shall not be decreased without the approval of the Fiscal Agent, but may be increased by the Government so as to meet the expenses of the service of the loan, and the expenses of the administration of the Government. The Comptroller of the Treasury, together with the Auditor, shall prepare for the Secretary of the Treasury, the Fiscal Agent and the Financial Adviser, quarterly and annually reports of the financial administration and of the collection and application of all revenues and receipts. Such reports shall contain the detail of all financial transactions of the Government.

6. The Government covenants to install and maintain the pre-audit system, whereby all accounts of the Government before payment shall be duly presented to the Auditor and shall be audited. The Auditor, upon the submission of any account for his check and after examination of the appropriation to which it is chargeable to ascertain that the same has not been over expended and that the account is correct, properly verified and payable, shall indicate his approval by appropriate signature and shall approve the transfer from the general deposit account in the designated depository to the disbursement account in the designated depository of a sum sufficient to meet the Secretary of the Treasury's check for the particular account and payee specified. The auditor shall only refuse his approval of an order of transfer in case of :

- (a) Non-appropriation ;
- (b) Over expenditure of appropriation ;
- (c) Incorrectness of account to be paid ;
- (d) Lack of approval by proper official or officials.

No payments shall be made except under warrant of the President in accordance with the budget or appropriation law, and all payments shall be made by cheque on the disbursement account to be opened and maintained in the designated depository of the general Government. Payments to troops or other payments which must be made in cash shall be by cheque to a bonded paymaster, who shall make the detail of disbursements in accordance with the audit rules and regulations which are to be prepared and enforced in accordance with the provisions hereinbefore stated.

7. The proceedings of the Legislature of Liberia relating to financial matters shall be reported stenographically daily by the Government, and typewritten copies of such proceedings shall be furnished to the President of the Republic, the Heads of Department, and the Financial Adviser.

8. The Government shall annually enact a budget, which shall set up in detail the estimates of revenues and receipts for the fiscal year and shall duly appropriate and provide in the said budget for the costs and expenses of collection of the revenues and receipts, and the expenses of the various departments of the Government, including the salaries and expenses of the Financial Adviser and his staff, as herein provided, the service of the loan, general administrative expenses, public works and improvements and all other amounts which under this Agreement or otherwise the Government is by existing laws or understandings, contracts or engagements, required or obligated to pay ; and this shall be done in the following way: At least thirty days before the opening of each regular session of the Legislature of Liberia the Secretary of the Treasury shall prepare an itemised budget for the ensuing year, which shall contain statements in detail of the probable revenues and receipts of the Government for the ensuing fiscal year from all sources, and of all proposed expenditures chargeable in any manner against such revenues and receipts. This proposed budget shall be prepared in consultation with the Financial Adviser, whose duty it shall be to assure that the amounts proposed to be appropriated for expenditure shall not exceed the resources of the Government, as shown by careful examination and comparison of the revenue estimates, and who shall further examine the proposed budget to ascertain that all expenditures which are provided to be made by virtue of any of the provisions of this Agreement shall have been properly included in the proposed statement of expenditures. The Financial Adviser may only refuse to approve the budget when and if the disbursements which should be included therein as provided in this agreement or by obligation of law have not been properly included, or when and if the budget submitted by the Secretary of the Treasury exceeds the estimates of the revenues. In the event of the failure of the Financial Adviser to approve the budget as prepared by the Secretary of the Treasury of Liberia, for any of the reasons above stated and defined, the budget of the previous year shall be operative in so far as it applies to the ordinary operating expenses of the Government and the expenditures provided to be made by virtue of any of the provisions of this Agreement, for the ensuing fiscal year only. Within 10 days after the enactment of the budget, the Secretary of the Treasury of Liberia shall deliver to the Financial Adviser a copy thereof as enacted and a statement of all appropriations, regular and special, which shall have been made. All accounts of the Government shall be subject to examination and verification by the Financial Adviser at all reasonable times.

9. All revenues and receipts of the Government shall be deposited in a bank designated jointly by the Fiscal Agent and the Government as the official depository. All deposits made with said depository and all payments made therefrom shall be in accordance with the provisions hereof.

ARTICLE XIII.

Application of Assigned Revenues and Receipts.

The assigned revenues and receipts shall be applied by the Government as follows :

1. To the payment, as they arise, of all costs and expenses of collection, application and administration of the revenues and receipts, including the salaries of the Financial Advise

and the officers appointed hereunder and the salaries of the employees of the revenue service, both Customs and internal, the cost and expenses of maintaining the frontier force and any other legitimate expenses or obligations incurred under this Agreement and all amounts incident to the service of the loan, except as to payments on account of principal and interest for which provision is hereinafter made.

2. Thereafter to the payment to the Fiscal Agent on the dates hereinbefore stated of an amount equal to the interest to be due and payable on the next semi-annual interest date hereinbefore stated.

3. Thereafter to sinking fund payments provided for in Article V hereof.

4. Thereafter to the payment of such sums from the residue as may be necessary to enable the Government to pay such other current administrative expenses of the Government as may be approved for payment in accordance with the provisions of Articles XII and XVIII.

5. The remainder thereof shall be applied so far as may be necessary to the payment of any other amounts which the Government may, with the approval of the Financial Adviser, be required to pay.

6. The sums that may remain after the payments provided in the first five clauses of this article have been made shall be applied as follows :

Such sums shall be credited by the depository to an account hereinafter referred to as the reserve account. Moneys in the reserve account shall be applied, in so far as possible, only for the improvement of public education in Liberia and for public works, except that in emergency, declared to be such by the Government, the same may be applied to some purpose not covered by the ordinary budget. Moneys shall be transferred for expenditure from the reserve account by agreement of the Secretary of the Treasury and the Financial Adviser. In case of a disagreement between the Secretary of the Treasury and the Financial Adviser, the question of such transfer shall be referred to the President of Liberia and his decision thereon shall be final. Whenever and for so long a period as the assigned revenues and receipts shall be insufficient to meet the payments required to be made by clauses 1, 2, 3, 4 and 5 of this article, the depository shall cease paying out the moneys from the reserve account and such funds shall be applied by the Government to meet the payments provided in clauses 1, 2, 3, 4 and 5 of this article.

7. At the end of each fiscal year, all unexpended balances of the budget or appropriations shall be reported, together with notation of any commitments or reservations or amounts outstanding in suspense against the same, and the budget for the following year shall take into consideration any outstanding commitments or unadjusted balances, but no sums shall be expended after the close of the fiscal year against the preceding year's budget, the purpose being that all expenses for each year shall be budgeted annually.

8. The Government shall make no expenditures, except as hereinbefore provided and for the purposes and in the manner hereinbefore provided, and shall not incur any liability or obligation to make expenditures otherwise. All salaries and expenses incident to the collection, application and administration of the assigned revenues and receipts and maintenance of the frontier force shall be disbursed in accordance with the provisions of this Agreement.

9. The Government and the Financial Adviser, or such person as he may designate, and the Auditor shall have the right at any time and from time to time to examine and audit the books and accounts of the depository in connection with its acts as depository. Monthly or quarterly statements of such accounts shall be rendered by the depository to the Financial Adviser and to the Fiscal Agent. A copy of said monthly or quarterly statements shall be furnished by the depository to the Secretary of the Treasury of Liberia.

Agencies of Depository to be opened.

10. Agencies or branches of the depository shall be opened or established at such places in the interior or on the coast of Liberia as the Government, upon the advice of the Financial Adviser, may decide are necessary for the protection of the revenues and receipts, and for their convenient application and administration.

ARTICLE XIV.

No Trust created.

None of the provisions of the present Agreement shall be deemed or construed to create any trust or obligation in favour of any holder of any of the outstanding obligations of indebtedness of Liberia or in favour of any owner of any coupons or claim for interest on, or in respect of any thereof, or in favour of any holder of any claims against Liberia. Any and all claims against the Government which may not be discharged under the provisions of the present Agreement shall be submitted to a claims commission, composed of the Secretary of the Treasury of Liberia, the Auditor and the Financial Adviser. This claims commission shall have power to determine the validity of any and all such claims, and its decision shall be final.

ARTICLE XV.

No Debt to be created.

Until the Government has repaid the whole amount of the loan and all expenses incident to the services thereof, no floating debt shall be created and no loan for any purpose shall be made except with the written approval of the Financial Adviser provided that this is not to be understood as restricting the Secretary of the Treasury from arranging temporary banking credit for carrying out a budget approved as herein provided ;

And provided further that the Government may negotiate with responsible bankers for a refunding loan at any time after 20 years from date of each issue of bonds, but before such refunding loan shall be accepted, the Finance Corporation of America shall have the option of taking the new loan on the same terms and conditions as such bankers may offer.

ARTICLE XVI.

Agreement of 1912.

1. The Government of Liberia hereby agrees that the fiscal agency created by the agreement of March 7th, 1912, shall lapse with the payment of the Bonds secured thereby, and shall be in all respects superseded by the provisions of this Agreement.

2. The three separate agreements heretofore entered into by the Government with the Firestone Plantations Company, a Delaware corporation, providing for :

- (1) Lease of the Mount Barclay Rubber Plantation,
- (2) Lease of certain lands of the Government for the purposes of planting and growing rubber thereon,
- (3) Improvements to the harbours of the Government,

and respectively containing immunity in respect of the payment of taxes and duties as therein stated, are hereby in all respects ratified, approved and confirmed, and it is understood and agreed between the parties hereto that this agreement is entered into in all respects subject to the provisions of said agreements between the Government and the Firestone Plantations Company, in so far as the same relate to the payment of taxes and duties on the part of it, the said Firestone Plantations Company.

ARTICLE XVII.

Legislation.

The Government shall enact all such legislation as may be required for the complete authorisation and legalisation of the present Agreement and of all action called for by the present Agreement on the part of the Government or necessary or convenient to carry out the terms and provisions thereof.

ARTICLE XVIII.

Depositary.

The Government covenants to designate as the depositary hereunder such bank in the city of Monrovia, in Liberia, as shall be agreeable to the Fiscal Agent, and such designation shall be terminated by the Government upon the request of the Fiscal Agent. Any arrangement which the Government may make with the depositary shall embody the provisions of this Agreement, and such depositary shall undertake to comply herewith. In case the depositary shall cease to act as such by reason of such termination of its designation or otherwise, a new depositary shall be designated in the same manner as above provided. Moneys paid to the depositary for the account of the Government, as provided in this Agreement, shall be held by the depositary and paid out as follows :

Moneys paid to the depositary under the provisions of Article XIII shall be deposited in one or more special deposit accounts, as may be from time to time determined necessary or desirable, and no expenditures shall be made therefrom. Transfer from these accounts of moneys to be disbursed shall be on order of transfer requested by the Secretary of the Treasury and approved by the Auditor, in accordance with the provisions of Article XII, paragraph 6, and countersigned by the Financial Adviser, and such transfer shall be made only to a disbursement account to be opened and maintained by the designated depositary, on which disbursement account cheques may be drawn for expenditure, as hereinafter provided.

Moneys paid to the depositary hereunder, whether remitted by the Fiscal Agent or deposited by the Treasury Department or any other officer or agency of the Government, shall be deposited in one or more deposit accounts to be opened and maintained by the depositary, and shall be transferred for disbursement to one or more disbursement accounts to be likewise opened and maintained by the depositary and shall not otherwise be expended or transferred. Such transfers from deposit account to disbursement account shall be made only as provided in the foregoing paragraph.

Moneys in the disbursement account or accounts which are to be disbursed in accordance with the provisions of this Agreement shall be disbursed in the following manner — viz. :

(a) No sum shall be disbursed in amounts greater than those provided by the budget, but

(b) Unexpended credit to any account provided for in the budget may be transferred to any other account of the budget by agreement of the Secretary of the Treasury and the Financial Adviser, who shall certify such decision to the Comptroller for appropriate notation in the appropriation ledger. In case of a disagreement between the Secretary of the Treasury and the Financial Adviser, the question shall be referred to the President and his decision thereon shall be final.

(c) Should it be deemed necessary and desirable, moneys available by reason of accumulated credits as provided for in Article XIII, paragraph 6, may be used, and an extraordinary or supplemental budget may be prepared for their disbursement, by and with the joint approval of the Secretary of the Treasury and the Financial Adviser and authorised by the executive power. Such moneys shall be available for disbursement from the disbursement account or one of the disbursement accounts the same as other funds of the Government.

(d) All moneys available for disbursement shall be expended only upon the submission to the auditor of a properly authorised and verified account showing the name or names of the person or persons to whom said moneys are to be paid, and the article of the budget or appropriation law whereby such expenditure is authorised shall appear on the face of the request for payment, together with any other necessary information to enable the Auditor properly to examine and check the warrant for payment. Upon the Auditor duly examining and verifying the balance of the appropriation credit against which said voucher is to be paid, the Auditor shall signify his approval by an order of release from the designated deposit account to the designated disbursement account, of a sum sufficient to meet the cheque or cheques to be made and drawn in payment of said warrant. Thereupon the Secretary of the Treasury shall sign the cheque and the auditor shall countersign to indicate his verification of the article of the appropriation law, the correctness of the charge, and the correctness of the cheque, whereupon said cheque may be paid by the designated depository on presentation by the person to whom the same is drawn or by the specific person to whose order it has been transferred.

(e) No cheques shall be payable to bearer.

The Auditor shall prepare at the end of each month a statement to each departmental head and to the President and Financial Adviser, which shall show the condition of each article and detail of the current appropriations showing the amount appropriated, the amount expended to date, the amount reserved in suspense, if any, and the balance available for disbursement.

ARTICLE XIX.

Fiscal Agent.

The Fiscal Agent accepts its appointment as such, and agrees to perform its obligations under this contract upon the terms and conditions herein set forth, including the following :

(a) If the Fiscal Agent shall at any time be in doubt as to its rights or obligations hereunder or with respect to the rights of any holder of any Bonds, the Fiscal Agent may advise with legal counsel, and anything done or suffered by it in good faith in accordance with the opinion of such counsel shall be conclusive in its favour as against any claim or demand by the Government or any holder of any Bond. If any dispute shall arise between the Fiscal Agent and the Government hereunder, the same shall be settled by arbitration as provided in Article XXV hereof.

(b) The Fiscal Agent shall not be responsible to the Government or to any holder of any Bond for any mistake or error of fact or law or for the exercise in good faith of its discretion or for anything which it may do or cause to be done in good faith in connection therewith, except only for its own wilful default.

(c) The appointment of the Fiscal Agent by the Government is irrevocable, except for good and sufficient cause ; but the Fiscal Agent may resign at any time, by giving notice of resignation to the Government at least four weeks before such resignation takes effect, and by publishing such notice at least once a week for four consecutive weeks in each of two newspapers of general circulation, published in the City of New York, United States of America.

(d) In acting under this contract, the Fiscal Agent is solely the agent of the Government and does not enter into or assume any obligation or relationship of agency or trust for or with any of the holders of any Bond or its interest coupons.

ARTICLE XX.

It is expressly understood, however, that all power and authority temporarily delegated under this agreement to the Financial Adviser or any officer appointed hereunder is granted solely for the purpose of facilitating the carrying out of this Agreement, and upon the discharge

by the Government of the obligations herein assumed all said power and authority so delegated shall automatically revert unimpaired to the Government.

ARTICLE XXI.

Compensation of Fiscal Agent.

The Government shall pay to the Fiscal Agent reasonable compensation for all services rendered hereunder and a sum equivalent to one-quarter of one per cent of the face amount of all interest coupons, as paid, and to one-eighth of one per cent of the principal amount of all Bonds, as retired, whether paid at maturity or purchased or redeemed prior to maturity, as hereinbefore provided. Payment of such compensation shall be made to the Fiscal Agent in gold coin of the United States of America, in the City of New York, upon statements rendered semi-annually by the Fiscal Agent to the Government, as hereinafter provided. The Fiscal Agent shall allow and pay to the Government on moneys other than deposits for the payment of coupons or the redemption of Bonds, remaining on deposit with the Fiscal Agent for thirty days, or more, interest at the rate of two per cent per annum. The Fiscal Agent may treat all such moneys as time deposits. The Fiscal Agent shall not be answerable for the default or misconduct of any agent or attorney appointed by it in pursuance hereof if such agent or attorney shall have been selected with reasonable care, in which case the Fiscal Agent shall be reimbursed and indemnified by the Government against any liability or damage which it may sustain or incur in the premises, and the Fiscal Agent shall have a lien upon any moneys deposited in the Sinking Fund preferential to that of the Bonds, for any such liability or damage.

ARTICLE XXII.

Reports of Fiscal Agent.

The Fiscal Agent shall render to the Secretary of the Treasury of Liberia in each year semi-annual statements of account covering the semi-annual periods ending December 1 and June 1 in each year of all receipts and payments and expenses made or incurred by it during the respective periods, provided that the first statement shall be rendered for the period commencing with the date of this Contract and ending June 1, 1927. Unless objection to any such statement of account shall be made by the said Secretary of the Treasury to the Fiscal Agent within two months after the receipt of such statement of account by him particularly specifying the ground or grounds of such objection or objections, the statement of account shall be deemed to be correct and conclusive between the Government and the Fiscal Agent. The Government shall promptly pay or cause to be paid, as part of the service of the Bonds, the expenses of the Fiscal Agent as shown in such statement. The expenses of such service may include, among other things, expenses of printing and advertising, cost of exchange and remittance of funds, brokerage charges, postage, cable, telegraph and telephone charges, charges of legal counsel and other usual expenditures.

ARTICLE XXIII.

General Covenants.

Nothing in this Contract expressed or implied is intended, or shall be construed, to give any person, other than the parties hereto, any right, remedy or claim or by reason of this Contract or any covenant, stipulation or condition herein contained.

ARTICLE XXIV.

Notices to the Government in connection with this Contract, or the performance of any of the terms hereof, may be given by written communication, or by cable, addressed to the Secretary of the Treasury of the Republic of Liberia at Monrovia. Notices from the Government to the Fiscal Agent in connection with this Contract may be given by written communication, or by cable, addressed to The National City Bank of New York, at No. 55, Wall Street, New York City, United States of America.

ARTICLE XXV.

In case of dispute between the Government and either of the other parties to this Contract, the matter shall be referred for determination to arbitrators, one of whom shall be appointed by each of the parties to dispute; and, if such arbitrators shall be unable to agree among themselves, the Secretary of State of the United States of America shall be requested to appoint an additional arbitrator, who shall be of different nationality from the other two arbitrators. The decision of a majority of the arbitrators so appointed shall be binding and conclusive upon the parties to the dispute.

ARTICLE XXVI.

The Bonds may, at the option of the corporation, be engraved in such form as to be eligible for listing on the New York Stock Exchange, and the Government agrees in such case to

furnish such information as may be required in connection with any application to list such Bonds on the said Stock Exchange. The Government will pay, as a part of the expenses in connection with the service of the Bonds, the cost of such listing.

ARTICLE XXVII.

The obligations of the Corporation under this Contract are expressly conditioned upon the due ratification and sanction of this Contract by the Legislature of the Republic of Liberia, and upon approval by counsel for the Corporation of the legality of the loan and the form and legality of the Bonds, including all proceedings in connection with the authorisation, sanction and issue of the loan and the said Bonds; and the Government agrees to furnish to the Corporation prior to the delivery of any Bonds, all such documents, instruments, assurances and proof of legality as counsel for the Corporation and the Corporation may require. If the Legislature shall fail to ratify and sanction this Contract, or if the Government shall fail to deliver to the Corporation a temporary Bond within sixty (60) days after such ratification, or if counsel for the Corporation shall be unable to give their approval as above provided in this Article XXVII, then the Corporation and the Fiscal Agent shall be, respectively, relieved and discharged from any and all obligations or duties under this Contract, and the Government shall pay to the Corporation and the Fiscal Agent, respectively, all expenses which they shall have paid or incurred respectively in connection herewith.

ARTICLE XXVIII.

This Agreement shall come into force and effect when approved by the Legislature of the Republic of Liberia, and duly executed in behalf of the Government by the officer or officers thereunto duly authorised.

*The Government of the Republic
of Liberia,*

By .

*Secretary of the Treasury
of the Republic of Liberia.*

Attest :

*Financial Adviser, R. L.
Finance Corporation of America,*

By

President.

Attest :

Secretary.

*The National City Bank of New York,
Fiscal Agent.*

By

Attest :

Assistant Cashier.

Exhibit A.

(Form of Bond.)

No.

\$

REPUBLIC OF LIBERIA.

EXTERNAL FORTY YEAR SECURED SINKING FUND SEVEN PER CENT GOLD BOND

FOR VALUE RECEIVED, the Republic of Liberia (hereinafter referred to as the " Republic ") promises to pay to Bearer, or, if the ownership of this Bond be registered, to the registered owner hereof on the first day of January, 1966, the principal sum of dollars, and to pay interest thereon from the date hereof at the rate of seven per cent per annum semi-annually on July 1 and January 1 in each year, until such principal sum is paid ; but any such interest falling due at or before the maturity of this Bond shall be paid only upon the presentation and surrender of the attached interest coupons as they severally mature.

Both principal and interest of this Bond are payable at the Head Office of the Fiscal Agent, The National City Bank of New York, in the Borough of Manhattan, City and State of New York, United States of America, in gold coin of the United States of America, of or equal to the present standard of weight and fineness, without deduction for or on account of any taxes, assessments or other governmental charges or duties now or hereafter levied or to be levied by or under the authority of the Republic or any taxing authority thereof.

This Bond is one of a duly authorised issue of \$5,000,000 aggregate principal amount, of Bonds of the Republic of Liberia, designated as its " External Forty Year Secured Sinking Fund Seven Per Cent Gold Bonds " all of like date and maturity and similar tenor, except as to denomination. The terms of issue of the said Bonds are set forth in a certain Loan Agreement, dated as of September 1, 1926, of which a copy is on file with the Fiscal Agent hereinafter mentioned, to which contract reference is made for the terms thereof.

The due and punctual payment of the principal and interest of this Bond and of all sums required by the said contract to be paid on account of the Sinking Fund are secured and guaranteed by the first charge upon all the Customs duties and head monies receivable on and after the date of the execution and delivery of said Loan Agreement subject only to a prior charge thereon for expenses of administration, and, further, the Government agrees that, in the event that the above revenues should prove insufficient for the service of the Loan, the Government shall first allocate from its other revenues such sum as shall be sufficient to make up the deficiency.

This Bond may be redeemed at 102 per cent of the principal hereof through the operation of the Sinking Fund provided for in said Loan Agreement, on any semi-annual interest date prior to maturity, upon at least sixty days' prior notice, published in two daily newspapers of general circulation, in the Borough of Manhattan, City and State of New York.

The Government of the Republic of Liberia hereby certifies and declares that all acts, conditions and things required to be done and performed and to have happened precedent to and in the issuance of this Bond have been done and performed and have happened in strict compliance with the constitution and laws of the Republic.

This Bond shall be transferable by delivery unless registered in the owner's name at the Head Office of the Fiscal Agent, such registration being noted hereon. After such registration, no further transfer hereof shall be valid unless made at said office by the registered owner in person or by duly authorised attorney and similarly noted hereon ; but this Bond may be discharged from registration by being in like manner transferred to bearer and thereupon transferability by delivery shall be restored. This Bond shall continue to be subject to successive registrations and transfers to bearer, at the option of the holder or registered owner, but no registration shall affect the negotiability of the attached interest coupons, which shall continue to be payable to bearer and transferable by delivery merely.

Bonds of this issue, of the denomination of \$500, are exchangeable, at the option of the respective holders thereof, for a like aggregate principal amount of Bonds of this issue, of the denomination of \$1,000, in the manner and upon payment of the charges provided in the said contract.

This Bond shall not be valid or obligatory for any purpose until authenticated by the execution by the Fiscal Agent of the certificate indorsed hereon.

IN WITNESS WHEREOF, the Republic of Liberia has caused this Bond to be executed on its behalf by its, and impressed with a facsimile of its seal of State, attested by, and the attached interest coupons to be executed with the facsimile signature of its Secretary of the Treasury, as of the first day of January, 1926.

(Form of Interest Coupon.)

No.

\$

On the first day of, 19....., unless the Bond herein mentioned shall have been called for previous redemption, the Republic of Liberia will pay to Bearer, at the Head Office of The National City Bank of New York, in the Borough of Manhattan, City and State of New York, dollars, in United States Gold coin, being six months' interest then due on its External Forty Year Secured Sinking Fund Seven Per Cent Gold Bond, No.....

(Form of Fiscal Agent's Certificate.)

This is one of the Bonds described in the within mentioned Loan Agreement.

The National City Bank of New York,
as Fiscal Agent,

By

Appendix VIII.

MEMORANDUM OF AGREEMENT MADE AND ENTERED INTO AT THE CITY OF MONROVIA THIS 2ND DAY OF OCTOBER IN THE YEAR OF OUR LORD NINETEEN HUNDRED AND TWENTY-SIX BY AND BETWEEN THE GOVERNMENT OF THE REPUBLIC OF LIBERIA HEREINAFTER STYLED THE GOVERNMENT, AND FIRESTONE PLANTATIONS COMPANY, A CORPORATION ORGANISED AND EXISTING UNDER AND BY VIRTUE OF THE LAWS OF THE STATE OF DELAWARE, WITH PRINCIPAL OFFICE IN THE CITY OF AKRON, STATE OF OHIO, UNITED STATES OF AMERICA, HEREINAFTER STYLED THE LESSEE WITNESSETH :

ARTICLE I.

That the Government hath agreed and by these presents doth agree to grant, demise and to farmlet unto the Lessee for the period of Ninety-nine years from this date an area of land within the boundaries of the Republic of Liberia of one million acres or any lesser area that may be selected by the Lessee from time to time within said period of Ninety-nine years ; such land to be suitable for the production of rubber or other agricultural products.

But should the Lessee fail :

(a) To notify the Government of its acceptance of the conditions herein contained and stipulated within six months after the execution of this Agreement by the Government of Liberia ;

(b) Or within one year thereafter to commence the selection of lands hereunder ;

Then in such case the obligation of the Government under this Agreement shall be discharged and ended.

ARTICLE II.

The Government further agrees the Lessee shall during the life of this Agreement have and enjoy the following additional rights and exemptions :

(a) All products of Lessee's plantations and all machinery, tools, supplies and buildings established, constructed or placed upon the leased land or elsewhere for the operation and development of the Lessee's land holdings and all leasehold interests, improvements and other property, franchises rights and income shall be free of and exempt from any internal revenue or other tax, charge, or impost except the revenue tax provided for in Article III, Paragraph (d), provided, however, that the exemption herein granted shall not affect the liability of the Lessee for the payment of the Emergency Relief Fund nor for the payment of the tax leviable on vehicles.

It is understood and agreed that this exemption shall not apply to Lessee's employees, labourers or servants.

(b) All machinery, tools and supplies of all kinds purchased and imported by Lessee for the operation and development of the lands held by Lessee under this Agreement and for the welfare of the employees of Lessee's enterprise shall be exempt from all Customs dues or other

import duties. But such import duties, if any, as are now required by the " Agreement for refunding Loan, 1912 ", or any modification thereof, shall be paid by the Lessee until such Agreement shall be so modified as to reduce or abrogate such duties required on such imports by Lessee ; in which event, Lessee shall be required to pay only such import duties as are demanded by such Agreement as modified. It is understood and agreed that the word " welfare " used in this paragraph shall connote only hospital supplies and games and that any articles which may be used by the Lessee in trade or barter or in payment for labour shall not be deemed " supplies " within the meaning of this section.

(c) Lessee shall have the exclusive right and privilege upon the lands which shall be selected under this Agreement to construct highways, railways and waterways for the efficient operation and development of the properties. It is agreed that all trails across such lands used immemorially by the population shall be subject and open to free use by the public.

(d) Lessee shall have the right to construct and establish at its own expenses lines of communication such as highways, roadways, waterways and railways outside the lands selected under this Agreement. Such routes may be so located by the Lessee as to best serve the purpose of efficient operation of its plantations and enterprises but the Lessee agrees to consult the Government in the matter of such location. All highways and roadways in this paragraph mentioned shall upon completion become public property. But the Government in any event shall not be required to refund to the Lessee any sums of money expended by it in the construction and maintenance of such highways, roadways, waterways or railways.

(e) The Lessee shall have the right to construct and establish lines of communication for the purpose of more efficiently operating its plantations and enterprises such as telegraph lines, telephone lines and wireless stations outside of the confines of the lands selected under this Agreement, subject to the provisions of paragraph (h), Article IV of this Agreement ; and to the extent necessary for such purpose may use, without the payment of rent for such land, any Government lands not already devoted to some other use. The Government in case of war or other emergency shall have the right to use such lines of communication.

(f) The Lessee shall have the right to cut and use all timber upon the lands covered by this Agreement but if it shall engage in the sale of lumber to be removed from such lands for export it shall pay the Government royalty of two (2) cents per cubic foot for the lumber so sold, in gold coin of the United States of the present standard of weight and fineness.

(g) The Lessee shall have the right to engage in any operations other than agricultural upon the lands held under this Agreement and to utilise any product or materials of or upon said lands ; but any mining or other similar operations shall be subject to the laws of the Republic of Liberia unless the parties hereto shall agree upon special terms therefor.

(h) The Government warrants to the Lessee the title to all lands selected by it upon which the Government shall accept the rental or compensation as herein provided and will defend and protect such title for the benefit of the Lessee.

The Government further agrees that it will encourage, support and assist the efforts of the Lessee to secure and maintain an adequate labour supply.

ARTICLE III.

The Lessee in consideration of the Agreements herein by the Government hath agreed and by these presents doth agree as follows :

(a) To notify the Government within a period of six (6) months after the execution of this Agreement by the Government of Liberia of its acceptance or rejection of the conditions and stipulations of this Agreement.

(b) Beginning one year after the acceptance by the Lessee of this Agreement it shall select from year to year land suitable for the production of rubber and other agricultural products in such areas or quantities within the maximum limit of one million acres of land as may be convenient to it and in accordance with the economical and progressive development of its holding and said Lessee shall upon the selection or location of any tract or tracts of land notify the Government of such selection and the boundaries thereof. But the Lessee shall within five years of the final execution of this Agreement select and begin the payment of rent upon a total of not less than twenty thousand acres.

Upon written notice by the Lessee to the Government of Liberia of Lessee's intention to make a selection of land hereunder within a named territory Lessee shall have six (6) months thereafter to select land within such territory and upon the filing by Lessee with the Government within such six (6) months or written notice of the selection of land within such designated territory the title of such selected land shall vest in Lessee for the purpose named in this Agreement.

It is not intended hereby to deny Lessee the right to make selection of lands hereunder without such previous notification of intention to select within six (6) months ; but if such last named notification is filed the same shall have the effect of preventing others from acquiring title within such territory during such six (6) months.

(c) As and when the Lessee takes possession of lands selected by it under this Agreement Lessee shall pay to the Government rental at the rate of six (6) cents per acre yearly and every year in advance in gold coin of the United States of the present standard of weight and fineness. Such payments shall be made to the Secretary of the Treasury of Liberia or to such other Officer as may be by law provided, it being understood and agreed that the rent herein provided to be paid by the Lessee shall be due to be paid by it to the Government upon all areas of land selected by it as and when such areas are selected.

(d) Six (6) years after the acceptance by the Lessee of this Agreement and annually thereafter, the Lessee shall pay to the Government a revenue tax equivalent to one per centum of the value of all rubber and other commercial products of its plantation shipped from Lessee's plantations calculated on the price of such products prevailing in New York market at the time of the arrival of the shipment in New York.

(e) Any taxes which may become payable by virtue of the laws of the Republic by any person or persons carried on the payroll of the Lessee, if the Lessee so desires, shall be collected as follows: — The Lessee may come to an arrangement with the Treasury Department of the Republic of Liberia which shall regulate the method of collection and payment of such taxes. But the Lessee shall in no event be held to collect in any year the tax for a greater number of employees than the average employed during the year.

(f) Should the rent reserves on any piece or parcel of ground selected by the Lessee be behind or unpaid on any day of payment whereon the same ought to be paid as herein provided, or if default should be made in any of the covenants hereinbefore contained on the part of Lessee to be paid, kept and performed, and if such default in the payment of rent or otherwise shall continue after six months' written notice of the existence of such default served by the Government upon the Lessee, then it shall be lawful for the Government to cancel this lease as to that piece or parcel of ground, the rent for which is in default or in respect of which piece or parcel any other default exists as specified in such notice, and to re-enter into and upon the said demised premises and to again re-possess and enjoy the same. But if the Lessee shall, within said period of six (6) months after written notice as aforesaid, make good the default complained of in said notice, no right of cancellation shall thereafter exist because of such default. The notice required by this paragraph to be served on the Lessee shall be delivered to the representative of the Lessee in the Republic of Liberia and a duplicate thereof shall be simultaneously sent by registered mail to the President of the Lessee at its head office in the City of Akron, State of Ohio, United States of America. The Lessee shall promptly notify the Government of any change in the location of its head office and thereafter any such notice shall be addressed accordingly.

ARTICLE IV.

It is further agreed between the parties hereto as follows :

(a) The Lessee will not import unskilled foreign labour for the carrying out of any operations or development undertaken by virtue of this or any other grant except in the event the local labour supply should prove inadequate to the lessee's needs. In the event that the local labour supply should prove inadequate as aforesaid Lessee undertakes to import only such foreign unskilled labour as shall be acceptable to the Government of Liberia. It is understood and agreed that Lessee shall not have in its employ in Liberia more than 1,500 white employees at any one time.

(b) Should the operations of the Lessee under this Agreement cease for a period of three consecutive years then all and singular of the rights of the Lessee hereunder shall become extinguished and void and this Agreement shall become of no effect but such cancellation of this Agreement shall not affect any rights granted by the Government to the Lessee under any other Agreement.

(c) The rights by this Agreement granted to the Lessee shall not be sold, transferred or otherwise assigned by the Lessee to any person, firm, group or trust without the written consent thereto of the Liberian Government previously had and obtained.

(d) The Government reserves the right to construct roads, highways, railroads, telegraph and telephone lines and other lines of communication through any and all plantations owned and operated by Lessee ; but the Government shall pay to Lessee all damage which will be caused to Lessee's property by the construction and operation of such roads or other lines of communication ; such damage to be ascertained in accordance with the General law of the Republic of Liberia.

(e) The Lessee shall have the right to develop for its own use such natural water power and hydroelectric power as may be capable of development upon any of the tracts of land selected by the Lessee under this Agreement and Lessee shall have the right to construct and maintain power lines over any Government lands in order to convey power so developed from one tract of land selected by Lessee to any other tract.

(f) Tribal reserves of lands set aside for the communal use of any tribe within the Republic of Liberia are excluded from the operation of this Agreement. Should any question arise as to the limits and extent of such reserves such question shall be finally determined by the Secretary of Interior of Liberia on a reference by the Lessee.

(g) Lines of communication such as telegraph, telephone lines, railroads and canals constructed and established by Lessee outside the confines of the Lessee's tracts selected hereunder shall during the life of this Agreement be exempted from all taxation so long as they be used only for the purposes of the operations of Lessee upon lands held under this Agreement. In the event that such lines of communication shall be used by Lessee for general commercial purposes to serve others for hire then while so used they shall be subject to taxation under the general laws of Liberia.

(h) It is further agreed that at the expiration of the term of this lease hereinabove provided or of any extension thereof or upon the cancellation of this Agreement at any earlier time such buildings and improvements erected by the Lessee upon the land selected hereunder as shall not have been removed before the expiration or cancellation of the lease shall become the property of the Government of Liberia without charge or condition.

(i) It is further agreed that if hereafter the Government shall grant to any other person, firm or corporation any rights in connection with the production of rubber in Liberia upon more favourable terms and conditions in any respect than those granted in this Agreement such more favourable terms and conditions shall inure to the benefit of the Lessee herein the same as if such more favourable terms and conditions were incorporated herein.

(j) It is further agreed that the Lessee shall use its best efforts to secure either from the Government of the United States or with the approval of the Secretary of State of the United States from some other person or persons a loan of not less than five million dollars to establish a credit for public developments in the Republic of Liberia to the end that the credit may be a revolving credit set up through reserves so as to meet the future requirement of funds for such developments. Such loan shall be upon terms and conditions to be negotiated by a Commission appointed by the President of Liberia who shall proceed promptly to the United States for this purpose. It is understood that such terms and conditions as may be agreed upon shall be subject to the approval of the Legislature of the Republic of Liberia.

(k) Wherever in this Agreement the Government grants to the Lessee the right to build and operate a railroad or to use the highways and waterways, it is understood that the Lessee is not seeking and is not granted public utility or common carrier privileges and that the same are not intended to be conveyed to it.

(l) Wherever in said Agreements the Lessee is granted the right to construct and maintain telephone or telegraph lines or wireless stations it is understood that the rights intended to be conveyed permit the establishment of such lines of means of communication for the private use of the Lessee in the operation of its business and that the Lessee does not seek and is not granted the right to establish and maintain any public services.

(m) During the life of this Agreement the Lessee shall at all times have access to the port and harbour facilities at Monrovia, or in any other district of the Republic where it may be carrying on operations, upon not less favourable terms than is accorded others under existing treaties and the laws of the Republic of Liberia. It shall be privileged to lease available lands in all ports of entry from the Government upon favourable terms.

(n) All or any questions in dispute arising out of this Agreement between the Government and the Lessee which cannot be harmonized or adjusted by the Lessee and the Government shall be referred to the Liberian Supreme Court or any one of the Justices thereof for arbitration on application of either party; and said Court shall make appointment of three arbitrators (one of whom shall be nominated for such purpose to said Court by the President of Liberia, and one of whom shall be nominated for such purpose to said Court by the representative of the Lessee in charge of Lessee's affairs in the Republic of Liberia, the third arbitrator being the Court's selection without nomination) to hear and determine such dispute within five days after application being filed, upon first being satisfied of the service of notice of such application at least five days previous to the filing of the application by (a), by delivery of a copy of the application to the Attorney General of Liberia, or, in his absence, to the officer in charge of his office when said application is made by the Lessee, and (b), by delivery of a copy of the application to the representative of the Lessee in charge of Lessee's affairs in the Republic of Liberia and by mailing a duplicate thereof on the same date by registered mail to the President of the Lessee at its head office in the City of Akron, State of Ohio, United States of America, when said application is made by the Government.

That the arbitrators so appointed as aforesaid shall render their decision of the question or questions in dispute in writing and file same with the Clerk of the Supreme Court, together with copy of testimony taken and statement of proceedings had within fifteen days after their appointment as aforesaid. Unless an application for further arbitration, as hereinafter provided, be made by either party within a period of four months after said decision is given, said decision shall be a definitive settlement of the question or questions in dispute and shall be binding upon both parties, their agents or assigns, and the Government of Liberia agrees to make said decision operative. Should, however, either party feel aggrieved at the decision of the arbitrators,

then the Government agrees to arrange with the United States Department of State for a further arbitration of the question or questions submitted by either or both parties ; provided, however, that in the case of such further arbitration each party shall bear its own respective costs ; and provided further that the procedure for such further arbitration shall be as follows :

Written notice of desire for further arbitration shall be given by either party to the other within four months after the written decision of the arbitrators in the first instance has been filed with the Clerk of the Supreme Court ; thereupon both parties shall prepare and file with the Clerk of the Supreme Court within sixty days after service of the notice written statements of the questions in disputes, and these statements, together with a copy of the testimony and proceedings of the arbitrators together with a copy of their decision, shall be certified by the Clerk of the Supreme Court and delivered within five days after receipt of said papers in his office to the Secretary of State of Liberia who will thereupon promptly arrange with the United States Department of State for further arbitration of the questions in dispute, the decision of which arbitration shall be final and binding upon both parties to this Agreement.

It is understood and agreed that the final decision shall become effective thirty days after such final decision has been rendered and shall not be retroactive. It is also understood and agreed that during the period of arbitration, the Lessee shall be permitted by the Government to carry on without interference, all operations under this Agreement, including the operations involved in the subject matter of dispute, which the Lessee had undertaken, and, being undertaken, had not been objected to by the Government prior to the dispute arising. It is understood, however, that the fact there was no objection on the part of the Government shall not prejudice its rights in the subject matter of dispute.

It is hereby expressly understood and agreed that the arbitration procedure provided for herein does not apply to civil or criminal proceedings to be brought by or against employees of Lessee in Liberia.

IN WITNESS WHEREOF the parties hereto have hereunto set their hands and seals the day and year first above written.

Witness :

For the Government of Liberia,

.....

Secretary of State.

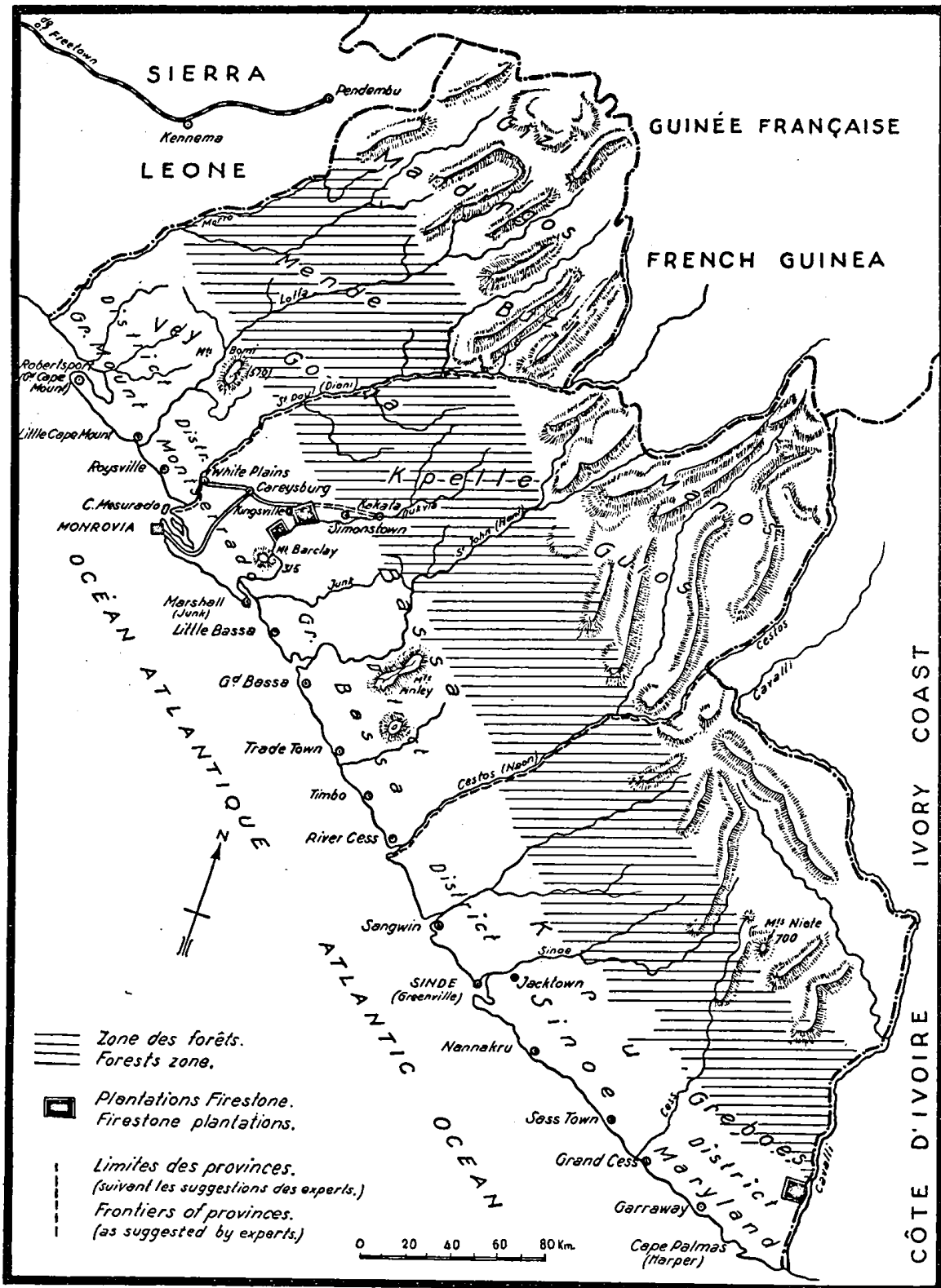
Firestone Plantations Company.

By

President.

Appendix IX.

ADMINISTRATIVE AND ETHNOGRAPHICAL MAP OF LIBERIA



Annex I (a).

C./Liberia/13.

MEMORANDUM OF THE GOVERNMENT OF LIBERIA ON THE REPORT OF THE EXPERTS¹ APPOINTED BY THE COUNCIL OF THE LEAGUE OF NATIONS

The Government of the Republic of Liberia has very carefully considered the report of the experts, designated by the Committee of the Council of the League of Nations to study the problem raised by the Liberian Government's request for assistance, and has the honour to submit, hereunder, its observations thereon.

As this is the first formal memorandum that the Government of Liberia has been privileged to file since the questions now under discussion have been pending, it is necessary to give a brief historical survey of the circumstances which led to its appealing to the League of Nations for assistance, in order that the gentlemen of the Committee considering the question may be cognisant of the background, as well as of all facts leading up to the present position.

The report² of the late International Commission of Enquiry was filed in the Department of State at Monrovia on September 8th, 1930, and the Legislature of Liberia only met the second Monday in the month of October following. The President, on October 30th, delivered his "Annual Message", as is usual at the beginning of every legislative session, and submitted therewith the report of the International Commission of Enquiry. The members of the Legislature had themselves, in the interim, received petitions from several groups of citizens deploring that persons in the country, some of whom had held very exalted positions in the Government of the Republic, had so conducted themselves as to be even accused of the charges contained in the said report, and demanded that an investigation be held and anyone found to be guilty of the crimes alleged should be ejected from office and prosecuted according to the laws of the land.

The said report, together with said petitions, were referred to a select committee of the House of Representatives for investigation, which committee reported to the body on December 2nd, the adoption of which led to the retirement from office to private life of President King, Vice-President Yancy, and sundry other officials. The Honourable Edwin Barclay, Secretary of State, was thereupon selected to serve out the unexpired term of the presidency, and on December 3rd took the Constitutional Oath, in the presence of the two Houses of the Legislature in joint convention assembled, and entered upon the discharge of the duties of the office. On the said December 3rd, between the acceptance of the resignation of Mr. King and the induction into office of Mr. Barclay, the note³ of the Secretary of State of the United States of America, dated November 17th, was, by Mr. Reber, presented to the retiring President, who simultaneously transmitted it to the joint convention of both Houses of the Legislature and the Department of State of Liberia.

The action of the Legislature above referred to, and the passage of sundry laws⁴, viz. :

- (1) An Act prohibiting the exportation of contract labour overseas ;
- (2) An Act providing for the reorganisation of the hinterland ;
- (3) An Act forbidding pawning ;
- (4) An Act creating a public health and sanitary service in the Republic ;
- (5) An Act permitting unrestricted trade in the Republic,

all were in line with the demands for reform contained in the note of the Government of the United States of America, and the Government had confidently expected the moral and material support of the said Government in carrying the said reforms into execution. To this end, copies of each of the laws as they were respectively passed were communicated to the American Chargé d'Affaires in Monrovia and a request made for his Government to nominate experts who would be appointed to supervise and direct the sanitary and health services, and to serve in the interior administration. To this request no reply had been received by the Government of Liberia.

Despite the disposition of the Liberian Government to show its desire thus to initiate the reforms with the assistance of foreign experts, the American Chargé d'Affaires and his colleagues of the British and German Legations, on January 21st, 1931, presented notes to the President of Liberia, copies of which are appended as exhibits "A", "B" and "C", demanding, in

¹ Annex I.

² Document C.658.M.272.1930.VI.

³ Document C.L.3.1931.VI.

⁴ Document C/Liberia/1.

effect, that the Liberian Government would ask the Council of the League of Nations, then in session, to appoint an International Governing Commission to take over Liberia and administer the affairs of the country. The President replied, in effect, that compliance with the said demand would be tantamount to surrendering the sovereignty and autonomy of the country, a position he could not take without violating his Constitutional Oath.

Recalling that some years previously the League of Nations had issued a circular offering to select for, and nominate capable persons to, Governments which needed persons of skill, not procurable from among their own citizens, the Government of Liberia saw no objection, in view of the attitude other Governments had taken, to acting upon the suggestions contained in the said circular, and of appealing to the League of Nations, expecting that it would have nominated the said experts.

Instead, the request for assistance so made has, perhaps unintentionally, been magnified into a problem and Liberia held up before the world, as though the Government were a criminal at the bar of justice, with a large section of the Press of the world publishing all manner of false and scandalous statements against the Republic.

Justice to the Government and people of Liberia, as well as to any other nation which might be similarly circumstanced, demands that Liberia should now direct attention to certain fundamental principles of law which appear to have been overlooked, especially by those who have contributed to the false, malicious and unjustified Press propaganda directed against the Republic, which principles it has not been the privilege of the Liberian Government, hitherto, to bring to the attention of the gentlemen of the committee studying this question.

First of all, there is a presumption in favour of a Government that it has acted rightly, justly and in accordance with propriety. Such a presumption cannot be overturned by mere allegations, but there must be conclusive evidence of a satisfactory character to rebut the said presumption.

The report of the experts, now under consideration, fails to set out the evidence from which the said experts reached the conclusions stated in their said report. On one occasion, when Dr. McKenzie was asked by the Liberian representative at Geneva upon what evidence he based his statement as to the prevalence of certain diseases in the interior of the country, not having himself ever travelled beyond Monrovia and its environs, he gave as his authority the evidence of Dr. Smith, who had, at one time, served for a short while as Director of Sanitation in Monrovia, and in another instance based his conclusions upon the statement of three experts from Harvard University, making it clear, in the meantime, that he himself had no certain knowledge of the facts which he had thus adopted and incorporated in the report now under consideration.

The Liberian Government is being held up before the world as having committed, or at least permitted :

Acts of slavery and forced labour, within its territory, sundry acts of misfeasance gross maladministration, and of reprisals against witnesses who testified before one or other of the Commissions,

all contrary to good government, and particularly reprehensible if the said allegations had any foundation in fact. Notwithstanding the repeated denials, made by the Liberian Government and its most important officials, of the truthfulness of the said allegations, the accusations persist and appear to extend and to grow in intensity, to the injury of the good name and reputation of the Republic. Moreover, although the Liberian Government has taken measures to correct the alleged abuses and to show its good faith, the Government and people of Liberia have been astounded at the suggestions made by the Press and responsible officials of divers countries that coercive measures should be applied from without instead of leaving the Republic to the natural method of reforming itself from within with such foreign assistance as it may from time to time find requisite and necessary. The Liberian Government hereby calls attention to the fact that it is unfortunate that neither when the late International Commission (hereinafter styled the Christy Commission), nor the subsequent Commission of Experts (hereinafter referred to as the Brunot Commission), was sitting was the Government confronted with any of the witnesses who testified against the Republic, nor the Republic given an opportunity of cross-examining the said witnesses or of adducing testimony to explain, modify or rebut the statements that were made against it, as should have been the case.

Another important principle which appears to have been overlooked is that, whenever an organisation sets up a committee to investigate facts and make a report thereon, such a committee must act within the scope of the terms of reference given it. Any action beyond the scope thereof is *ultra vires*, since, indeed, the terms of reference constitute the foundation upon which its right to exercise the functions delegated to it exist. This principle appears to have been conceded when, during the discussion of the Committee at Geneva last January, the Chairman of the Committee observed that the Committee could not exceed its terms of reference as laid down in the Council's resolution.

The suggestions of the experts undoubtedly go beyond their terms of reference and would seem to be an indication of an intention not to aid the Liberian Government to put into effect certain definite reforms but to change the whole organisation of the Government without regard to its Constitution and laws. This effect, which is apparent in the suggestions, is in conflict with the status of the Republic as an autonomous State, and with the assurances given at the meeting of the Committee of the Council of the League and the Council itself that the sovereignty and independence of the Republic would not be affected by any suggestions which the experts might make (see statement of the Rapporteur, sixty-third session of the Council, May 21st, 1931).

Being of opinion that these suggestions, if adopted, would not only affect adversely the independence of the Republic, but would also create for it a new status in relation to the League

of Nations, a status inconsistent with its position as a Member State, the Government finds itself unable to accept without modification the scheme devised by the experts.

Taking now the report of the Brunot Commission in detail, we come first to their Part I headed :

“ The Present Position.”

Under this heading in the said report many inaccuracies have been found to exist, due, doubtless, to all, or some, of the reasons stated in the preface hereto. To some of these inaccuracies the Liberian representative at Geneva called attention during the discussions which were held — as far as his knowledge and memory permitted —. The discussions are recorded in the Minutes of the Committee from January 25th to February 1st last. Of the many points he then overlooked, one of considerable importance is the inference that the decline in the revenues is partly attributable to the lack of confidence on the part of the native producers, which it is necessary to overcome by putting into operation the plans prepared and submitted by the experts. On the contrary, it can be shown that the drop in the revenues of the Republic is due to a smaller trade turnover, a fall in imports owing to high prices, a decrease in exports on account of low prices, all growing out of the world's economic depression.

With respect to Part II of the expert's report,

“ Programme of Assistance ”,

the Liberian representatives refrained from entering upon a detailed discussion of this part of the report during the last session of the Liberian Committee, for the reason that its programme had not been formulated. The Government of Liberia has now the honour of submitting the following memorandum :

EDUCATION.

In the report of the Brunot Commission, emphasis was laid upon the lack of sufficiently well-trained persons, citizens of the Republic, to undertake the reform measures which they have suggested, especially in matters of health, finance and general administration. For instance, the Christy Commission complained of the lack of means of education in the provinces and of its absence in the hinterland (page 87). One of their recommendations was that the Senior (District) Commissioner and the assistants should be the successful candidates of some form of civil service examination which should conform to standards set in Europe and America (page 87). Nevertheless, the Government of Liberia has been disappointed to find, in the report of the Brunot Commission, a disposition to defer, indefinitely it would appear, the improvement of its educational system in favour of other matters (see Minutes of tenth meeting, January 29th, 1932) which, if accepted, will leave the Liberian population dependent, more or less permanently, upon foreigners to carry on the administration of the country, and postpone indefinitely the development of that trained personnel which is claimed would be requisite if the Republic is to be perpetuated as an autonomous State. In order to obviate this result, the Liberian Government is of the opinion that, as a basis of any reform programme, and as a pivot around which everything else should revolve, there should be a modernised system of education along academic, industrial and scientific lines, with the determination to pursue the same as promptly and effectively as its finances will permit, even if other reforms, considered as urgent, have to be temporarily postponed. By the adoption of this proposal, there will continue to be, in constantly increasing numbers, citizens from whom competent administrators can be drawn, as well as a large number of persons properly qualified to direct and prosecute the industrial and scientific development of the country.

INTERIOR ADMINISTRATION.

Promptly, upon the consideration of the report of the Christy Commission, the Legislature of Liberia passed laws intended effectually to prevent any further evasions of the laws then already in vogue which had previously prohibited slavery in any of its forms within the territories of the Republic, and they also declared illegal and forbade the further exportation of contract labourers overseas. The President, as promptly, took measures to make the said laws effective, which action on the part of the Chief Executive has been continued with unremitting energy and fidelity up to the filing of this memorandum. The result of this is that slavery, pawning and forced labour have been exterminated in Liberia ever since the beginning of 1931, not merely by the passage of the necessary legislation, as the Brunot Commission reported, but effectively and in very deed and truth.

The District Commissioners characterised in the Christy report as dishonest and corrupt officials were dismissed from office, and those of them against whom sufficient evidence could be procured were prosecuted and are being punished. This in spite of the fact that it was

difficult to ascertain who the witnesses were, as the Christy Commission withheld from the Government the names of those who testified before them, and took out of the country the records of their investigation and the evidence given thereat. A new corps of officials has been installed as District Commissioners who are of a higher grade of intelligence than those they have replaced, and whose honesty and integrity the present administration has reason to believe cannot be impugned.

In view of the foregoing, the Government of Liberia is not prepared to acquiesce in the condemnation of the Liberians as a whole, nor to admit that there are no citizens sufficiently capable intellectually nor possessed of the integrity and social and cultural qualifications themselves to reform the abuses which the Christy Commission published to the world as existing in Liberia. On the contrary, they are confident that there are a sufficient number of reputable citizens available from whom competent administrators can be drawn.

With regard to the territorial division of the country into administrative provinces, there is accord between the Government and the experts. There is, however, a wide difference between these views as to the subordinate division of the provinces. This would appear to be the result of an understanding that certain areas on the Anglo-Liberian and Franco-Liberian boundaries would be left without adequate control by the Liberian Government. The subdivision of the provinces as fixed by the Regulations of the Liberian Government provide for such adequate supervision and control; the smaller subdivisions being less unwieldy than the division suggested by the experts. It is to be observed, however, that, in the recommendation of the Brunot Commission, allusion is made to areas in the hinterland as being not yet explored. It will be useful to point out that this conclusion is incorrect. Although there may not exist maps or charts of some remote sections of the hinterland, such sections are, and have been for a long period of years, under complete Government control with means of communication regularly maintained. It is to be further observed that, while the recommendations suggest a subdivision of the Western and Central Provinces into districts, the Eastern Province is to remain without administrative supervision, pending gradual penetration as the development of the contiguous territory progresses. The absence of administrative control over such parts of the Eastern Province would seem likely to expose those areas to penetration and finally to occupation by the possessors of neighbouring territories.

But, realising that it will take time to remove the unfortunate impressions which the publication of the Christy report made against the Republic of Liberia, and that it is important, in its own interest, that international public opinion should be reassured on those points upon which the country has been most exposed to criticism, the Government has adopted the policy of employing a limited number of foreign assistants for a definite period and for specific purposes. It was never contemplated by the Government that proposals would be made to substitute the native organisation wholly by foreigners, nor to withdraw its native population from under direct administration of Liberians and place them entirely under the direction of an alien race. But, on the contrary, the assistance was to be in the nature of advice, instruction and guidance towards the introduction of such modern methods of administrative development as would ensure a gradual but steady progress along these lines. They would be vested with such administrative functions as to effectually carry out their work. Their appointments were to be made and their duties, responsibilities and pay to be determined and fixed by the Liberian Government. To carry out the suggestions of the Brunot Commission with regard to the administration of the provinces would not only rob qualified citizens of a natural right to effectively participate in the Government of the provinces, but would destroy the fealty which the population now displays towards the Government of the Republic, and would also work against the ideal of a homogeneous people. One of the criticisms made by the Christy Commission against the Government of Liberia was that its policies towards the native population tended towards the building up of barriers between the uncivilised and the civilised groups of the population, and deliberately to prevent contacts between the hinterland tribes and beneficial foreign influences. The Liberian Government has never consciously followed such a policy; but its opinion is that the suggestions of the experts would, if adopted, build up such barriers, and create a pernicious *imperium in imperio*. In fine, the implication of the suggestions of the experts would appear to reflect solicitude solely for a special group — namely, the uncivilised native — rather than a desire to benefit the whole Republic.

The Government proposes the appointment of three men of adequate qualification and experience, to be recommended by the League and appointed by the President as Provincial Commissioners. They would be in the provinces the representative of the executive power, and responsible to the Chief Executive through the Secretary of the Interior, to whom their reports would be regularly sent, and copies of these reports would be furnished to the League of Nations. Their salaries and tenure of office shall be fixed by agreement between the Government and the League. The policy outlined in this paragraph should be given effect for a period not exceeding five years, during which period the Government guarantees, spontaneously, to give to the said officials every facility and power necessary in carrying on the work assigned them under the provisions of the law above cited, fully realising that upon their favourable reports will largely depend the recovery of international confidence in the administrative methods of the Liberian Government.

FINANCIAL ASSISTANCE.

Of the many pressing needs of Liberia, there is no gainsaying the fact that one of the most urgent is that of money. The Government, however, strongly contests the implication that its present financial embarrassment is due wholly to the fact that, of the loan contracted in 1926, part was used to pay its debts and the balance squandered (see Minutes of the ninth meeting, January 28th). There are, on the other hand, many contributing causes, some of which, summed up in the last "Annual Message" of the President of Liberia, may be usefully repeated here — namely :

" In addition to the fall in commodity prices, the Treasury attributes the fall in revenues to the following causes :

" (1) The sudden change in the Government near the end of 1930 owing to the resignation of the President ;

" (2) A prolonged election campaign, during which voters took a holiday from their usual occupations ;

" (3) The reduction of expenditure, by Foreign Missions, for their work in Liberia, which reduction was rendered necessary by the severe financial and business depression of America ;

" (4) The diminished expenditures of the Firestone Plantations Company owing to the plantation being in the waiting stage between planting and production, and so requiring a limited number of labourers until the trees had reached the productive stage.

" As illustrating the continuous decline in unit prices for the principal Liberian products over a period of years, the following table has been furnished :

| | July 1928. | \$ per ton |
|----------------------------|------------|------------|
| Palm kernels | | 72.00 |
| Palm oil | | 76.00 |
| Piassava | | 38.40 |
| Coffee (per lb.) | | 0.16 |
| July 1929. | | |
| Palm kernels | | 62.00 |
| Palm oil | | 72.00 |
| Piassava | | 36.00 |
| Coffee (per lb.) | | 0.10 |
| July 1930. | | |
| Palm kernels | | 33.60 |
| Palm oil | | 54.40 |
| Piassava | | 36.00 |
| Coffee (per lb.) | | 0.04 |
| July 1931. | | |
| Palm kernels | | 24.00 |
| Palm oil | | 27.00 |
| Piassava | | 29.00 |
| Coffee (per lb.) | | 0.04 |

" With such prices ruling, farmers and other producers seem to have lost all incentive to increase or continue production, and were disinclined to expend further efforts for what they regarded as inadequate and even unprofitable returns.

" This attitude has a continuous adverse effect on production and has reduced the volume of our exports and the purchasing power of our people."

In addition to the causes above set out, the loan charges, which include interest, amortisation expenses and salaries of fiscal officers paid by the Government of Liberia under the existing Loan Agreement, have been equal to the percentage of the total annual revenue receipts as hereinafter mentioned — namely :

| Year | Per cent. |
|----------------|-----------|
| 1928 | 20 |
| 1929 | 26 |
| 1930 | 32 |
| 1931 | 54.9 |

upon which items of expenditure it has not yet been possible to make any retrenchment. Almost the whole of these sums have been sent out of the country. This has constituted a steady drain outward of the resources of the Republic without the compensating inflow that might have taken place but for the general economic depression that has adversely affected most of the nations of the world ; and the fact that these loan charges are regularly paid when the Government's obligations, salaries in particular, are not met with equal regularity has very materially added to the acuteness of the situation.

The relief suggested by the Brunot Commission is that an arrangement should be made whereby the second instalment of the five million dollar loan credit originally contracted for in 1926 would be made available to the Government of Liberia ; but, according to the carefully

considered opinion of the Government, such a solution would not only not solve the problem, but would rather render the same more acute. For, first of all, the annual interest would be increased nearly, if not more than, 100 per cent; the percentage earmarked annually for amortisation would be correspondingly greater, and the number of foreign officials recommended by the Brunot Commission would be twenty-one instead of the six functioning under the present arrangement. The adoption, then, of the recommendations of the Brunot Commission, on this subject, would place the Liberian Government in the immoral position of contracting obligations which its present resources will not permit it to meet. Coupled with this, a survey of the situation has convinced the Liberian Government that adoption of the suggestions of the Brunot Commission would powerfully contribute to the financial ruin of the Republic, since no one can presently foresee how soon the world economic depression, which has largely been responsible for the present situation, will end. During the life of the present Loan Agreement, existing statutes and regulations governing the collection of Customs and excise will remain in force, and the foreign fiscal officials agreed upon to function thereunder will be retained, subject to any arrangements which, as contemplated under proposal three, may be made direct with the Finance Corporation of America.

In very seriously considering this phase of the subject, the Executive and Legislative branches of the Government are impressed that the course indicated below would be of more beneficial influence in rehabilitating the economy of the country than the proposals of the Brunot Commission — viz. :

(1) Realising that the slump in the markets hitherto opened to the exportable products of the Republic has contributed largely to the present financial and economic crisis, new markets be sought in which the products can be sold to better advantage, higher prices secured, and the area of distribution extended. This result, it is hoped, will be an incentive to greater production, which will be reflected beneficially on the revenues and economy of the Republic. Simultaneously, the preparation for market be controlled by Government with the object of seeing to it that the quality of produce is improved.

With a view to effecting this, the Government is already establishing model agricultural stations in the several provinces, which policy is receiving the wholehearted co-operation of the paramount chiefs.

2. To surround investments with such legal protection as to attract capital, foreign as well as domestic, in industrial, agricultural and mineral enterprises with the object of developing the natural resources of the country, opening new avenues of labour, and improving the economic condition of the Liberian population.

3. By negotiations with the Firestone Plantations Company and the Finance Corporation respectively for such modification of the present agreements between the said companies and the Republic as will result in an amelioration of the terms of the present existing contracts now found to be onerous and arranging for such readjustments as will permit a more equitable circulation of money to the mutual benefit of all parties thereto.

HEALTH AND SANITATION.

The Government desires to call attention to the fact that Dr. McKenzie, health expert of the Brunot Commission, based most of his conclusions upon that kind of evidence commonly called *hearsay*. That there is a veritable plague of rats in the country, even in Monrovia, thereby making possible the rapid spread of bubonic plague, if that should even be introduced into the Republic; that a large proportion of the population is afflicted with elephantiasis, thereby rendering them more or less incapacitated for physical labour, are but two of his many observations and conclusions that the Liberian Government has not been able, after the most careful investigation and enquiry, to have corroborated. On the contrary, Dr. R. G. Fuszek, who has been a prominent medical practitioner in the country since 1913, and is now holding the position of Director of Sanitation, has estimated during the period of his practice in Liberia the proportion of patients afflicted with elephantiasis whom he has treated at less than one-half of one per cent of the total number of cases treated by him. It does seem to be true that, in the Western Province, near the Anglo-Liberian boundary, there is a region where a larger proportion of the population is afflicted with the said malady than elsewhere in the republic; but it is only regional, and, even so, the proportion does not seem to be by any means as large as the report of the Brunot Commission suggests.

The Republic, in 1931, organised a health and sanitation service under the direction of a competent physician, and, at the last session of the Legislature, not only made provisions progressively to extend the same to other parts of the country, but also imposed a special tax to provide funds for the effectual execution of the same.

Since the establishment of the said service, the health of the population has materially improved, and not a single case of yellow fever has been reported in Liberia.

THE JUDICIARY.

The Brunot Commission ignored the fact that the customary laws of the various tribes have, by statute, been made a part of the *corpus juris* of the Republic, and sought to establish two systems of administering justice, the one for the civilised and the other for the aborigines, without reference to the policy Liberia is pursuing progressively to so unify the procedure and practice that, as the different tribes with their diverse unwritten laws and customs shall have become more and more a homogeneous people, there will be unanimity in the procedure and practice of law throughout the Republic.

It will be recalled, however, that, during the last sitting of the Committee, the Liberian representative at Geneva had the honour of pointing out that the question of judiciary reform referred to in the report of the Brunot Commission was a matter of purely internal policy and outside the terms of reference of said Commission, a contention which Mr. Brunot himself conceded. He had also the honour of drawing the attention of the Committee to the fact that the recommendations made by the said Commission, if adopted, would violate the Constitution of the Republic (see Minutes of the tenth meeting, January 29th, 1932). The Legislature of Liberia has endorsed the position taken up by the Liberian representative at Geneva. Nevertheless, the Government has provided for the setting up of a Commission to study the criticisms made against its judicial system and recommend such measures as will materially improve the same.

In concluding this memorandum, the gentlemen of the Committee are invited to carefully consider what progress the Government of the Republic has already made, of its own volition, towards the execution of the suggestions and recommendations of the late International Commission of Enquiry. Such accomplishments placed *vis-à-vis* the recommendations of the Christy Commission are as follows :

| | |
|--|---|
| The policy of the open door. | Permission to trade throughout the country by recent legislation unrestricted. |
| Extension of education to all alike. | No section of the population has ever been debarred from taking advantage of all educational facilities available. |
| Native policy to be radically reconstructed. | Reconstructed in so far as criticism was justified. |
| Barrier between civilised and uncivilised to be broken. | No such barriers have ever been erected. |
| Policy of suppression to be abandoned. | Such a policy has never been pursued. |
| Humiliation and degradation of chiefs to cease. | Provided for by new Interior Regulations, May 31st, 1931. |
| Re-establishment of tribal authority of chiefs. | |
| Complete reorganisation of administration of the interior. | Effected. |
| Removal of present District Commissioners. | Effected. |
| Substitution of European or American Commissioners with Assistant Commissioners. | Provision made herein for employment of a limited number of foreign assistants. |
| Institution of some form of civil service. | Has to be gradually undertaken. |
| Rearrangement of the political divisions of the country. | Effected. |
| Pawning and domestic slavery to be made illegal as preliminary to total abolition. | Already totally abolished. |
| Shipment of labourers to Fernando Po to cease. | Effected. |
| Road programme to be curtailed. | A matter purely of internal economy, former methods, however, abandoned. |
| Much stricter control of Frontier Force soldiers. | Revised manual prepared by American military adviser approved by Legislature and now in force. |
| Reconsideration of duties of Frontier Force soldiers. | |
| American immigration to be encouraged. | Immigration from the United States of America and elsewhere has even been encouraged, and there has never been a law or regulation to put any barrier in the way thereof. |

The foreign fiscal officers functioning under the present Loan Agreement will remain in the service of the Republic unless arrangements for reducing their number can be made directly between the contracting parties with such moral support as the League of Nations may give.

In addition, the present memorandum has provided for one Director of the Health and Sanitation Service, three Provincial Commissioners, all nominees of the League of Nations, and, considering the heavy financial burdens such a number of alien advisers and experts will entail, the Government of Liberia ventures to express the hope that the League of Nations will favourably and sympathetically consider the proposals herein made, give a fair trial to the scheme hereby outlined, and lend its fullest support and assistance to Liberia in the consummation of the plan the Republic hereby submits.

Annex II.

C./Liberia/16.

DRAFT OF DETAILED PLAN OF ASSISTANCE PREPARED BY THE EXPERTS

PART I. — PROGRAMME OF MEASURES TO BE EXECUTED BY THE LIBERIAN GOVERNMENT.

CHAPTER I. — ADMINISTRATIVE ORGANISATION OF THE TERRITORY OF THE REPUBLIC OF LIBERIA.

Article 1. — Administrative Divisions.

1. For administrative purposes, the territory of the Republic shall be divided into three provinces, namely :

- (a) The Western Province ;
- (b) The Central Province ;
- (c) The Eastern Province.

2. Provincial boundaries defined :

(a) The Western Province shall extend from the Anglo-Liberian boundary on the north-west to the St. Paul River, and from the Atlantic Ocean to the Franco-Liberian boundary.

(b) The Central Province shall extend from the St. Paul River to the Cestos or Nuon River, and from the Atlantic Ocean to the Franco-Liberian boundary.

(c) The Eastern Province shall extend from the Cestos or Nuon River to the Cavalla River, and from the Atlantic Ocean to the Franco-Liberian boundary.

3. Each province will consist of counties on the coast and districts in the interior.

4. The counties and the districts are those provided for by the present organisation of the Liberian Republic.

The County Montserrado will be divided into two counties. The county of the right bank of the River St. Paul will be attributed to the Western Province, the county on the left bank to the Central Province.

Article 2. — Powers of Provincial Commissioners.

Each province shall be administered by a Provincial Commissioner, assisted by a Deputy Commissioner.

The place of residence of each Provincial Commissioner will be chosen by him after examination of local conditions.

Each district shall be governed by a District Commissioner, and each county by a County Superintendent under the direct orders of the Provincial Commissioner.

1. *General Administration.*

The Provincial Commissioner is the representative of the executive power, responsible to the Chief of the Government, through the intermediary of the Secretary of the Interior.

It shall be his duty to see that the laws and regulations are carried out, and he shall be responsible for public peace and order. He shall have rights of supervision and control over all the services represented in the province. All the non-technical administrative services shall be under his direct orders, whereas the technical services, such as Customs, health, posts and telegraphs, and education, shall remain under the direct orders of the heads of those departments at Monrovia, and be only subject to general supervision by the Provincial Commissioner as regards the efficient working of the department and the professional conduct of its officials. Official correspondence and reports from the representatives of the technical departments shall be sent to the Central Government through the Provincial Commissioner, in order that he might have the necessary general idea of the position in his province.

The Provincial Commissioner shall represent in his province the special departments existing or to be created which are not represented in the province by officials of those departments (State Lands, Land Conservancy, Treasury, Agriculture, Immigration, etc.).

He shall control and direct, as instructed by the Central Government, the exercise of authority by the native chiefs over their tribes.

He shall draw up, submit for the Government's approval, and carry out the programme to be framed after the whole country has been surveyed and local examinations made of the country's urgent requirements in the matter of roads.

He shall train the future administrative personnel of his province.

2. *Finances.*

The Provincial Commissioner would draw up the tax rolls, and, when they have been approved by the Government, ensure their collection either directly or through the county superintendents or district commissioners, or, in the case of the native tribes, through the paramount chiefs, the latter receiving a commission of 5 per cent of the taxes collected through them.

He would also collect liquidation fees (except those levied by the Customs and post office) and fines.

At the end of the year, so that it could be approved by the Government before the beginning of the following year, he would draw up a "provincial budget", the revenue of which would be derived from a part (to be determined) of the direct taxation and fines, and the expenditure allotted to major public utility works (roads and bridges, erection of dispensaries and schools, construction and maintenance of administrative posts, etc.), so that a large part of the taxes levied would be expended in the same province, and no contribution other than the tax would be levied on the natives.

As Treasury representative, he would administer a fund, the accounts of which would be audited by the Treasury and incorporated in the State budget. This fund would accept on deposit all the sums collected in the province for a Government department, and would settle all the State's liabilities (apart from the independent funds of the Customs department and post office).

3. *Police.*

To ensure public order, the Commissioners will have under their direct orders a gendarmerie, composed as follows :

- 40 gendarmes at the centre of administration of each province ;
- 20 gendarmes at the centre of administration of each district ;
- 15 gendarmes at the centre of administration of each county.

The "Frontier Force" may not intervene in the provinces, except at the request of the Provincial Commissioner, and, in that case, only within the limits on the instructions given by the latter.

4. *Magisterial Duties and Disciplinary Powers.*

The Provincial Commissioner will have judiciary powers in accordance with the procedure to be definitely fixed later, according to the results of the work of the commission appointed for this purpose by the Liberian Government, with which commission the Government's Judicial Councillor, mentioned elsewhere, will collaborate.

Further, he will have disciplinary powers consisting of the right to inflict maximum penalties of ten days' imprisonment and five dollars' fine, for the following cases :

- (1) Disobedience to the orders of the representatives of authority in cases provided for in the laws and regulations ;
- (2) Any act of disrespect towards representatives of authority in the discharge of their duties ;
- (3) Failure to pay taxes or to carry out administrative obligations ;
- (4) Refusal to appear before the representatives of authority when duly summoned.

The proceeds of such fines would be paid to the county, district or provincial treasuries as "administrative fines" and added to the revenue of the State budget.

Article 3. — Guiding Principles for the Administration of the Provinces.

1. *Abolition of Slavery and Forced Labour.*

The Commissioners will have to ensure the strict application of the laws already put into force abolishing slavery, the pawning of persons, forced labour and the exportation of labour. The Government of Liberia will make every effort to repatriate the workers who were exported before the entry into force of the law.

As regards the requisition of labour for public work, *only* community work for the construction and maintenance of roads *in the territory of the tribe in question* should remain compulsory, in conformity with the customs of the natives and the provisions of the Convention on forced labour.

2. *Native Policy.*

Chiefs should be *elected* by their tribes and *merely recognised* by the Government (which retains the right to object to their installation and the right to revoke the appointment of a chief who is openly hostile).

Furthermore, the chief must always act as an intermediary between the head of the district and the natives, and he has also been invested with very far-reaching powers as a judge in civil and criminal cases, and as a tax-collector.

He cannot be punished otherwise than by a fine or dismissal.

It should be absolutely prohibited to requisition food or produce without payment.

3. *General Policy.*

The aim to be achieved is simultaneous development in the economic and in the intellectual and moral spheres. To attain these ends, two means are indispensable — the construction of a system of communications and the opening of schools.

The first essentials, before undertaking road construction, are to make a map of the country, take a census of the population, and carry out a mining and agricultural survey of the territory.

Consequently, arrangements must be made to send two or three professional cartographers to Liberia, as soon as funds permit.

The following credits should be provided for in the budget :

| | |
|--|--------|
| | s |
| Geographical, mineralogical and botanical survey (the programme will be drawn up for five years) | 8,000 |
| Upkeep of existing buildings and roads, etc. | 54,000 |
| New roads and bridges | } |
| | 62,000 |

As regards the essential increase in the number of schools, this will have to be effected as soon as possible, as and when the financial resources of the Republic permit.

Article 4. — Foreign Specialists as Provincial Administrators.

The Government of Liberia will engage three foreign specialists as Commissioners of the three provinces and three others as deputies to the said Commissioners. They will be proposed by the League of Nations to the President of the Republic for approval and will be appointed by him. They may be replaced for adequate reasons with the consent of the League of Nations.

As salary and miscellaneous allowances (exclusive of travelling expenses), they will be paid a maximum sum of \$8,000 in the case of each Provincial Commissioner and \$6,000 in the case of each Deputy Commissioner.

The Commissioners will be entitled to six months' leave on full pay in their country of origin for every two years' residence in Liberia.

CHAPTER II. — HEALTH.

The Liberian Government shall engage two whole-time medical officers for hospital and health work. These officers shall not ordinarily be permitted to engage in private practice, though in cases of emergency they may treat private patients, in which case the fees charged shall be only nominal. The medical officers shall be given security of tenure and the necessary legal powers to carry out all the ordinarily accepted duties of a medical officer of health in a tropical country. The appointments and conditions of service shall be the same as for the other foreign experts.

A sum of \$16,000 shall be set aside in the budget for the payment of the salaries of the two medical officers. In addition, provision shall be made, for the cost of voyages when proceeding on leave. If it is possible to obtain the services of two satisfactory medical officers for less than \$16,000, the balance shall be devoted to the salary of subordinate medical personnel.

The Liberian Government shall pass the necessary legislation for the carrying into effect of the recommendations on pages 17 and 18 of the expert's report.

The Liberian Government shall open a credit of \$20,000 for hospital construction, equipment and maintenance for sanitary personnel and equipment.

It is understood that, if and when further sums become available, the medical service shall be correspondingly increased, with the object of eventually establishing the medical programme as set out in the expert's report.

CHAPTER III. — FINANCES.

Article 1.

The Liberian Government shall continue to appoint to its service a Financial Adviser, together with a certain number of assistants. The Financial Adviser shall be designated by the President of the United States and approved by the President of the Republic of Liberia and eventually appointed by him.

The assistant advisers shall be designated to the President of the Republic of Liberia by the Financial Adviser, who shall previously inform the Secretary of State of the United States of the name of the proposed officials. They shall be eventually appointed by the President of the Republic of Liberia.

A total sum of \$26,000 shall be allocated for the salaries of the Financial Adviser, his assistant and their personnel. This sum shall include all allowances, exclusive of the cost of travel.

The individual salaries shall be fixed within these limits by the Fiscal Agent of the American Finance Corporation.

For adequate reasons, the Financial Advisers may be replaced by the President of the Republic of Liberia in agreement with the President of the United States.

Article 2.

It shall be the duty of the Financial Adviser and his collaborators to ensure the efficient organisation and functioning of the Liberian fiscal services and also the regular payment of the service of the loan.

Article 3.

The Liberian Government will give the Financial Adviser every assistance in order to bring order and system into the finances of the State, and to that end the Financial Adviser shall devise for the Republic of Liberia, and for any local governmental authority therein, such methods of accounting, rules and regulations for the collection and administration of the public revenues and receipts as may be necessary to assure the collection of such revenues and the enforcement of the laws, rules and regulations pertaining thereto ; and such administrative orders or regulations having been approved by the President of Liberia (such approval however, shall not be withheld provided said rules and regulations as provided for in this article are not contrary to law and apply to the collection and administration of the public revenues and receipts) shall be issued at the request of the Financial Adviser by the departmental head for whose department or under whose jurisdiction any such regulations, rule or order applies. The Government shall fix penalties for the violation of such administrative order, rules and regulations as may be issued as above.

The Financial Adviser and his collaborators are authorised *ex officio* to communicate directly with any official or branch of the Government with whom or with which they may have business.

The rates and amounts of such revenues and receipts shall not be decreased without the approval of the Financial Adviser, but may be and eventually must be increased by the Government so as to meet the expenses of the service of the loan and the expenses of the administration of the Government.

The Comptroller of the Treasury, together with an auditor nominated by the Financial Adviser, shall prepare for the Secretary of the Treasury and the Financial Adviser, quarterly and annually, reports of the financial administration and of the collection and application of all revenues and receipts. Such reports shall contain the detail of all financial transactions of the Government.

Article 4.

All revenues and receipts of the Liberian Government (including import and export duties of every description, poll-tax and all other imposts, taxes and receipts of the Republic) shall be collected under the supervision and direction of the Financial Adviser and his collaborators, who shall co-operate with the officials responsible for collection and, as regards provincial revenues and receipts, with the provincial commissioners.

Article 5.

All revenues and receipts of the Government shall be deposited in a bank designated jointly by the Chief Adviser, the Financial Adviser and the Government as the official depository.

Article 6.

No commitment in respect of expenditure shall be entered into, and no sum shall be withdrawn out of the Government funds deposited in the bank, without the authorisation of the Financial Adviser. The Financial Adviser may, should he deem this desirable, himself make without intermediary, any payment to the persons entitled.

Article 7.

The revenues and receipts shall be applied first to the payment of expenses of collection and administration of the revenues and receipts and to the salaries of the foreign advisers (Chief Adviser, Financial Adviser, etc.).

Article 8.

The Government shall annually enact a budget, which shall set up in detail the estimates of receipts for the fiscal year and the credits required for the expenses of collection of the revenues and receipts, and the expenses of the various departments of the Government, including the salaries and expenses of the programme of assistance, the service of the loan and all other amounts which the Government is, by existing laws, agreements, contracts or engagements, required to pay ; and this shall be done in the following way :

At least thirty days before the opening of each regular session of the Legislature of Liberia, the Secretary of the Treasury shall prepare a budget consisting of chapters and items for the ensuing year, which shall contain statements in detail of receipts and expenditure.

This draft budget shall be prepared in consultation with the Financial Adviser, whose duty it shall be to make sure that the amounts proposed to be appropriated for expenditure shall not exceed the resources of the Government, as shown by careful examination and comparison of the estimates for receipts, and who shall further examine the draft budget to ascertain that

all expenditure to be made in virtue of the plan of assistance has been properly included in the draft statement of expenditure, and that the budget takes into account the real requirements and interests of the country.

During the first few years, the budget of current expenditure — *i. e.*, without the costs of the present plan — shall not exceed \$265,000, not including the charges of the loan and of the present plan, unless the revenues and receipts increase beyond \$485,000.

If, during any fiscal year, the revenues provided for in the budget fall short of the estimates or exceed them, modifications may be introduced during the current financial year, by agreement between the Liberian Government and the Financial Adviser, subject to the subsequent approval of the Legislature.

The Government undertakes to supply the Financial Adviser with any information or documentary material that he may require. The Financial Adviser may at any time demand an audit of all the Government accounts.

Article 9.

The Government shall not effect any expenditure other than is provided for in the budget approved by the Financial Adviser, for the purposes indicated therein and in conformity with the methods prescribed therein, and may not incur any obligation or contract any engagement not provided for in the budget, even under forms other than those indicated in the budget.

Article 10.

It is understood that the Financial Adviser shall have the right of supervision over all questions within the financial sphere and shall have the right, more particularly, to make sure that the credits allocated are being judiciously applied for the purposes stipulated.

Article 11.

Any disagreement between the Liberian Government and the Financial Adviser shall be submitted to the Chief Adviser, who will arbitrate and will report to the League of Nations.

CHAPTER IV. — CO-ORDINATION OF MEASURES OF REFORM AND LIAISON WITH THE LEAGUE OF NATIONS.

Article 1.

A Chief Adviser shall be appointed by the League of Nations and accepted by the President of the Republic. This Adviser shall be responsible to and removable by the League, and shall be attached to the Central Government in order to give it the benefit of his advice, to co-ordinate the work of the foreign experts, and to supervise the execution of the scheme of assistance.

For this purpose, the Liberian Government shall grant him all facilities for the performance of his duties throughout his term of office. The Chief Adviser may, in particular, ask for any documents and official reports he may require, and may make such investigations as he may think fit in the country.

Article 2.

Should the Chief Adviser find that there has been negligence in the application of the scheme, he shall so inform the Government, and shall advise what steps should be taken; should his advice have no effect, he shall make recommendation to the Government in writing; and, should even his written recommendations not be followed, he may, if he considers that the situation so dictates, and with the object of ensuring the execution of the scheme, suspend, in agreement with the Financial Adviser, any payment which he may see fit out of the deposited funds, giving notice to the Liberian Government in advance.

Article 3.

Should the Liberian Government consider that the Chief Adviser has exceeded his powers it may submit the question to the League of Nations, which shall decide.

Article 4.

The Chief Adviser shall make such communications as he may think fit to the League of Nations, and shall report to the League every quarter on the execution of the programme of reforms.

Article 5.

The Chief Adviser shall also act as legal adviser to the Liberian Government and courts of law. In that capacity, he shall be entitled to be informed of all proceedings and all judgments, and may also conduct on his own account any enquiries that he may think necessary. He shall co-operate with the Commission appointed by the Liberian Government in reorganising the judicial system of the country.

Article 6.

The functions of the Chief Adviser shall be ended by decision of the League of Nations, when the latter is satisfied that the execution of the scheme is assured.

Article 7.

The Chief Adviser shall receive a salary of \$12,000, on the same terms as the other foreign experts. He may secure the services of a secretary or any other staff. The amount allotted for that purpose shall be \$4,000.

CHAPTER V. — DURATION OF THE SCHEME.

This scheme is to cover a period of five years. Before the expiration of that period, the League of Nations shall reconsider the question of the scheme of assistance, and may discontinue its co-operation if it thinks fit.

The Liberian Government, for its part, shall intimate whether or no it desires to continue to receive such assistance.

Should the assistance be discontinued, the American Finance Corporation shall resume in their entirety its rights under the original loan contract.

PART II. — ARRANGEMENTS TO BE NEGOTIATED BETWEEN THE GOVERNMENT OF LIBERIA, THE AMERICAN FINANCE CORPORATION, AND THE FIRESTONE PLANTATIONS COMPANY.

CHAPTER I. — PRINCIPAL ALTERATIONS RECOMMENDED IN THE LOAN CONTRACT WITH THE AMERICAN FINANCE CORPORATION.

For the duration of the scheme of assistance, the loan contract concluded with the American Finance Corporation should be altered so as to bring it into line with the programme in Part I and the present situation in Liberia.

More especially, as long as the revenue and receipts of the Government of Liberia have not reached \$650,000, a moratorium should be granted to the Government of Liberia for the service of the interest and sinking fund on the sums paid by the American Finance Corporation under the loan contract.

When the revenue and receipts exceed \$650,000, the Liberian Government would have to make payments at the end of the financial year on approximately the following scale :

| Revenue in excess of the sum of : | Interest service on the sums actually paid by the American Finance Corporation under the loan contract | Sinking fund on the sums actually paid by the American Finance Corporation under the loan contract | Approximate sum to be paid |
|-----------------------------------|--|--|----------------------------|
| \$ | Per cent | Per cent | \$ |
| 650,000 | 1 | 1 | 40,000 |
| 750,000 | 1½ | 1½ | 60,000 |
| 850,000 | 2 | 2 | 80,000 |
| 1,000,000 | 3 | 3 | 120,000 |
| 1,250,000 | 4 | 6 | 200,000 |

Furthermore, to set the scheme of assistance on its feet and as working capital, the American Finance Corporation should advance at par the sum of \$247,000, which remains available out of the first instalment of the loan.

Lastly, the consent of the American Finance Corporation should be obtained to the alteration of other provisions of the loan contract — for instance, regarding the control in order to bring it into line with the scheme of assistance.

The revision of the loan contract should include, *inter alia*, the deletion of the provisions regarding the Frontier Force and the instructor-officers, so that this military force can be reduced and the instructor-officers dispensed with.

Negotiations on this matter should be undertaken as soon as possible — *i. e.*, as soon as the Liberian Government has accepted the programme proposed in the first part of the present scheme of assistance.

In these negotiations, the Liberian Government will have the help of the Financial Committee and M. Lighthart.

The result of the negotiations will be submitted to the League of Nations.

CHAPTER II. — PRINCIPAL ADJUSTMENTS RECOMMENDED IN THE CONCESSION CONTRACT WITH THE FIRESTONE PLANTATIONS COMPANY.

As the Firestone Plantations Company is ready to consider how its own interests can be reconciled with those of Liberia, it would be well to get into touch with the company with a view to certain adjustments in the concession contract, as soon as the Liberian Government has accepted the programme proposed in the first part of the present scheme of assistance.

In particular, the total area mentioned in the concession contract should be reduced to figures more commensurate with the possibilities of the country (Article III (b) of the concession contract).

In addition, it would be equitable for the rent per acre to be raised from 6 cents (Article III (c) of the concession contract) to about 50 cents. The payment would thus be raised from the present figure of \$3,000 to \$25,000.

Lastly, the obligation entered into by the Liberian Government with regard to the supply of labour (Article II (h) of the concession contract) should be amended so as to be brought into line, both with the international obligations entered into by Liberia, and with the assurances given by the representatives of the Firestone Plantations Company at the third meeting of the Committee of the Council.

Negotiations should be opened between the Liberian Government and the Firestone Company with a view to reaching an agreement satisfactory to both parties.

M. Lighthart will certainly be prepared to assist the Liberian Government in these negotiations.

The results of the negotiations will be communicated to the League of Nations.

Appendix A.

STATEMENT OF THE COST OF THE PLAN OF ASSISTANCE.

| | \$ |
|---|-----------|
| Principal Adviser with the Central Government (combining duties of Legal Adviser) | 12,000 |
| Secretary | 4,000 |
| Three Commissioners and three Assistant Commissioners | 42,000 |
| Two Medical Officers | 16,000 |
| One Financial Adviser and staff | 26,000 |
| Travelling | 6,000 |
| Public Health | 20,000 |
| Geographical, mineralogical and botanical prospection (programme extending over five years) | 8,000 |
| Maintenance of existing roads and buildings. | } 54,000 |
| Roads and bridges | |
| | \$188,000 |

Appendix B.

| <i>Actual Revenues and Receipts of the Liberian Government during 1931.</i> | \$ | <i>Future Budgetary Expenses in accordance with the Plan of Assistance.</i> | \$ |
|---|--------------|---|--------------|
| Customs revenue | 256,797.74 | Ordinary expenses of the Government of Liberia with the economies proposed by the experts | 265,000.00 |
| Port and harbour dues | 14,876.50 | Cost of the programme | 188,000.00 |
| Emergency relief fund. | 48,209.64 | Unforeseen expenses | 28,129.72 |
| 6 per cent dry goods tax | 17,353.74 | | |
| Highway fund | 3,650.79 | | |
| Internal revenue | 120,556.83 | | |
| Postal revenue | 3,406.38 | | |
| Municipal revenues | 16,278.10 | | |
| | \$481,129.72 | | \$481,129.72 |

The necessary initial capital and reserve fund will be provided by the advance at par of the remaining part of the first section of the loan — \$247,000.

Annex III.

C./Liberia/17 (1).

GENERAL PRINCIPLES OF THE PLAN OF ASSISTANCE.

PART I.

CHAPTER I. — ADMINISTRATION.

Article 1.

For administrative purposes, the territory of the Republic shall be divided into three provinces.

Article 2.

Each province shall be administered by a Provincial Commissioner assisted by a Deputy Commissioner.

The Provincial Commissioner is the representative of the executive power, responsible to the Chief of the Government, through the intermediary of the Secretary of the Interior.

It shall be his duty to see that the laws and regulations are carried out, and he shall be responsible for public peace and order.

Article 3.

To ensure public order, the Commissioners will have under their direct orders a gendarmerie.

The "Frontier Force" may not intervene in the provinces, except at the request of the Provincial Commissioner, and, in that case, only within the limits of the instructions given by the latter.

Article 4.

The Government of Liberia will engage three foreign specialists as Commissioners of the three provinces and three others as deputies of the said Commissioners. They will be proposed by the League of Nations to the President of the Republic for approval and will be appointed by him. They may be replaced for adequate reasons with the consent of the League of Nations.

They will be paid a sum of a maximum of \$ 8,000 in the case of each Provincial Commissioner and \$ 6,000 in the case of each Deputy Commissioner.

CHAPTER II. — HEALTH.

The Liberian Government shall engage two whole-time medical officers for hospital and health work. The appointments and conditions of such service shall be the same as for the other foreign experts, and they shall carry out all the ordinarily accepted duties of a medical officer of health in a tropical country.

CHAPTER III. — FINANCE.

Article 1.

The Liberian Government shall continue to appoint to its service a Financial Adviser, together with a certain number of assistants. The Financial Adviser shall be designated by the President of the United States and approved by the President of the Republic of Liberia and eventually appointed by him.

The assistant advisers shall be designated to the President of the Republic of Liberia by the Financial Adviser, who shall previously inform the Secretary of State of the United States of the name of the proposed official. They shall be eventually appointed by the President of the Republic of Liberia.

Article 2.

It shall be the duty of the Financial Adviser and his collaborators to ensure the efficient organisation and functioning of the Liberian fiscal services and also the regular payment of the service of the loan, and they shall have all the powers necessary for their purpose.

Article 3.

The Financial Adviser shall have the right of supervision over all questions within the financial sphere and shall have the right, more particularly, to make sure that the credits allocated are being judiciously applied for the purposes stipulated.

Article 4.

Any disagreement between the Liberian Government and the Financial Adviser shall be submitted to the Chief Adviser, who will arbitrate thereon and will report to the League of Nations.

CHAPTER IV. — CO-ORDINATION OF MEASURES OF REFORM AND LIAISON
WITH THE LEAGUE OF NATIONS.

Article 1.

A Chief Adviser shall be appointed by the League of Nations and with the acceptance (*agrément*) of the President of the Republic. This Adviser shall be responsible to and removable by the League, and shall be attached to the Central Government in order to give it the benefit of his advice, to co-ordinate the work of the foreign experts, and to supervise the execution of the scheme of assistance.

For this purpose, the Liberian Government shall grant him all facilities for the performance of his duties throughout his term of office. The Chief Adviser may, in particular, ask for any documents and official reports he may require, and may make such investigations as he may think fit in the country.

Article 2.

Should the Chief Adviser find that there has been negligence in the application of the scheme, he shall so inform the Government and shall advise what steps shall be taken; should his advice have no effect, he shall make recommendations to the Government in writing; and, should his written recommendations not be followed, he may submit the question to the Council of the League of Nations.

If the Liberian Government is not prepared to carry out the written recommendations of the Chief Adviser, it may also refer the question to the Council of the League of Nations.

If the Liberian Government refuses to carry out the Council's recommendations, the latter may declare that the present Agreement has lapsed and that, consequently, the modifications introduced into the loan contract with the American Finance Corporation are no longer binding on that company.

In all such cases, the Council shall decide by a unanimous vote, Liberia's vote not counting in reckoning this unanimity.

In urgent cases, the President in office of the Council may act on behalf of the Council, provided that he refers the matter to the Council as soon as possible.

Article 3.

The Chief Adviser shall receive a salary of \$12,000, on the same terms as the other foreign experts.

CHAPTER V. — DURATION OF THE SCHEME.

This scheme shall come to an end after a period of five years, unless the Liberian Government should intimate its desire that it should continue. Before the expiration of that period, the League of Nations shall reconsider the question of the scheme of assistance, and may discontinue its co-operation if it thinks fit.

PART II. — SUGGESTED FINANCIAL ASSISTANCE TO BE GIVEN TO
THE LIBERIAN GOVERNMENT.

Article 1.

As long as the revenue and receipts of the Government of Liberia have not reached \$650,000, a moratorium shall be granted to the Government of Liberia for the service of the interest and sinking fund on the sums paid by the American Finance Corporation under the loan contract.

Article 2.

There shall be a reduction of interest for the time after the expiration of the moratorium.

SOCIETE DES NATIONS

DEMANDE D'ASSISTANCE
PRESENTEE PAR LE GOUVERNEMENT DU LIBERIA

ANNEXE III

(C./Libéria/17(1).)

Partie I, Chapitre III, Article 4

Après les mots "adressera un rapport à la Société
des Nations" ajoutez:

"et au Gouvernement des Etats-Unis d'Amérique".

LEAGUE OF NATIONS

REQUEST FOR ASSISTANCE
SUBMITTED BY THE LIBERIAN GOVERNMENT

ANNEX III

(C./Liberia/17(1).)

Part I, Chapter III, Article 4

After the words "will report to the League of
Nations" add:

"and to the Government of the United States of
America"

Article 3.

The American Finance Corporation shall advance at par the sum of \$247,000, which remains available out of the first instalment of the loan.

Article 4.

The necessary modifications of the loan contract shall be made in order to bring in into line with the scheme of assistance.

Article 5.

Negotiations on this matter shall be undertaken as soon as the Liberian Government has accepted, in principle, the present programme proposed in the first part of the present scheme of assistance.

In these negotiations, the Liberian Government will, if it please, have the help of the Financial Committee and M. Ligthart.

Article 6.

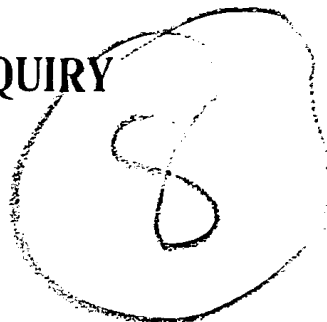
The total area mentioned in the concession contract with the Firestone Plantations Company shall be reduced, and the rent shall be raised from 6 cents to about 50 cents per acre.

Negotiations should be opened between the Liberian Government and the Firestone Company as soon as possible, and M. Ligthart will be prepared to assist the Liberian Government in these negotiations.

Geneva, August 8th, 1932.

LEAGUE OF NATIONS

**Report of the Secretary-General to the Assembly
on
THE WORK OF THE COMMISSION OF ENQUIRY
FOR EUROPEAN UNION**



I.

During its twelfth session (meeting of September 24th, 1931), the Assembly adopted the following resolution:

" 1. The Assembly notes with satisfaction the results of the work done by the Commission of Enquiry for European Union;

" It approves the report of the Commission of Enquiry regarding its constitution, organisation and methods of work;

" It requests the Commission to pursue the work undertaken in conformity with the principles laid down in the resolution of September 17th, 1930;

" It recommends it to have recourse, whenever possible, to the technical organs of the League of Nations and to refer to the League the settlement of any problems which it thinks capable of solution on a world scale;

" It requests the Commission to submit a report on its further work to the next session of the Assembly.

" 2. The Assembly approves the proposal of the Commission of Enquiry for European Union that it should itself set up a special Committee to study a Pact of Economic Non-aggression.

" The Assembly decides that the following States shall be invited to take part in the work of this special Committee on an equal footing with the members which the Commission of Enquiry may appoint:

Australia
Canada
Chile
China

India
Japan
Uruguay

" The Council is requested to invite the Government of the United States of America also to send a representative to the special Committee, if that Government considers it desirable."

II.

Fifth Session of the Commission.

The Commission of Enquiry held its fifth session on September 26th, 1931, under the chairmanship of M. Motta (Switzerland). It appointed the following European countries as members of the special Committee for the examination of the draft Pact of Economic Non-aggression:

Belgium
United Kingdom
Czechoslovakia
Estonia
Finland
France

Germany
Greece
Italy
Latvia
Poland
Roumania

Spain
Sweden
Switzerland
Turkey
Union of Soviet
Socialist Republics

The Commission also appointed a special Committee to study the possibility of the extension of a system of special facilities to agricultural products other than cereals. The appointment of this Committee had been approved by the Assembly on the proposal of the Second Committee, whose resolution on the subject was as follows:

“
“(b) Having noted the resolution adopted by the Commission of Enquiry for European Union regarding the appointment of a special Committee to study the extension of a system of special facilities to agricultural products other than cereals;

“ Considering that such extension would raise difficult questions of principle, in particular as regards the relations between such a system and the most-favoured-nation clause:

“ Deems it desirable that the findings of the special Committee referred to above should be examined by the Economic Committee before being submitted to the Commission of Enquiry for European Union.”

The following countries were members of the special Committee:

| | | |
|----------------|---------|-------------|
| Austria | France | Netherlands |
| Belgium | Germany | Poland |
| United Kingdom | Greece | Spain |
| Bulgaria | Hungary | Turkey |
| Czechoslovakia | Ireland | Yugoslavia |
| Denmark | Italy | |

III.

In accordance with its Rules of Procedure, which provide that every year, after the meeting of the Assembly, the Commission shall proceed to elect its Bureau, the Commission re-elected M. BRIAND (France) as Chairman, and M. MOTTA (Switzerland) and M. POLITIS (Greece) as Vice-Chairmen, of the Commission of Enquiry for the year 1932.

1. *Special Committee to study the Extension of Preference to Agricultural Products other than Cereals.*

The special Committee met on October 30th and 31st, 1931. The Committee had before it proposals calling for a study of the possibility of extending preference or granting special facilities to the following products: tobacco, raisins, figs, oranges, live-stock and derivative products, timber, mohair, cotton, grapes and plums.

The situation of the European tobacco-producers was specially examined. The special Committee thought that the measures to be taken in each case should be determined by bilateral negotiations. The Committee considered that the Commission of Enquiry might usefully draw the attention of Governments to the critical position of European tobacco-producers, taking into consideration whether there was or was not a monopoly.

With regard to the other products, the Economic Committee might be asked to take into consideration any proposal submitted to it by the countries concerned, and to examine any measures which might improve the situation of the populations suffering severely from the crisis which producers are going through.

Generally speaking, it seemed impossible to consider the extension of special facilities of a preferential nature to agricultural products other than cereals. Some members of the Committee considered that, before thinking of extending preference to fresh agricultural products, time should be left for the experiments being made in the sphere of cereals to take full effect and prove their value.

In its report of January 20th, 1932, the Economic Committee stated that it had no special observations to make.

2. *Special Committee to examine the Draft Pact of Economic Non-aggression.*

The Committee held its first session from November 2nd to 5th, 1931. The draft Protocol submitted by the Government of the Union of Soviet Socialist Republics contained the two following clauses:

“(1) The Contracting Parties once more solemnly affirm the principle, proclaimed at the International Economic Conference of 1927, of the peaceful coexistence of countries, irrespective of their social-political and economic systems.

“(2) The Parties undertake in their mutual relations to forgo any discrimination whatever, and to regard as incompatible with the principles of the present Protocol the adoption and application in their respective countries of a special system directed against one or more of the countries signing the present Protocol or not applicable to all other countries.”

As a result of its discussions, the Committee reached the following conclusions:

“(1) The Committee endorses the general idea underlying the proposal for a pact of non-aggression.

“(2) It asserts that it is possible for countries with a different economic and social structure to exist peacefully side by side. It emphasises the necessity of States being guided in their economic relations solely by the needs of economic life, and not by any considerations explicitly derived from differences in political and social systems.

“(3) Having regard to the different interpretations given to the actual terms of the draft pact and the difficulty of defining aggression, discrimination, etc., within the framework of such a pact;

“Seeing that the draft under consideration does not seem likely to secure unanimous acceptance or even acceptance by a majority of the members of the Committee;

“And having regard to the necessity of reconsidering the question in the light of the discussion that has taken place in the Committee:

“The Committee decides to meet again before the meeting of the Commission of Enquiry for European Union in January 1932 to re-examine the question, taking into account any amendments or further observations, which the Governments are requested to send to the Secretary-General in good time.”

The meeting of the Commission of Enquiry which was to have been held in January 1932 having been deferred, the meeting of the special Committee was also postponed to a later date.

The Governments of Australia, Canada and the United States of America did not send representatives to this Committee.

* * *

On May 31st, 1932, the French Government, in accordance with the recommendation of the Commission of Enquiry, forwarded to the Secretary-General the text of the arrangements which had been made by France with Yugoslavia and Roumania regarding import quotas for wheat. The text of these arrangements has been communicated to Members of the League (document C.517.M.256.1932.VII. [C.E.U.E./75]).

On July 19th, 1932, the Secretary-General of the Lausanne Conference communicated to the Secretary-General the text of a resolution which the Lausanne Conference had adopted in regard to the appointment of a Committee to submit to the Commission of Enquiry for European Union, at its next session, proposals with a view to the restoration of the countries of Central and Eastern Europe, referring in particular to two points:

(a) Measures to overcome the present transfer difficulties of those countries and to make possible the progressive suppression, subject to the necessary safeguards, of the existing systems of exchange control;

(b) Measures to revive the activity of trade, both among those countries themselves and between them and other States, and to overcome the difficulties caused to the agricultural countries of Central and Eastern Europe by the low price of cereals, it being understood that the rights of “third countries” remain reserved.

The Conference invited the Governments of Austria, Belgium, the United Kingdom, Bulgaria, Czechoslovakia, France, Germany, Greece, Hungary, Italy, the Netherlands, Poland, Roumania, Switzerland and Yugoslavia each to appoint not more than two representatives on the Committee referred to above.

The Members of the League were informed of this communication by document C.560.M.271. 1932.VII.

Geneva, August 16th, 1932.

LEAGUE OF NATIONS

**REQUEST OF THE KINGDOM OF IRAQ FOR
ADMISSION TO THE LEAGUE OF NATIONS**

The Secretary-General has the honour to communicate to the Members of the League of Nations, for consideration :

1. A letter from the United Kingdom Secretary of State for Foreign Affairs, dated London, July 26th, 1932 ;
2. A letter from the Prime Minister of Iraq, dated Bagdad, July 12th, 1932, relating to the request of Iraq for admission to the League of Nations ;
3. A memorandum from the Iraqi Government ;
4. A Declaration, made at Baghdad on May 30th, 1932, containing the guarantees given to the Council by the Iraqi Government.

In accordance with the proposal of the Government of the United Kingdom, the request of the Iraqi Government will be placed, in conformity with Rule 4, paragraph 3 of the Rules of Procedure of the Assembly, on the Supplementary List of items to the Agenda of the thirteenth Ordinary Session of the Assembly.

**1. LETTER, DATED JULY 26TH, 1932, FROM THE BRITISH UNDER-SECRETARY
OF STATE FOR FOREIGN AFFAIRS.**

London, July 26th, 1932.

To the Secretary-General.

By their resolution of January 28th, 1932, the Council of the League of Nations declared their intention to make the termination of the mandatory regime in Iraq subject to two conditions, one of which was the admission of that country to the League of Nations. In a report in connection with this question submitted to the Council on May 19th, the Council's rapporteur drew attention to the above-mentioned resolution, and pointed out that the termination of the mandatory regime in Iraq would not be effected until, *inter alia*, Iraq had been admitted to the League of Nations in accordance with the relevant provisions of the Covenant. M. Politch's report was approved by the Council in their resolution of the same day.

2. I am now directed by His Majesty's Principal Secretary of State for Foreign Affairs to transmit to you herewith in original a letter from the Prime Minister of Iraq, requesting that the Kingdom of Iraq may be admitted as a member of the League of Nations, in accordance with the terms of Article 1, paragraph 2, of the Covenant of the League of Nations, together with an explanatory memorandum which forms the enclosure in that letter, and a copy of the Declaration of Guarantees furnished to the Council, which is an enclosure to the memorandum.

The original of the Declaration of Guarantees was sent to you in Foreign Office letter No. E 3102/9/93 of June 27th.

3. Sir John Simon will be grateful to you if the request of the Iraqi Prime Minister may be placed on the Agenda of the next meeting of the Assembly of the League, and if that request may, in the meantime, be brought to the notice of States Members of the League of Nations in accordance with Nury Pasha's desire.

(Signed) G. W. RENDEL.

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2. LETTER, DATED JULY 12TH, 1932, FROM THE PRIME MINISTER OF IRAQ.

Baghdad, July 12th, 1932.

To the Secretary-General.

I have the honour to request that the Kingdom of Iraq may be admitted as a Member of the League of Nations, in accordance with the terms of Article 1, paragraph 2, of the Covenant of the League of Nations, and that this request may be placed on the Agenda of the next meeting of the Assembly of the League.

The Government of Iraq is prepared to accept the conditions laid down in Article 1, paragraph 2, of the Covenant, and to carry out all the obligations involved in membership of the League.

The Government of Iraq will send representatives empowered to give all necessary explanations to the Assembly. In the meantime I have the honour to enclose a memorandum giving information on the points which are usually considered by the Assembly in connection with the admission of new Members to the League.

It is requested that this application may be brought without delay to the knowledge of all States Members of the League.

(Signed) NOURY SA'ID,
Prime Minister of Iraq.

3. MEMORANDUM FROM THE IRAQI GOVERNMENT.

Baghdad, July 12th, 1932.

1. Iraq was one of the territories described in Article 22 of the Covenant as having reached a stage of development where their existence as independent nations could be provisionally recognised subject to the rendering of administrative advice and assistance by a mandatory until such time as they were able to stand alone.

The mandate for Iraq was entrusted to His Britannic Majesty by the principal Allied Powers in April, 1920; but the normal conception of a mandate proved to be inappropriate in the case of Iraq as implying a form of tutelage inconsistent with the large measure of independence which the Iraqi State had even then acquired. The relations between the United Kingdom and Iraq were accordingly placed upon a treaty basis in 1922, and that basis was approved by the Council of the League of Nations by their decision of September 27th, 1924, as giving effect to the provisions of Article 22 of the Covenant.

2. Subject only to the limitations imposed by the Anglo-Iraq Treaty of 1922, Iraq was organised as a fully self-governing kingdom, with the powers and attributes of an independent sovereign State. The guiding principle which inspired the Treaty of 1922 and subsequent treaties between the United Kingdom and Iraq, and the aim which the two Governments have from the first set before themselves, have been the establishment at the earliest possible date of a fully independent State, animated by the spirit of the Covenant and fit to assume not only the privileges but also the responsibilities involved in admission to the League of Nations.

3. With this end in view external mandatory control was progressively reduced and the Iraqi Government assumed year by year an increasing measure of responsibility, until the position was reached that Iraq was virtually governing itself, and the Government of the United Kingdom were satisfied that the country had no further need for the advice and assistance of a mandatory and, in the words of Article 22 of the Covenant, was "able to stand alone".

4. Their view that Iraq was fit for emancipation was duly communicated by the Government of the United Kingdom to the Council of the League of Nations. At their meeting in September, 1931, the Council, however, decided that before the mandatory regime in Iraq could be terminated that country must be shown to satisfy certain *de facto* conditions, of which the first three were:

(a) It must have a settled Government and an administration capable of maintaining the regular operation of essential Government services;

(b) It must be capable of maintaining its territorial integrity and political independence;

(c) It must be able to maintain the public peace throughout the whole territory.

5. The question whether these conditions, among others stipulated by the Council, were fulfilled in the case of Iraq, was subsequently made the subject of a searching examination by the Permanent Mandates Commission, and in the light of the favourable report submitted by that body, the Council, on January 28th, 1932, declared itself prepared in principle to pronounce the termination of the mandatory regime upon the admission of Iraq to the League of Nations, provided that Iraq should in the meantime have entered into undertakings before the Council, the nature of which were specified in the Council's decision.

6. These undertakings have been assumed by Iraq in a Declaration the text of which was approved by the Council in its Resolution of May 19th, 1932, and which has been signed and ratified by Iraq and deposited with the Secretary-General. The text of this Declaration is annexed to the present memorandum.

7. Upon the admission of Iraq to membership of the League of Nations, the Treaty of Alliance between Iraq and the United Kingdom dated June 30th, 1930, will enter into operation. At the request of the League Council, the Permanent Mandates Commission also examined this Instrument, and reported that the obligations entered into thereunder by Iraq towards the United Kingdom would not infringe the independence of the new State. The Council duly took note of this opinion at its meeting on January 28th, 1932.

8. It follows from the foregoing information that, upon the admission of Iraq to membership of the League, Article 22 of the Covenant will automatically cease to apply, all external control will be withdrawn and Iraq will be fully self-governing.

9. The kingdom of Iraq has already been formally recognised by the following Governments, who have either diplomatic or consular representatives in Iraq :

Belgium, the United Kingdom, Czechoslovakia, Denmark, Egypt, France, Germany, Greece, Hedjaz-Nejd, Italy, the Netherlands, Norway, Persia, Poland, Sweden, Turkey, and the United States of America.

The kingdom of Iraq has also concluded on its own behalf several treaties of settlement and friendship with foreign States, and acceded to the Pact of Paris for the Renunciation of War.

10. The form of government established in Iraq is a Constitutional Monarchy with Ministers responsible to a bi-cameral Parliament. Parliamentary government, in its present form, has been in existence in Iraq since November, 1925.

11. Iraq possesses well-defined frontiers with all limitrophe States. Certain doubts having arisen, however, regarding the precise definition and application of the frontier between Iraq and Syria, it was agreed to refer the matters in dispute to the Council of the League of Nations, and to accept the decision of that body as final.

12. The Declaration referred to in paragraph 6 above ensures the full observance of all international engagements assumed by the Iraqi Government or by the Government of the United Kingdom on behalf of Iraq.

13. The kingdom of Iraq possesses no naval forces. Its army (including a small air force) has a total strength of approximately 10,500 men. Its strength is not in excess of that required to maintain internal order and the necessary minimum defences. The army does not possess any of the more powerful modern weapons of attack.

The kingdom of Iraq is pledged by its adherence to the Pact of Paris never to resort to war as an instrument of national policy.

It is the intention of the Iraqi Government to accede as soon as possible to the Convention relating to the supervision of the international trade in arms and ammunition and in implements of war signed at Geneva on June 17th, 1925, and at the same time to assume in respect of Iraqi territory the same undertakings as those set forth in the first paragraph of Article 28 of that Convention.

4. DECLARATION OF THE KINGDOM OF IRAQ, MADE AT BAGHDAD ON MAY 30TH, 1932, ON THE OCCASION OF THE TERMINATION OF THE MANDATORY REGIME IN IRAQ, AND CONTAINING THE GUARANTEES GIVEN TO THE COUNCIL BY THE IRAQI GOVERNMENT.

CHAPTER I.

Article 1.

Protection of Minorities. The stipulations contained in the present chapter are recognised as fundamental laws of Iraq, and no law, regulation or official action shall conflict or interfere with these stipulations, nor shall any law, regulation or official action now or in the future prevail over them.

Article 2.

1. Full and complete protection of life and liberty will be assured to all inhabitants of Iraq without distinction of birth, nationality, language, race or religion.

2. All inhabitants of Iraq will be entitled to the free exercise, whether public or private, of any creed, religion or belief, whose practices are not inconsistent with public order or public morals.

Article 3.

Ottoman subjects habitually resident in the territory of Iraq on August 6th, 1924, shall be deemed to have acquired on that date Iraqi nationality to the exclusion of Ottoman nationality in accordance with Article 30 of the Lausanne Peace Treaty and under the conditions laid down in the Iraqi Nationality Law of October 9th, 1924.

Article 4.

1. All Iraqi nationals shall be equal before the law and shall enjoy the same civil and political rights without distinction as to race, language or religion.

2. The electoral system shall guarantee equitable representation to racial, religious and linguistic minorities in Iraq.

3. Differences of race, language or religion shall not prejudice any Iraqi national in matters relating to the enjoyment of civil or political rights, as, for instance, admission to public employments, functions and honours, or the exercise of professions or industries.

4. No restriction will be imposed on the free use by any Iraqi national of any language, in private intercourse, in commerce, in religion, in the Press or in publications of any kind, or at public meetings.

5. Notwithstanding the establishment by the Iraqi Government of Arabic as the official language, and notwithstanding the special arrangements to be made by the Iraqi Government, under Article 9 of the present Declaration, regarding the use of the Kurdish and Turkish languages, adequate facilities will be given to all Iraqi nationals whose mother tongue is not the official language, for the use of their language, either orally or in writing, before the courts.

Article 5.

Iraqi nationals who belong to racial, religious or linguistic minorities will enjoy the same treatment and security in law and in fact as other Iraqi nationals. In particular, they shall have an equal right to maintain, manage and control at their own expense, or to establish in the future, charitable, religious and social institutions, schools and other educational establishments, with the right to use their own language and to exercise their religion freely therein.

Article 6.

The Iraqi Government undertakes to take, as regards non-Moslem minorities, in so far as concerns their family law and personal status, measures permitting the settlement of these questions in accordance with the customs and usage of the communities to which those minorities belong.

The Iraqi Government will communicate to the Council of the League of Nations information regarding the manner in which these measures have been executed.

Article 7.

1. The Iraqi Government undertakes to grant full protection, facilities and authorisation to the churches, synagogues, cemeteries and other religious establishments, charitable works and pious foundations of minority religious communities existing in Iraq.

2. Each of these communities shall have the right of establishing councils in important administrative districts, competent to administer pious foundations and charitable bequests. These councils shall be competent to deal with the collection of income derived therefrom, and the expenditure thereof in accordance with the wishes of the donor or with the custom in use among the community. These communities shall also undertake the supervision of the property of orphans, in accordance with law. The councils referred to above shall be under the supervision of the Government.

3. The Iraqi Government will not refuse, for the formation of new religious or charitable institutions, any of the necessary facilities which may be guaranteed to existing institutions of that nature.

Article 8.

1. In the public educational system in towns and districts in which are resident a considerable proportion of Iraqi nationals whose mother tongue is not the official language, the Iraqi Government will make provision for adequate facilities for ensuring that in the primary schools instruction shall be given to the children of such nationals through the medium of their own language; it being understood that this provision does not prevent the Iraqi Government from making the teaching of Arabic obligatory in the said schools.

2. In towns and districts where there is a considerable proportion of Iraqi nationals belonging to racial, religious or linguistic minorities, these minorities will be assured an equitable share in the enjoyment and application of sums which may be provided out of public funds under the State, municipal or other budgets for educational, religious or charitable purposes.

Article 9.

1. Iraq undertakes that in the liwas of Mosul, Arbil, Kirkuk and Sulaimaniya, the official language, side by side with Arabic, shall be Kurdish in the qadhas in which the population is predominantly of Kurdish race.

In the qadhas of Kifri and Kirkuk, however, in the liwa of Kirkuk, where a considerable part of the population is of Turcoman race, the official language, side by side with Arabic, shall be either Kurdish or Turkish.

2. Iraq undertakes that in the said qadhas the officials shall, subject to justifiable exceptions, have a competent knowledge of Kurdish or Turkish as the case may be.

3. Although in these qadhas the criterion for the choice of officials will be, as in the rest of Iraq, efficiency and knowledge of the language, rather than race, Iraq undertakes that the officials shall, as hitherto, be selected, so far as possible, from among Iraqis from one or other of these qadhas.

Article 10.

The stipulations of the foregoing articles of this Declaration, so far as they affect persons belonging to racial, religious or linguistic minorities, are declared to constitute obligations of international concern and will be placed under the guarantee of the League of Nations. No modification will be made in them without the assent of a majority of the Council of the League of Nations.

Any Member of the League represented on the Council shall have the right to bring to the attention of the Council any infraction or danger of infraction of any of these stipulations, and the Council may thereupon take such measures and give such directions as it may deem proper and effective in the circumstances.

Any difference of opinion as to questions of law or fact arising out of these articles between Iraq and any Member of the League represented on the Council shall be held to be a dispute of an international character under Article 14 of the Covenant of the League of Nations. Any such dispute shall, if the other party thereto demands, be referred to the Permanent Court of International Justice. The decision of the Permanent Court shall be final and shall have the same force and effect as an award under Article 13 of the Covenant.

CHAPTER II.

Article 11.

Most-favoured-nation Clause. 1. Subject to reciprocity, Iraq undertakes to grant to Members of the League most-favoured-nation treatment for a period of ten years from the date of its admission to membership of the League of Nations.

Nevertheless, should measures taken by any Member of the League of Nations, whether such measures are in force at the above-mentioned date or are taken during the period contemplated in the preceding paragraph, be of such a nature as to disturb to the detriment of Iraq the balance of trade between Iraq and the Member of the League of Nations in question, by seriously affecting the chief exports of Iraq, the latter, in view of its special situation, reserves to itself the right to request the Member of the League of Nations concerned to open negotiations immediately for the purpose of restoring the balance.

Should an agreement not be reached by negotiation within three months from its request, Iraq declares that it will consider itself as freed, *vis-à-vis* of the Member of the League in question, from the obligation laid down in the first sub-paragraph above.

2. The undertaking contained in paragraph 1 above shall not apply to any advantages which are, or may in the future be, accorded by Iraq to any adjacent country in order to facilitate frontier traffic, or to those resulting from a Customs union concluded by Iraq. Nor shall the undertaking apply to any special advantages in Customs matters which Iraq may grant to goods the produce or manufacture of Turkey or of any country whose territory was in 1914 wholly included in the Ottoman Empire in Asia.

Article 12.

Judicial Organisation. A uniform system of justice shall be applicable to all, Iraqis and foreigners alike. It shall be such as effectively to ensure the protection and full exercise of their rights both to foreigners and to nationals.

The judicial system at present in force, and based on Articles 2, 3 and 4 of the Agreement between the Mandatory Power and Iraq, signed on March 4th, 1931, shall be maintained for a period of 10 years from the date of the admission of Iraq to membership of the League of Nations.

Appointments to the posts reserved for foreign jurists by Article 2 of the said Agreement shall be made by the Iraqi Government. Their holders shall be foreigners, but selected without distinction of nationality; they must be fully qualified.

Article 13.

International Conventions. Iraq considers itself bound by all the international agreements and conventions, both general and special, to which it has become a party, whether by its own action or by that of the Mandatory Power acting on its behalf. Subject to any right of denunciation provided for therein, such agreements and conventions shall be respected by Iraq throughout the period for which they were concluded.

Article 14.

Acquired Rights and Financial Obligations. Iraq, taking note of the resolution of the Council of the League of Nations of September 15th 1925 :

1. Declares that all rights of whatever nature acquired before the termination of the mandatory regime by individuals, associations or juridical persons shall be respected.
2. Undertakes to respect and fulfil all financial obligations of whatever nature assumed on Iraq's behalf by the Mandatory Power during the period of the Mandate.

Article 15.

Freedom of Conscience. Subject to such measures as may be essential for the maintenance of public order and morality, Iraq undertakes to ensure and guarantee throughout its territory freedom of conscience and worship and the free exercise of the religious, educational and medical activities of religious missions of all denominations, whatever the nationality of those missions or of their members.

Article 16.

Final Clause. The provisions of the present chapter constitute obligations of international concern. Any Member of the League of Nations may call the attention of the Council to any infraction of these provisions. They may not be modified except by agreement between Iraq and the Council of the League of Nations acting by a majority vote.

Any difference of opinion which may arise between Iraq and any Member of the League of Nations represented on the Council, with regard to the interpretation or the execution of the said provisions, shall, by an application by such Member, be submitted for decision to the Permanent Court of International Justice.

The undersigned, duly authorised, accepts on behalf of Iraq, subject to ratification, the above provisions, being the declaration provided for by the resolution of the Council of the League of Nations of May 19th, 1932.

DONE at Baghdad on this thirtieth day of May 1932

in a single copy which shall be deposited in the archives of the Secretariat of the League of Nations.

(Signed) NOURY SA'ID,

Prime Minister of Iraq.

Geneva, September 24th, 1932.

LEAGUE OF NATIONS

REQUEST FOR ASSISTANCE SUBMITTED BY THE
LIBERIAN GOVERNMENT

10

Dr. MACKENZIE'S MISSION TO THE KRU COAST

Note by the Secretary-General:

The Secretary-General has the honour to communicate to the Council and Members of the League the following report by Dr. M. D. Mackenzie on his mission to the Kru coast, in accordance with the resolution adopted by the Council on May 21st, 1932.

To the Secretary-General.

I have the honour to report that, in accordance with my instructions as representative of the Council of the League of Nations, I arrived at Monrovia, Liberia, on June 26th, and presented my credentials to the President.

The Government at once gave me the necessary facilities for the mission, as set out in Appendix I. At the same time I was asked officially to deal with certain outstanding land disputes amongst the tribes.

The Hon. F. A. K. Russell was nominated by the President as the special representative of the Liberian Government and was furnished with full powers to undertake promises on behalf of the Government.

CONDITIONS ON ARRIVAL.

During last year a number of Kru tribes (Appendix II) took up arms against the Government. Later, inter-tribal quarrels occurred with the burning of towns and inter-tribal fighting, in which some eighteen tribes were involved. The inter-tribal quarrels included land disputes, rebellions against unpopular chiefs, personal ambitions of individual chiefs, etc. In the course of the hostilities with the Government and among the tribes, some forty-four towns had been burned and a considerable but unknown number of casualties had occurred.

At the time of my arrival, the whole of the tribes of the Kru coast were fully armed with guns and spears, and almost all were engaged in hostilities with one or more of the other tribes or with the Government.

Four tribes (Old Sasstown, Borroh, Dio and Wissepo), comprising some 12,000 men, women and children, had been driven into the bush and were in a state of advanced starvation. The continuation of the fighting was resulting in the destruction of such crops as these tribes had planted and was driving them deeper and deeper into the bush. These people had undoubtedly suffered very great hardship during the eight months they had been living out in the bush without houses or anything like adequate nourishment.

The position was further complicated by the fact that two of the Kru tribes (Niffu and Sobo) had remained loyal to the Government, and extreme bitterness existed between these tribes and the Krus in the bush, which was accentuated by the fact that these two tribes had rebuilt and occupied the destroyed towns of the tribes in the bush and were living in these towns, their own towns having been burned.

It was clear that a large number of Krus in the bush would die within the next few months, as I am convinced that, from the time they have been in the bush and the suffering they have already undergone, these men were not of a type to surrender easily.

Meanwhile, owing to the existence of the hostile warriors in the bush, the tribes on the coast were unable to reach their farms and were afraid to allow their womenfolk to work in the bush. The men were constantly under arms and little or no farming was being done.

The destruction of the canoes during the fighting was interfering with fishing, and the general condition amongst all the tribes was one of fear, suspicion and constant armed watchfulness.

Finally, the position was taken advantage of by an ambitious chief to try to establish himself as Paramount Chief of all the Krus. Fighting was going on in this connection when I arrived, two tribes having combined together successfully to overthrow him.

Briefly, it may be said that the whole Kru coast from Nana Kru to Grand Cess, some sixty miles of sea-coast, and the corresponding parts of the interior, were fully armed and were engaged in hostilities either with the Government or amongst themselves. At the time of my arrival, with the exception of two tribes (Old Sasstown and Borroh), the immediate cause of the fighting was inter-tribal.

It should be mentioned that the movement had been instigated by, and was receiving sympathetic support from, political leaders in Monrovia amongst the civilised Krus, but these agitators, after stirring up the trouble, did not remain with the tribes during the fighting, but retired to the safety of Monrovia.

Finally, the whole position was being very closely watched by the Kru colonies in Sierra Leone and the Gold Coast, who either made efforts themselves to come to join in the fighting or to smuggle in arms and ammunition to the dissident tribes. I constantly received evidence of the close communications proceeding between the dissident Krus in Liberia and those in the adjacent colonies, these communications being kept up by means of runners through the bush or canoes.

After a few days in Monrovia receiving the necessary powers from the Government, I proceeded to the Kru coast, landing on July 2nd at Sasstown, the principal centre of the hostilities.

I remained on the Kru coast for two months, and during this time the following practical results were obtained:

(1) All fighting was stopped.

(2) Of the four tribes driven into the bush, comprising some 12,000 men, women and children, two tribes have returned to their own lands under conditions suggested by your representative and finally laid down by the Government, and the reconstruction of houses and farms is going on over the whole area. For a number of reasons it was decided wise for the other two tribes to remain in the bush for a period of one year under conditions laid down by the Government, approved by your representative and agreed to by the tribes concerned. Town and farm reconstruction is actively taking place over all the areas occupied by these tribes in the bush. The conditions of the truce in both cases are given in Appendices V and VI. It is now certain that the 12,000 tribesmen and women will not suffer from starvation during the period of the truce, provided this is maintained by both sides. The rice lands of both tribes in the bush were visited and sufficient rice was seen to be growing to supply their needs.

(3) The complete disarming of all the tribes on the Kru coast, friendly and hostile, was carried out, some 500 rifles and guns being collected, registered and removed to Monrovia (Appendix III). This disarming was made with the approval of the tribes generally, who were in constant fear of each other. In a number of cases, disarming was carried out at the request of the Paramount Chief himself, as it was impossible for him to maintain order in the face of heavily armed tribesmen. It was clear that there never could be peace whilst the country was virtually an armed camp. The deprivation of arms is in itself a great incentive to peace—the sight of a gun tempts to war, spears and knives being much less used, and then only at close quarters and calling for greater individual courage. With a gun it is easy to ambush on the trail and get away afterwards, and, moreover, in tribal warfare, a night attack on a village is only likely to be carried out with guns, as a few arms serve to terrify the population in a way that is impossible with close fighting with spears and knives.

A sample of the method adopted of registering the guns is given in Appendix III.

(4) Every hostile tribe on the Kru coast was visited personally and the special problems of the tribe dealt with. These are given in detail in Appendix IV.

(5) Outstanding land questions of the tribes on the Kru coast were dealt with in detail, involving some miles of boundary-cutting through high bush and swamps and the mapping of districts and rivers (Appendices VIII, IX and X). In all cases a map and description of the boundary was made and given to each chief concerned and to the Government, these being the first surveys ever carried out in the districts. In most cases the lands were only provisionally allocated, pending the Lands Commission which it is understood the Government intends to send down during next year.

At present, apart from those mentioned above, no maps of any kind of the district exist. All movement has to be done on foot, by canoe or by surf-boat. Most of the canoes have been destroyed during the war, or removed, rendering it necessary to ford rivers on foot or on rough rafts; there are generally no native houses to sleep in near the tribal boundaries, and all food has to be carried up from the coast, which may be several days away. Moreover, the rough seas limit the use of transport by surf-boat along the coast, it being frequently exceedingly difficult and often impossible to cross the surf. A proper survey will therefore take some time and considerable effort, but it is fundamentally essential for a permanent settlement.

(6) Peace ceremonies according to the native custom have been carried out in all cases on the Kru coast, involving some twenty tribes.

(7) The authority of the Paramount Chiefs has been restored. The only possible means of governing these tribes, if few Government Commissioners are available, is by supporting a strong Paramount Chief over several tribes and holding him responsible for the maintenance of order, at the same time giving him such Government assistance as he may require, making it clear to dissident tribes that the Government forces are ready to support the Paramount Chief.

A large number of photographs were taken illustrating the different stages of the work and are available in the Political Section of the League of Nations.

On the completion of the work on the Kru coast, I received a request from the Government to visit the Grebo country (Appendix II), where trouble was feared, and particularly to settle an outstanding boundary question which had caused a series of wars between the Nimeah and Fish-town tribes dating from 1872.

The time at my disposal, unfortunately, did not allow of the settlement of a number of the problems raised by the seventy Grebo Paramount Chiefs who met me. The most pressing question—that of the Nimeah-Fishtown boundary—was disposed of (Appendices VII and X), but there are still difficulties remaining in the Grebo country and in Nos. 4 and 5 districts for urgent investigation.

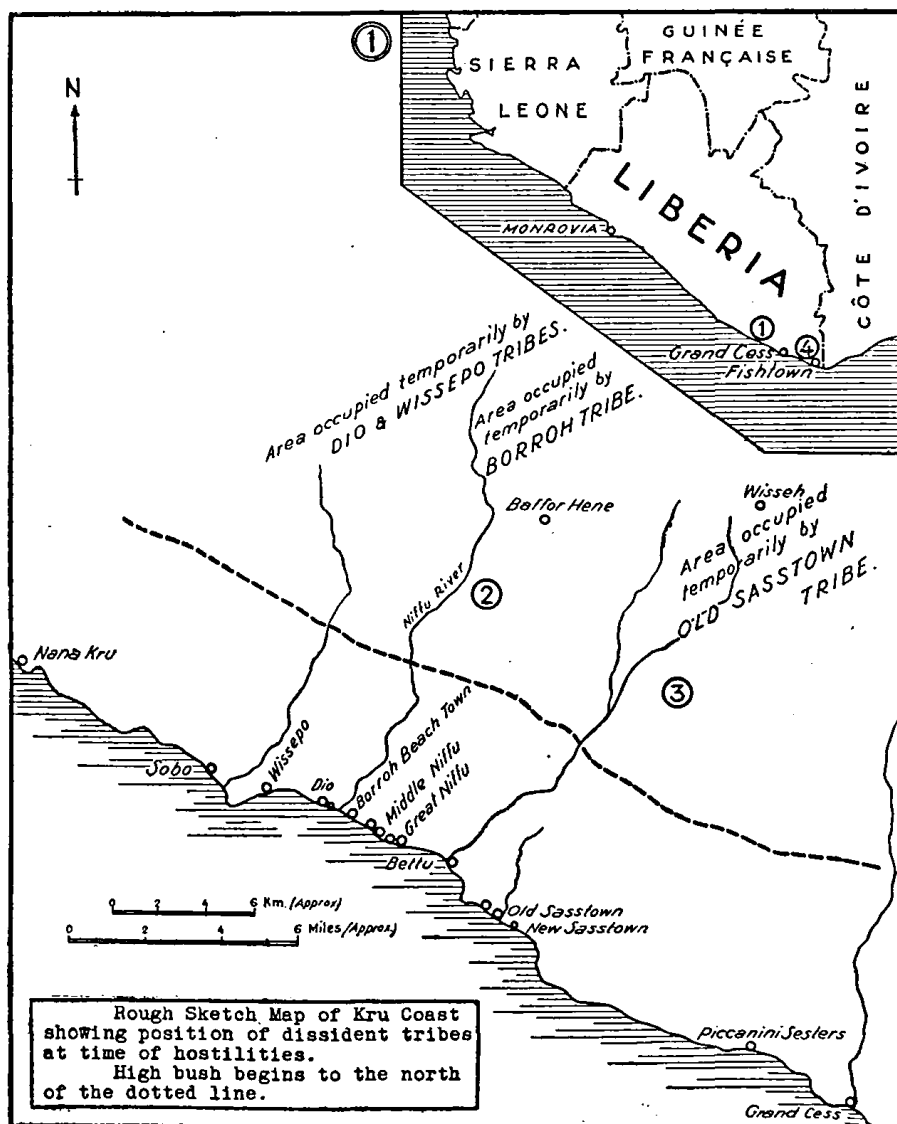
Throughout the mission the Liberian Government representative (Hon. F. A. K. Russell) acted in the closest harmony with your representative, and it was only with his close collaboration that the work was completed. The Liberian Government not only provided all the facilities promised, but at every stage of the work gave every assistance to your representative. I should therefore like to take this opportunity of thanking His Excellency the President, as well as the Liberian Government representative.

At the time of my departure from Monrovia for Geneva on September 6th, official and non-official reports showed that peace had been everywhere re-established and that throughout the Kru coast conditions were normal. It will be noted, however, that the arrangements made are provisional for one year only, pending a Government Land Commission and the establishment of permanent peace.

Geneva, September 24th, 1932.

(Signed) M. D. MACKENZIE,

Special Commissioner of the League of Nations to the Kru Coast.



Appendix I.

LETTER FROM THE PRESIDENT OF THE REPUBLIC OF LIBERIA TO DR. MACKENZIE.

Executive Mansion, Monrovia, Liberia,
July 1st, 1932.

I have the honour to acknowledge the receipt of your communication of yesterday's date, and, in reply thereto, have to say that the Government of Liberia gives its assurances:

(1) That there will be no punishment of any kind in the case of the tribespeople or their Chiefs, Paramount or Clan. In order to maintain the authority of the Government, however, Chief Nimley¹ and his ghorbee (Parle Weah) will be required to resign their positions as Paramount Chief and ghorbee respectively and to reside in a specified district for a specified time. The district selected and the time will be notified to the League Commissioner before he leaves Monrovia for the Kru coast.

The two tribesmen, Kaytah Seah and Sariti, will be required to come to Monrovia and there ask pardon from the President, which will be granted to them. It is also understood that the Liberian Government reserves the right to try a soldier of the Frontier Force on the charge of shooting a Kru in cold blood. A full and accurate account of the legal proceedings taken in this case will be forwarded to Geneva. Apart from these individuals, the Government will take no reprisals or punitive action against the uncivilised members of the tribes in the affected areas, and will also avoid any action that might be construed as being of the nature of reprisal or punishment, bearing in mind the extremely serious result such action would have in the future after the Government's promise mentioned above.

In the case of the civilised, the Government will consider the effect on outside opinion that any punishment of the civilised will have at the present time. If, in spite of this, the Government decides to take action against one or more individuals amongst the civilised, the names, together with the charges to be made, will be furnished to the League Commissioner before he leaves for the Kru coast. In addition, the full proceedings of any trial in this connection will be sent to Geneva.

(2) During the process of pacification and the visit of the League Commissioner to the Kru coast, there will be no movements whatever of the Frontier Force, except upon orders of the Liberian representative in agreement with the League Commissioner. All troops will be absolutely confined to barracks or cantonments, and no outside leave will be given for any reason. If it is necessary for the troops to leave barracks or cantonments for any reason such as guard duty, exercise, etc., this will only be done after agreement with the League Commissioner and within the limits agreed upon. It is understood that the centres occupied by the troops and the number to be stationed in these centres will be determined in agreement with the League Commissioner. Guards will be mounted on all the stations of the Frontier Force to prevent the access of civilians to the camps or cantonments, especially women. The sentry concerned will be held responsible for any breach of this regulation and, after enquiry, will be punished.

Dr. F. A. K. Russell will be associated with you on the Kru coast as the representative of the Liberian Government on the Commission, and, for the purpose of achieving the desired objective, has been furnished with full powers to undertake promises on behalf of the Government.

There is one question to which I should think the Commission should address its attention, and that is the settlement of the land disputes between the Sobo and Niffu tribes on the one hand, and the Borroh and Dio tribes on the other hand.

These latter tribes have recently migrated from the bush and have encroached upon the lands of the other two tribes, which has brought about a considerable amount of friction and conflict.

Dr. Russell will be furnished with copies of the decisions recently made by the Government on these matters, and it is desired that the Commission effect a settlement of these disputes along the lines laid down in these decisions.

(Signed) Edwin BARCLAY.

Appendix II.

THE KRU AND GREBO TRIBES.

Kru Tribes.

The Kru country extends from the River Sangwin, some twenty miles north of Sinoe in a south-easterly direction, to Grand Cess, a distance of some eighty miles. The coastal belt to a depth of forty miles is under county administration. In the rear of this belt are Nos. 4 and 5 districts. The Krus extend for some distance inland, but those in the county area have generally little intercourse with the interior tribes, with whom they are unwilling to admit relationship, though they are of the same stock. There are also numerous Kru settlements in the British colonies of Sierra Leone, Gold Coast and Nigeria, the natives of which originally came from the Liberian coast, and most of whom have close relatives still living in Liberia.

¹ Under the conditions laid down subsequently by the Government, these punishments were waived during the period of the truce (one year).

The foreign settlements are used almost exclusively for the supply of labour to shipping, but are in constant relation with their parent tribes in Liberia, to whom they send considerable sums of money annually for tribal purposes.

The Krus are organised in a loose tribal formation under paramount chiefs and clan or village chiefs. In general, each tribe has a beach town on the coast and a plantation town, some hours' journey in the interior, which generally lies close to the farmlands.

The Krus are engaged in fishing and in farming, the chief product being rice. Their work on board ships throughout the centuries has given them a much wider outlook than that of the adjoining tribes and a considerable proportion of them are conversant with civilised life.

The Kru tribes are very numerous and vary greatly in the numbers in each tribe. Generally speaking, there is little co-operation between the tribes, but rather constant rivalry, especially in connection with land boundaries.

Grebo Tribes.

The Grebos are a seafaring and farming race living in towns along the coast from Grand Cess to River Cavalla, and consequently bordering on the French Ivory Coast. They number about 15,000 to 20,000 and are a fine, virile, industrious race, more developed than the Krus and better fighters. In addition to their coast towns, the Grebos farm in the interior on lands lent to them by the interior tribes, with whom they are close allies. Though the Grebos themselves are only resident on the coast, through their allies they exert a considerable influence throughout the corresponding sections of the interior tribes. Conditions amongst these tribes are unsettled, and for some years they have followed a policy of passive resistance to the Government, paying no taxes and from time to time openly defying Government authority. They have, however, not had recourse to arms, but last year the tribes subscribed to send two representatives to Geneva to state their grievances.

Appendix III.

REGISTRATION OF GUNS AND RIFLES.

About 500 guns and rifles were collected from eighteen tribes (nine hostile and nine friendly). The tribes concerned include all the tribes on the Kru coast. In the case of every gun (except those actually captured during fighting, whose owners' names were unknown) the owner's name was registered, the butt of the gun stamped with a serial number and a note kept of the make of gun or rifle. Complete lists of the guns and rifles taken were left with each chief and a copy sent to the Government and to Geneva for record. A number of guns found useless were destroyed in the presence of the League Commissioner.

All guns and rifles were carefully greased and transferred to Monrovia. On arrival at Monrovia, the guns were again greased and are stored in the Department of War. Every chief was informed that he would be held responsible for any guns found in his district which had not been handed in, and the owner of the gun as well as the chief would be severely punished. The League Commissioner undertook to ask the Government to return a certain number of guns to keep down the bush animals (monkeys, bush-hogs and elephants) from eating the crops. A number of guns would be licensed and returned as soon as conditions were sufficiently quiet on the Kru coast. The chief of each tribe would be informed by the Government of the number of guns available for his tribe for hunting and would then send to Monrovia to collect them. On his return to Monrovia, the League Commissioner referred this question to the President, who agreed and promised to consider the return of a number of guns for hunting purposes within a few months. The types of guns collected varied from very old trading cap-guns and flint-locks up to modern Lee-Enfield rifles. Almost all were used as muzzle-loading guns with caps or flint-locks, even in the case of rifles. The following is a sample of the method of registration employed:

List of Guns collected on July 26th, 1932, from Nana Kru showing Registered Numbers, stamped on Butts, and Owners' Names.

| Registered No. | Name | Type of gun | Condition |
|----------------|-------------------|-------------------|-----------|
| 131 | Juah Blamoh | Flint gun | |
| 132 | Keemonah Kpank | Lee-Enfield rifle | |
| 133 | Tuormonah Nargbay | Cap-gun | |
| 134 | Boto Yensuah | " | |
| 135 | Manueh Tobah | Carbine | |
| 136 | Pyne Yenkan | Martini-Henry | |
| 137 | Tobi Anderson | Cap-gun | |
| 138 | Wroati Swehn | " " | |
| 139 | Gbadi Nimley | " " | |

List of Guns collected on July 26th, 1932, from Nana Kru showing Registered Numbers, stamped on Butts, and Owners' Names (continued).

| Registered No. | Name | Type of gun | Condition |
|----------------|---------------------------|-----------------|-----------|
| 140 | Goffah Wenkahn | Carbine (Govt.) | |
| 141 | Jacob J. King | " " | |
| 142 | George Wortee | " " | |
| 143 | Kannah Weah | " " | |
| 144 | Bartu Koffah | Flint gun | |
| 145 | Tarlol Conbay | Cap-gun | Bad |
| 146 | Juah Bloy | " | Bad |
| 147 | Barlee Nargbay | " (Govt.) | |
| 148 | Kie Yenpem | " " | |
| 149 | Yeneh Sartee | " " | |
| 150 | Johnson Thomson | Carbine | |
| 151 | Joti Weah | " | |
| 152 | Wureh Karmbo | Martini-Henry | |
| 153 | Draw Wureh | Cap-gun | |
| 154 | S. E. Gage | " " | |
| 155 | E. M. Davis | " " | |
| 156 | A. Brown | " " | |
| 157 | Thomas W. Brown (S.K.) | " " | |
| 158 | J. D. Pratt (S.K.) | " " | |
| 159 | A. T. Evans (S.K.) | " " | |
| 160 | J. O. C. Broderick (S.K.) | " " | |
| 161 | Kpar Weah | " " | |
| 162 | Tormortee Manneh | " " | |
| 163 | Som Dugbe (K.T.) | " " | |
| 164 | Seebu Puni (K.T.) | " " | |
| 165 | Gradi Dugbe (K.T.) | " " | |

Note. — S.K. means Setra Kru; K.T. means Kwea Tuo.

List of Licensed Guns in Possession of Civilised Persons in Nana Kru.

- A. Brown, Single-barrel shot-gun.
- T. W. Brown, Single-barrel shot-gun.
- J. O. C. Broderick, Double-barrel shot-gun.
- J. K. M. Clay, Cap-gun.
- J. D. Pratt, Single-barrel shot-gun.
- A. T. Evans, Single-barrel shot-gun.
- S. E. Gage, Single-barrel shot-gun.
- Johnson Thomson, Double-barrel shot-gun.
- Blogbah Togbah, Webley revolver.

All licensed guns were marked with two noughts, a one and a nought—*e.g.*, 0010.
Seven Government guns were collected and stamped as follows: 010.
Total guns collected: 44.

Appendix IV.

NOTE ON THE MORE IMPORTANT OF THE PROBLEMS PRESENTED BY
INDIVIDUAL TRIBES.

Niffu Tribe.

1. Dispute as to boundary between Niffu and Dio farmlands. This was settled at a palaver between the two tribes on the lines suggested by the League Commissioner (see Appendix VI). It will be seen that the present conditions are for a year only.
2. Dispute as to the boundary with the Borroh tribal farmlands. Settled at a palaver between these two tribes on the lines suggested by the League Commissioner (see Appendices VI and VIII) for one year only, pending the Lands Commission of the Government.
3. The return of the women and children captured by the Borroh tribe. These were returned under the general release of prisoners of war provided for in the truce.

Dio Tribe.

1. Dispute as to land boundaries with Niffu (as above).
2. Destruction of canoes by the Niffu tribe. Compensation arranged for and carried out under the truce before the departure of the League Commissioner (see Appendix VI).

Wissepo Tribe.

1. Dispute as to boundary with the Sobo tribe. Settled at palaver on the lines suggested by the League Commissioner (Appendix VI).
2. Destruction of the Wissepo canoes by the Sobo tribe. Compensation arranged for and carried out under the truce before the departure of the League Commissioner (Appendix VI).

Sobo Tribe.

Destruction of the town of Sorjee by fire by the Wissepo tribe. This is to be rebuilt by the Wissepo tribe under the terms of the truce (Appendix VI).

Nanakru Tribe Paramount Chief.

This chief is the Paramount Chief for seventeen tribes, three of whom had revolted from his authority and taken up arms against him. The Paramount Chief was unable to disarm these tribes or to collect taxes from them. The three tribes were disarmed by the League Commissioner and at a general meeting of all the chiefs the authority of the Paramount Chief was re-established.

A number of other difficulties were dealt with in connection with these tribes, relating particularly to accusations made against traders in connection with women, and the use of witchcraft.

Borroh Tribe.

1. Dispute as to the boundary between the tribal lands and those of the Niffu tribe. Boundaries decided upon in palaver with the two tribes on the lines suggested by the League Commissioner. (Appendices VI and VIII).
2. War with the Government. Dealt with by the terms of the truce as laid down in Appendix V and agreed to by the Borroh tribe.

Old Sasstown Tribe.

War with the Government. Dealt with by the terms of the truce as set out in Appendix V. This necessitated the cutting of a boundary-line through high bush, which was done on the lines shown in Appendix IX.

Bettu Tribe.

Release of the Bettu tribesmen sent to prison for supplying salt to the tribes in revolt. These men were released by the Government under the general release of prisoners of war under the terms of the truce.

Nimeah and Fishtown Tribes.

Dispute as to land boundaries between these two tribes which has been outstanding since 1872 and the cause of a number of wars, one of which was in progress at the time of the League Commissioner's visit. Boundary-line cut as in Appendix X and the general conditions of peace established as laid down in Appendix VII.

Appendix V.

CONDITIONS OF TRUCE WITH THE OLD SASSTOWN, BORROH, WISSEPO AND DIO TRIBES, BEING THE CONDITIONS AGREED TO AND LAID DOWN BY THE LIBERIAN GOVERNMENT REPRESENTATIVE AT THE MEETING OF PARAMOUNT CHIEFS HELD AT SASSTOWN, LIBERIA, ON JULY 11TH AND 12TH, 1932, IN THE PRESENCE OF THE COMMISSIONER OF THE LEAGUE OF NATIONS.

- (1) The present truce is for a period of twelve months from July 12th, 1932. It is understood that during this time efforts will be made to establish the tribes concerned on their original lands under conditions to be laid down by the Government in the form of a permanent peace settlement.
- (2) During the truce the Old Sasstown and Borroh tribes will remain in their present districts in the bush, where it is understood that, if they are not interfered with, they can make their farms and build their houses.
- (3) Neither the two tribes concerned is to cross the dividing-line referred to in Appendices VIII and IX, and, provided the present truce is kept, no military operations will be taken against them.
- (4) The tribes above mentioned shall have the right to visit the towns of Bettu and Grand Cess for the purchase of salt, fish, cooking-pots, etc.
- (5) The dividing-line has been fixed by the League Commissioner and the Liberian Government representative and has been pointed out by them to the chiefs concerned.

(6) No farming is to take place on the site of Old Sasstown during the absence of the Old Sasstown tribe, as this town was not conquered by the New Sasstown tribe but by the Government.

(7) All tribes on the Kru coast are to be disarmed. The arms, after marking and registering, will be transported to Monrovia. It is understood that, in the case of the tribes farming in the bush, a certain number of guns may be handed back, as it is understood that guns are necessary in the bush in order to prevent the inroads of bush-hogs and monkeys on the crops.

(8) All prisoners of war on both sides are to be released, including prisoners taken at Bettu in connection with the sale of salt to the hostile tribes.

(9) It is understood that, as the conditions, in the opinion of the League Commissioner and the Liberian Government representative, permit of this, the troops on the Kru coast will be reduced in number, though a permanent garrison will remain near Sasstown. This garrison will be transferred as soon as possible to a new camp situated some distance outside the town.

(10) There will be a moratorium for the four tribes above mentioned during the period of the truce.

(11) Peace-making ceremony will be carried out in the presence of the League Commissioner and the Liberian Government representative by the Old Sasstown, Borroh, Dio and Wissepo tribes and the other tribes concerned.

(12) The sites of the old Borroh towns are to be kept clear during the period of the truce, and the Niffu tribe is not to destroy any of the Borroh tribe's towns during the absence in the bush of the latter.

(13) The League Commissioner and the Liberian Government representative will visit Nana Kru in connection with the disarming of the various tribes and will at the same time enquire into the question of the occupation of the Mno land by the Seton tribe.

(14) A special local palaver will be held by the League Commissioner and the Liberian Government representative to consider the boundary-line between the Niffu, Dio, Wissepo and Sobo tribes and the question of the return of the Wissepo and Dio tribes to their old lands.

(15) The present truce does not involve any definite promise of any concession by the Liberian Government at its conclusion, but at the same time it is understood that its object is to permit of the arrangement of a permanent peace during the forthcoming year with the re-establishment of the tribes on their original lands.

(Signed) M. D. MACKENZIE,

*Special Commissioner of the League of Nations
to the Kru Coast.*

(Signed) F. A. K. RUSSELL,

Special Commissioner of the Liberian Government.

Appendix VI.

CONDITIONS OF TRUCE WITH THE DIO AND WISSEPO TRIBES, BEING CONDITIONS AGREED TO AND LAID DOWN BY THE LIBERIAN GOVERNMENT REPRESENTATIVE UPON WHICH THESE TWO TRIBES MIGHT RETURN TO THE OLD LANDS ON THE COAST.

These conditions were agreed to by the Wissepo and Dio tribes as well as the Niffu and Sobo tribes at a meeting held at Dio on July 20th, 1932, in the presence of the League Commissioner.

(1) The lately hostile tribes of Dio and Wissepo are allowed to return to their towns on the coast and to have the use of their farmlands in the interior.

(2) These two tribes will not receive any punishment other than that already entailed by eight months' residence in the forest.

(3) In the case of the dispute between Sobo and Wissepo:

(a) Wissepo is required to rebuild the town of Sorjee destroyed by them.

(b) The lands immediately surrounding the town of Sorjee and the site of the town itself, together with all the oil palms planted round it, will belong to the Sobo tribe, the boundary being that pointed out by the League Commissioner to the Sobo and Wissepo chiefs during his visit to the disputed lands.

(c) Sobo will return to Wissepo three of the five captured canoes, the remainder being retained by Sobo in return for the Sobo canoes destroyed by Wissepo.

(d) Sobo will return to Wissepo the village bell.

(4) In the case of Niffu and Dio:

(a) During the time of the truce (one year) no Dio man must cross the Niffu River and no Niffu or Botra man must cross the Niffu River for any reason. The right of way along the beach remains open to all tribes. It is also understood that the women (no men) from Niffu may cross the river in order to gather their rice on the Dio side of the river.

(b) The Dio tribe must not build any towns on the disputed farmlands in the interior, but during the period of the truce Dio may farm the disputed lands until their allocation is permanently decided upon.

(c) Niffu will return to Dio one of the Dio canoes captured, the remaining two being retained by Niffu in compensation for the Niffu canoes destroyed by Dio.

(5) All four tribes are to be disarmed as arranged at the Sasstown meeting.

(6) There will be a moratorium in the case of the Wissepo and Dio tribes and also in the case of Niffu and Sobo as far as the destroyed towns are concerned. The moratorium will last for the period of the truce.

(7) The present truce is for one year only, and it is understood that, during this time, the Liberian Government will go carefully into the question of the lands of these tribes and, after a survey, will permanently fix the boundaries. None of the conditions agreed to as regards the lands in this Treaty will in any way prejudice the decisions of the Boundary Commission to be sent by the Government.

(8) During the period of the truce, no tribe is to invite any other tribe to occupy any part of its lands, and no tribe is to be invited down from the interior.

At the conclusion of the meeting, an inter-tribal peace ceremony was held, during which all four chiefs ate kola nut with pepper and salt on the edge of a razor-blade and swore to observe the conditions of the truce. This was done in the presence of the League Commissioner and the Liberian Government representative.

(Signed) M. D. MACKENZIE,

Special Commissioner of the League of Nations to the Kru Coast.

(Signed) F. A. K. RUSSELL,

Special Commissioner of the Liberian Government.

Appendix VII.

CONDITIONS ATTACHING TO THE DIVISION OF THE FARMLANDS LYING TO THE EAST OF THE FISHTOWN RIVER AT PRESENT OCCUPIED BY THE FISHTOWN TRIBE BUT ALLEGED TO BELONG TO THE NIMEAH TRIBE.

(1) The Fishtown tribe have the sole right of farming on the land lying to the east of the boundary-line described in the attached note. The Nimeah tribe have the sole right of farming all the land bounded by the boundary-line above mentioned on the east, the Crepo boundary-line on the north, and the line between the Garraway and Nimeah lands to the west and the Fishtown River to the south (see map).

(2) This shall not come into operation until the 1932 rice harvest has been gathered; but, after this, all Fishtown tribesmen must remove to the east of the boundary-line mentioned above. The Fishtown towns must be either removed or evacuated.

(3) Instructions will be given to the District Commissioner to put a fence round the areas in which men were killed by the Nimeah and Fishtown tribes respectively, and it is understood that these areas will not be farmed over.

(4) With regard to the cocoa and coffee plantations at present existing on the disputed land, no uncivilised Fishtown men may continue to farm these or cross the boundary for any reason. In the case of the civilised Fishtown men, permission will be given on application to the County Superintendent to rent land already planted with cocoa. In order to obtain such permits, the civilised owners of the cocoa or coffee must give evidence that the cocoa or coffee was actually planted by them. It is also understood that no further areas must be put under cultivation than those already planted with cocoa, and, apart from cocoa and coffee, no other crops must be planted. The planting of rice is specifically excluded. Such permits will enable the civilised to hold their land on a yearly rental to the Government, and such land will be held independently of any tribal lands as a Government concession.

(5) Any attempt by force on the part of the Fishtown men to cross the line decided upon will be regarded, not as simply an inter-tribal quarrel, but as armed interference against the Government.

A true copy of the original.
(Signed) C. W.

(Signed) M. D. MACKENZIE,
*Special Commissioner of the League of Nations
to the Kru Coast.*

(Signed) F. A. K. RUSSELL,
Special Commissioner of the Liberian Government.

Appendix VIII.

DETAILS OF THE POSITIONS OF THE BOUNDARY FIXED AND CUT THROUGH THE BUSH IN THE PRESENCE OF THE NIFFU AND BORROH CHIEFS BY THE SPECIAL COMMISSIONER OF THE LEAGUE OF NATIONS AND THE REPRESENTATIVE OF THE LIBERIAN GOVERNMENT.

The present boundary is for a period of one year or until the establishment of permanent peace, and is of a purely temporary nature. It does not constitute any allocation of lands to either tribe pending the findings of the proposed Land Commission. It is understood that Niffu has the full use of the new lands, but none of the Borroh towns must be rebuilt by Niffu during the forthcoming year. The Niffu tribe have all the land lying to the west and the Borroh all land lying to the east of the following line:

The cutting made to the N.N.W. from the Bettu River to the beginning of the high bush (Lane A).

The high bush.

The stream (known as Stream A) running as described below from its exit from the high bush up to its entrance into the Niffu River. Neither the Niffu tribe nor the Borroh tribe may therefore, for a period of one year, enter the high bush, which constitutes the principal boundary.

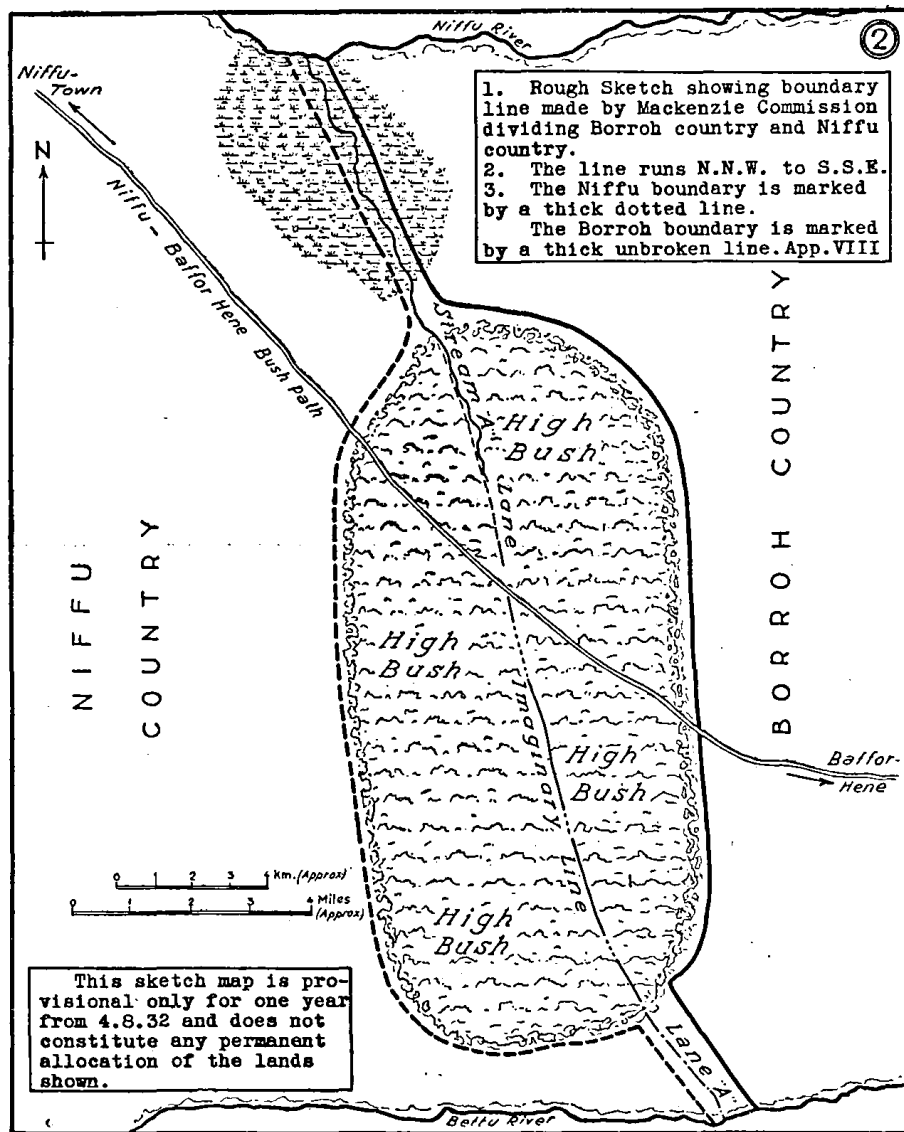
Lane A. — This lane joins the southern end of the high bush to the Bettu River. The pathway leading to it is reached after about fifteen minutes' walking from the eastern entrance to high bush on the Borroh-Niffu trail. The pathway leaves the trail at right angles, and, though very imperfectly marked, passes in a southerly direction for about two hours' walking, remaining in high bush all the time. After two hours, a small group of houses is reached lying close to the Bettu River in low bush. Closely adjacent to these houses a lane was cut running straight through low bush for a distance of about a quarter of a mile from the Bettu River to the end of high bush. This line runs N.N.W. from the river, and is marked by posts at intervals of twelve paces and by the cut stumps of trees. It is expected that this lane will be visible for at least two years.

Stream A. — This stream begins in the high bush and can be reached as follows: From the eastern edge of the high bush, after about forty-five minutes' walking on the Borroh-Niffu trail through the high bush, a cutting has been made down to the source of the stream in question, which lies at a distance of 170 yards from the trail through the bush. The entrance to the cutting is marked by a hurdle, and the cut proceeds in a N.W. direction for a distance of sixty yards, this section being marked by a series of four posts and a number of felled trees. From this point the cut proceeds in a N.N.W. direction for 110 yards and is marked by seven posts. At the termination of this cut will be found the Stream A, which, if followed down, leaves high bush after about three-quarters of an hour's walking. From this point to the entrance of the stream into the Niffu River, the stream constitutes the northern boundary and is known as Stream A.

(Signed) M. D. MACKENZIE,
*Special Commissioner of the League of Nations
on the Kru Coast.*

(Signed) F. A. K. RUSSELL,
*Representative of the Government of Liberia
on the Kru Coast.*

Copies of this note and a sketch map were given to the Government and the chiefs of the Niffu and Borroh tribes.



Appendix IX.

DETAILS OF THE BOUNDARY BETWEEN THE NEW AND OLD SASSTOWN TRIBES AS DECIDED UPON AND CUT BY THE LEAGUE COMMISSIONER AND THE GOVERNMENT REPRESENTATIVE IN THE PRESENCE OF THE CHIEF OF THE OLD SASSTOWN TRIBE AND THE REPRESENTATIVES OF THE CHIEF OF NEW SASSTOWN AT A MEETING HELD AT DIAJPO, AUGUST 1932.

The present boundary is for a period of one year.

The boundary decided upon runs roughly in an east to west direction, joining the Bettu and Sobobo rivers at a distance of approximately two hours from New Sasstown. The land lying to the south of this boundary belongs to the New Sasstown tribe, whilst the Chief of Old Sasstown agrees to keep his people to the north of this line (with the exception of the women referred to below).¹

The boundary consists of two streams (the Jlowrehjah, called Stream A, and the Borwurhene, called Stream B) which flow into the Bettu and Sobobo rivers respectively. The heads of these two streams were joined by the two lanes A and B described below so as to form a complete division of the land between the Bettu and the Sobobo rivers.

The position of these lanes is reached by walking for half an hour down the trail from Diajpo to Jrugbekpo. At this point, the sources of the two streams are situated 50 yards and 200 yards respectively from the trail. Two lanes, A and B, were cut down through the bush on the trail to the sources of the two streams; the lane A runs from the trail to the source of the Jlowrehjah and is about 50 yards long. It is cut in a N.N.W. direction on a compass bearing of 340, and a series of posts are planted at twelve-yard intervals. The lane B runs from the trail to the source of the Borwurhene stream and is about 200 yards long. It is cut in a S.S.E. direction on a compass bearing of 170, and a series of posts were planted at twelve-yard intervals. Finally, the trail

¹ The women of the Nimley tribe (no men) are allowed to go across the boundary in order to harvest the crops already planted down in the neighbourhood of Jrugbekpo, but no further crops must be sown in this district.

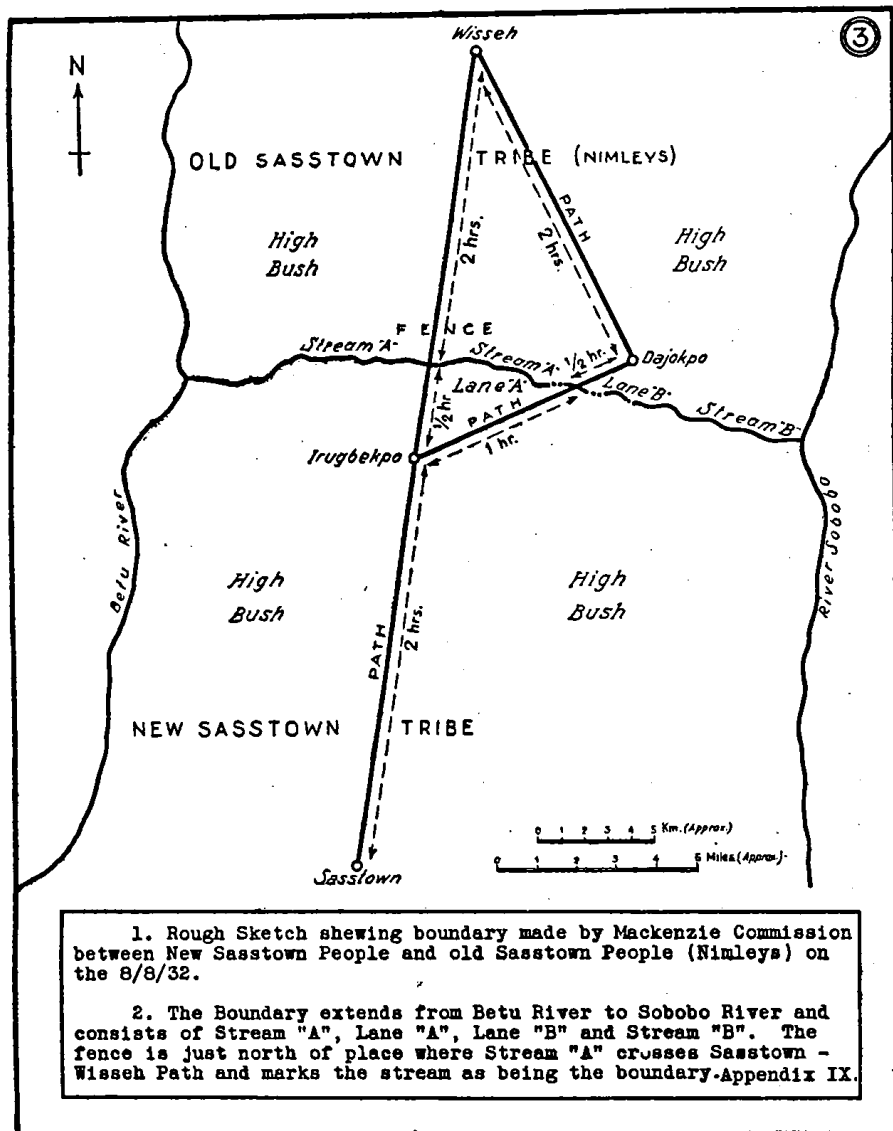
was closed by a fence across it constructed of a felled tree lashed to two standing trees on each side of the trail.

When the stream is followed down, it is found to cross the Wisseh-Sasstown road at a point situated two hours from Wisseh and half an hour north of Jrugbekpo. At this point, a fence was built across the trail and two lanes cut of ten yards length at right angles to the trail.

(Signed) M. D. MACKENZIE,
Special Commissioner of the League of Nations
to the Kru Coast.

(Signed) F. A. K. RUSSELL,
Representative of the Government
of Liberia on the Kru Coast.

Copies of this note and a sketch map were given to the Government and the chiefs of Old and New Sasstown.



Appendix X.

NOTE ON THE POSITION OF THE BOUNDARY-LINE BETWEEN THE NIMEAH AND FISHTOWN TRIBES,
AS CUT THROUGH THE BUSH BY THE LEAGUE COMMISSIONER, AUGUST 1932.

It should be noted that this line constitutes a concession to Fishtown, inasmuch as the correct position of the dividing-line should run directly eastwards from the mouth of the Fishtown River on the general principle that each tribe should have as farmlands the land immediately behind it in the interior. In view of the size of the Fishtown tribe, it was decided to make the

boundary at a higher point on the Fishtown River, though, actually, this land would all appear to belong to the Nimeah people.

The position of the line may be reached (a) from Fishtown or (b) from Nimeah Beach Town.

(a) From Fishtown the distance along the coast to the mouth of the Fishtown River is about forty-five minutes' walking. At the Fishtown River mouth a canoe is taken, and, after about an hour and a half's paddling, the point marked × on the map is reached. At this point the boundary-line commences on the eastern bank of the river, the commencement of the line being marked by a trestle.

(b) From Nimeah Beach Town the Nimeah Plantation Town is reached after about three-quarters of an hour's walking, and from there to the Nimeah Plantation Town landing on the Fishtown River is about half an hour. At this point a canoe is taken, and, after about forty-five minutes' paddling down stream, the point marked × on the map is reached.

From the mouth of the Fishtown River, compass bearings were taken at two-minute or three-minute intervals, and the result was charted on the accompanying map. The Fishtown River was thereby shown to pursue an easterly course for the first twelve minutes by canoe, but thereafter to run in a general north-westerly direction, or almost parallel with the seacoast. It was therefore clear that the lands in dispute were lying almost directly behind Nimeah Beach Town and certainly well behind the Nimeah section of the coast-line. The direction of the river and the boundary-line cut are shown on the accompanying map. It should be noted that, as no bearings have been taken on this river before, the natives were quite unacquainted with the direction of the river in relation to the seacoast, and consequently the geographical position of the lands under dispute.

The boundary-line was cut on a bearing of 70 from the point marked × on the map and is reached as described above. The line was cut through high bush, much of which was virgin bush, and was carried on the same bearing for a distance of approximately 3,120 yards to a point at which it crossed the Thorne line, which serves as the boundary between Crepos and the Nimeah peoples, and about which there is no dispute. The Thorne line runs roughly parallel to the general direction of the river, and was cut on a bearing of about 330—or roughly parallel with the seacoast. The point at which the line cut crosses the Thorne line is marked on the map as Y (see map). As the former was cut at right angles to the seacoast, the two lines meet at right angles. The line cut is marked by the cut stumps of trees and by posts planted at intervals throughout its length.

Compass bearings taken on the Fishtown River during canoe trip up the river from its mouth as far as the Nimeah Plantation Town landing:

| | | | | | | | | | |
|-----|----|-----|---|-----|---|-----|---|-----|---|
| 160 | 12 | 340 | 2 | 20 | 2 | 340 | 1 | 330 | 1 |
| 90 | 5 | 380 | 2 | 40 | 2 | 320 | 1 | 280 | 1 |
| 20 | 4 | 20 | 2 | 100 | 2 | 320 | 1 | 280 | 1 |
| 20 | 2 | 25 | 2 | 360 | 1 | 320 | 1 | | |
| 10 | 2 | 45 | 2 | 45 | 1 | 60 | 1 | | |
| 340 | 5 | 10 | 2 | 40 | 1 | 60 | 1 | | |
| 338 | 3 | 320 | 2 | 60 | 1 | 10 | 1 | | |
| 338 | 3 | 340 | 2 | 60 | 1 | 220 | 1 | | |
| 320 | 3 | 300 | 2 | 40 | 1 | 300 | 1 | | |
| 260 | 3 | 345 | 2 | 45 | 1 | 10 | 1 | | |
| 240 | 3 | 20 | 2 | 35 | 1 | 360 | 1 | | |
| 300 | 2 | 300 | 2 | 40 | 1 | 280 | 1 | | |
| 320 | 2 | 300 | 2 | 20 | 1 | 360 | 1 | | |
| 280 | 3 | 20 | 2 | 45 | 1 | 320 | 1 | | |
| 300 | 3 | 10 | 2 | 340 | 1 | 340 | 1 | | |
| 10 | 2 | 10 | 2 | 280 | 1 | 360 | 1 | | |
| 10 | 2 | 160 | 2 | 270 | 1 | 280 | 1 | | |
| 40 | 2 | 80 | 2 | 340 | 1 | 25 | 1 | | |
| 340 | 2 | 40 | 2 | 320 | 1 | 340 | 1 | | |
| 260 | 2 | 40 | 2 | 320 | 1 | 320 | 1 | | |
| | | 20 | 2 | 360 | 1 | 340 | 1 | | |
| | | 300 | 2 | 325 | 1 | 20 | 1 | | |
| | | | | | | 70 | 1 | | |
| | | | | | | 340 | 1 | | |
| | | | | | | 350 | 1 | | |

The first figure is the compass bearing and the second in each column is the time interval in minutes.

Compass bearings taken on the road joining Nimeah Plantation Town landing-place on the Fishtown River and the Nimeah Beach Town. These results are plotted on the accompanying map so as to determine the relative position of the Nimeah Beach Town to the lands under dispute.

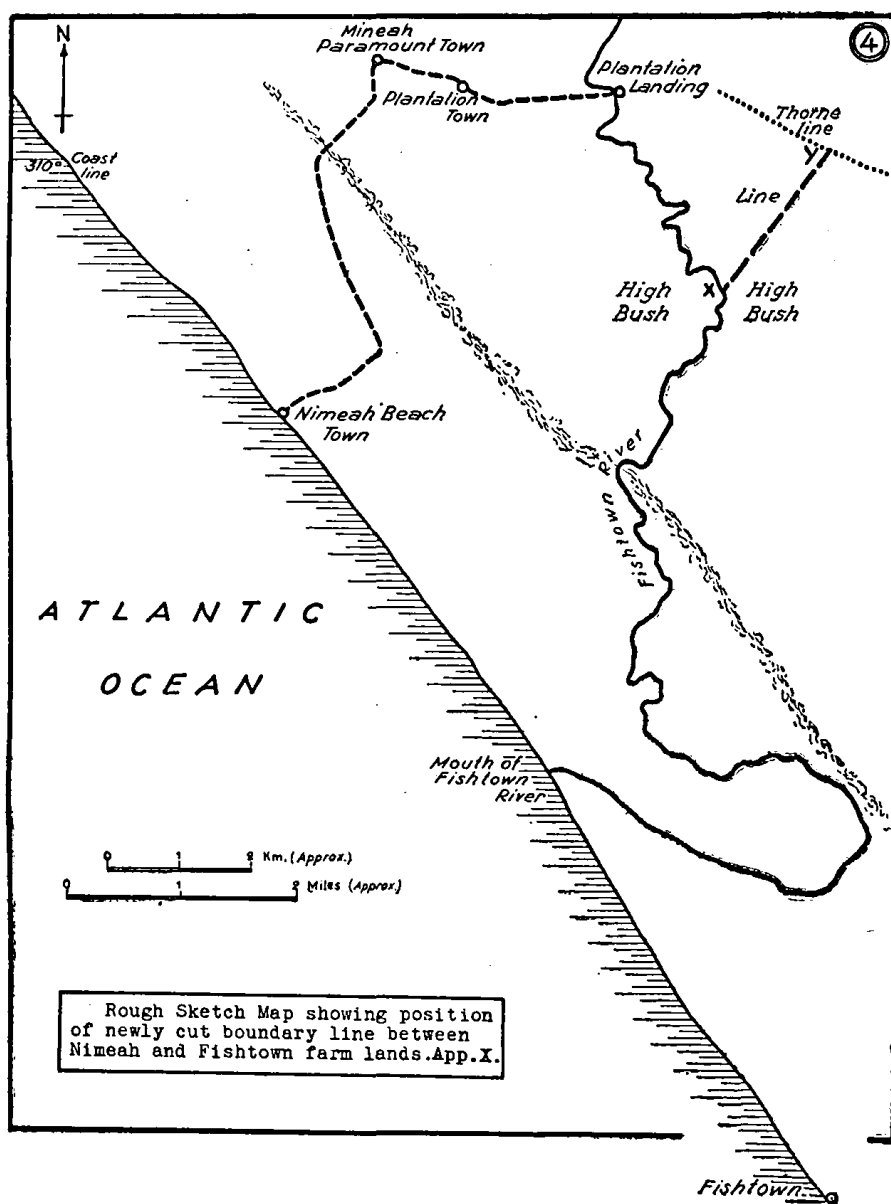
Leaving landing-stage (via Plantation Town and Paramount Chief's Town):

| | | | |
|------------------------|---|-------------------|---|
| 270 | 5 | 230 | 5 |
| 300 | 5 | 180 | 5 |
| 330 | 5 | 170 | 5 |
| 260 | 5 | 160 | 5 |
| 280 | 5 | 170 | 5 |
| 320 | 5 | 270 | 5 |
| Paramount Chief's Town | | 270 | 5 |
| 230 | 5 | 280 | 5 |
| | | Nimeah Beach Town | |

(Signed) M. D. MACKENZIE,
Special Commissioner of the League of Nations to the Kru Coast.

(Signed) F. A. K. RUSSELL,
Special Commissioner of the Liberian Government.

Copies of this note, a sketch map and the description of the conditions of division of the lands were given to the Government and the chiefs of the Nimeah and Fishtown tribes. A copy was sent to Geneva for filing.



[Communicated to the Council
and the
Members of the League.]

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Geneva, September 24th, 1932.

LEAGUE OF NATIONS

Commission of Enquiry for European Union.

REPORT

BY THE

**STRESA CONFERENCE
FOR THE ECONOMIC RESTORATION OF
CENTRAL AND EASTERN EUROPE**

Submitted to the Commission of Enquiry for European Union.

Note by the Secretary-General.

With reference to document C.560.M.271.1932.VII, of July 19th, 1932, the Secretary-General has the honour to communicate to members of the Commission of Enquiry for European Union the report of the Committee appointed by the Lausanne Conference to submit to the Commission of Enquiry for European Union proposals as to measures required for the restoration of the countries of Central and Eastern Europe. The Committee sat at Stresa, under the chairmanship of M. Georges Bonnet (France), from September 5th to 20th.

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A. INTRODUCTION.

The Lausanne Conference appointed a Special Committee "with the duty of submitting to the Commission of Enquiry for European Union at its next session proposals as to measures required for the restoration of the countries of Central and Eastern Europe, and, in particular:

"(a) Measures to overcome the present transfer difficulties of those countries and to make possible the progressive suppression, subject to the necessary safeguards, of the existing systems of exchange control;

"(b) Measures to revive the activity of trade, both among those countries themselves and between them and other States, and to overcome the difficulties caused to the agricultural countries of Central and Eastern Europe by the low price of cereals, it being understood that the rights of 'third countries' remain reserved."

The Committee sat at Stresa from September 5th to 20th, under the chairmanship of M. Georges Bonnet (France), Deputy and former Minister. The following countries were represented by delegates: Austria, Belgium, the United Kingdom, Bulgaria, Czechoslovakia, France, Germany, Greece, Hungary, Italy, Netherlands, Poland, Roumania, Switzerland, and Yugoslavia.¹

The representative of Latvia was admitted to the Conference as an observer. The Secretariat of the League of Nations, the International Labour Office, and the International Institute of Agriculture were also represented.

* * *

From the outset of its work, the Stresa Conference unanimously recognised the close connection between financial, monetary and economic problems. The idea that future efforts must be made on parallel lines, and that the solutions to be recommended were necessarily interdependent, gained strength during the discussions.

In compliance, however, with the wishes of the Lausanne Conference, and also in order to narrow down as far as possible, by a detailed and methodical analysis, the complex difficulties with which it had to deal, the Conference decided to entrust to one special Committee the study of financial and monetary questions, and to another the examination of economic questions, especially those concerned with agriculture, in the forefront of which stands the question of cereals. The Financial Committee had as Chairman M. Bachmann (Switzerland), and as Rapporteur M. Paul van Zeeland (Belgium). The Chairman of the Economic and Agricultural Committee was M. Georges Bonnet (France), and the Rapporteur M. Richard Schüller (Austria).

The proceedings of these two Committees, which had undertaken to arrive at co-ordinated solutions, and accordingly kept in close and constant touch with each other, are set out in the two following reports adopted by the Plenary Conference and the recommendations appended to each.²

These two reports reveal a dominant idea—the same that inspired the resolutions of the Lausanne Conference. The solution of the grave crisis now prevailing in Europe, and most painfully acute in Central and Eastern Europe, cannot be left entirely to time or to the efforts of isolated States. The crisis can only be overcome by organised and continuous co-operation among the countries of Europe.

The common task to which the two Committees devoted their efforts consisted in determining the scope, the programme, and the methods of this co-operation; seeking solutions which would yield the maximum results while imposing the minimum burdens on nations already deeply in debt; and distributing those burdens equitably among all the participants, having regard both to their capacities and to their needs.

The convergent solutions recommended by the Committees cannot all, of course, be put immediately into effect. Some of them will require further consideration; it will be for the Commission of Enquiry for European Union to examine these and, if it thinks proper, submit them to the World Economic Conference. Others might be put to some extent into effect forthwith; that would represent the first step towards a European association for mutual aid.

¹ For list of delegations, see Chapter D.

² In this connection, the United Kingdom delegates made the following declaration:

"The United Kingdom delegates reaffirm that their country attaches the greatest importance to the work of reconstruction of Central and Eastern Europe, especially by the removal of existing obstacles to trade, and welcomes the collaboration of the countries assembled here with that object. While in general approving the recommendations made in the report of the Conference, and in particular those recommendations which represent a step in this direction, the United Kingdom delegates desire to draw attention to the special position of those countries, including the United Kingdom, whose commercial policy does not include the imposition of quotas or heavy import duties on cereals, and to state that they must make reserves on behalf of His Majesty's Government in the United Kingdom in regard to participation in proposals involving financial contributions or guarantees."

B. REPORT OF THE FINANCIAL COMMITTEE.

Chairman: M. BACHMANN (Switzerland).

Rapporteur: M. Paul VAN ZEELAND (Belgium).

INTRODUCTION.

The Financial Committee took as the central point of its investigations the passage in the resolution of the Lausanne Conference calling for "measures to overcome the present transfer difficulties of the countries of Central and Eastern Europe and to make possible the progressive suppression, subject to the necessary safeguards, of the existing systems of exchange control". From the outset, however, it was clear that the economic and the financial aspects of the phenomena under consideration could not be kept in separate watertight compartments.

The Committee began by making a careful study of the ground on which it had to operate; it asked the delegates of the countries concerned to collect a series of precise data. Their statements provided a basis for the subsequent discussions, in the course of which the ideas collected in the present report gradually emerged.

PART I. — SURVEY OF THE POSITION OF A NUMBER OF CENTRAL AND EASTERN EUROPEAN COUNTRIES,

namely:

| | |
|----------------|------------|
| AUSTRIA | HUNGARY |
| BULGARIA | POLAND |
| CZECHOSLOVAKIA | ROUMANIA |
| GREECE | YUGOSLAVIA |

The Financial Committee drew up two questionnaires. The first dealt with restrictions on foreign exchange dealings as regards both commercial transactions and movements of capital. The second called for a series of statistical data.

The Committee received detailed replies from the various delegations. These replies were supplemented by oral statements made by each delegation at meetings of the Committee, and also by the documents supplied by the Secretariat of the League of Nations—especially the Financial Committee's reports—and by the Bank for International Settlements.

I. STATISTICS RELATING TO THE PROBLEMS DEALT WITH IN THIS REPORT.

We shall not be expected to give here a detailed analysis of the general economic and financial situation of the countries concerned. This information must be looked for elsewhere, in the publications of those countries themselves, and, as regards five of them, in the publications of the Financial Committee of the League.

The sole purpose of this report must be to call attention to certain data which, taken as a whole, illustrate the exchange restrictions in force in the various countries.

These figures, which are calculated on a uniform basis and are comparable one with another, are given for each country in the annexes to this report, following a brief examination of the system of restrictions on foreign exchange dealings in each country.

For the moment we shall merely give a few tables referring primarily to the foreign trade and external indebtedness of those countries.

Table I. — Foreign Trade.

(In millions of Swiss francs.)

| Country | Year | Imports | Exports | Exports of | | Balance + credit — debit | Total trade per head of population (1931) (in francs) | Foreign trade, after deduction of trade between the countries | |
|--------------------------|-------------------|---------|---------|----------------------------------|---------|--------------------------------|--|--|------------------|
| | | | | Foodstuffs and raw tobacco | Cereals | | | Imports | Exports |
| | | | | | | | | | |
| Austria | 1929 | 2,379 | 1,597 | 3.0 | — | — 782 | 376 | 1,270 | 950 |
| | 1930 | 1,970 | 1,348 | 5.0 | 0.2 | — 622 | | 1,021 | 846 |
| | 1931 | 1,576 | 954 | 4.7 | — | — 622 | | 823 | 614 |
| | Jan.-June 1932 | 544 | 275 | 3.9 | 0.2 | — 269 | | 284 | 175 |
| | | | | | | | | | |
| Bulgaria | 1929 | 308 | 239 | 74.4 | 9.2 | — 69 | 65 | 213 | 152 |
| | 1930 | 169 | 229 | 81.0 | 15.1 | + 60 | | 121 | 154 |
| | 1931 | 173 | 220 | 87.7 | 22.3 | + 47 | | 126 | 145 |
| | Jan.-June 1932 | 77 | 68 | 92.9 | 34.6 | — 9 | | 36 | 33 |
| | | | | | | | | | |
| Czechoslovakia | 1929 | 3,073 | 3,151 | 11.6 | 1.9 | + 78 | 259 | 2,311 | 2,010 |
| | 1930 | 2,412 | 2,688 | 10.1 | 1.5 | + 276 | | 1,737 | 1,704 |
| | 1931 | 1,804 | 2,017 | 8.7 | 1.1 | + 213 | | 1,392 | 1,435 |
| | Jan.-June 1932 | 606 | 570 | 10.6 | 2.7 | — 36 | | 455 | 391 |
| | | | | | | | | | |
| Greece | 1929 | 892 | 464 | 90.9 | — | — 428 | 130 | 703 | 437 |
| | 1930 | 710 | 389 | 88.8 | — | — 321 | | 585 | 354 |
| | 1931 | 544 | 285 | 89.6 | — | — 259 | | 495 | 248 |
| | Jan.-June 1932 | 212 | 80 | 91.8 | — | — 132 | | 124 | 49 |
| | | | | | | | | | |
| Hungary | 1929 | 968 | 945 | 68.2 | 28.2 | — 23 | 116 | 431 | 370 |
| | 1930 | 748 | 828 | 67.4 | 21.3 | + 80 | | 352 | 356 |
| | 1931 | 500 | 516 | 61.9 | 14.6 | + 16 | | 256 | 274 |
| | Jan.-June 1932 | 154 | 138 | ? | 15.1 | — 16 | | 78 | 60 |
| | | | | | | | | | |
| Poland | 1929 | 1,808 | 1,632 | 33.4 | 5.7 | — 176 | 60 | 1,523 | 1,203 |
| | 1930 | 1,303 | 1,411 | 36.2 | 7.0 | + 108 | | 1,095 | 1,092 |
| | 1931 | 848 | 1,090 | 33.5 | 4.7 | + 242 | | 724 | 857 |
| | Jan.-June 1932 | 251 | 313 | 32.0 | 6.7 | + 62 | | 213 | 242 |
| | | | | | | | | | |
| Roumania | 1929 | 911 | 897 | 38.0 | 30.9 | — 14 | 65 | ¹ 656 | ¹ 623 |
| | 1930 | 714 | 884 | 38.3 | 35.0 | + 170 | | 516 | 608 |
| | 1931 | 492 | 684 | 46.7 | 39.5 | + 192 | | ¹ 354 | ¹ 475 |
| | Jan.-June 1932 | 169 | 232 | 41.5 | 35.7 | + 63 | | ¹ 123 | ¹ 161 |
| | | | | | | | | | |
| Yugoslavia | 1929 | 695 | 720 | 48.9 | 19.9 | + 25 | 62 | 367 | 358 |
| | 1930 | 632 | 617 | 50.5 | 15.7 | — 15 | | 343 | 352 |
| | 1931 | 435 | 435 | 53.3 | 14.6 | — | | 252 | 238 |
| | Jan.-June 1932 | 124 | 130 | 53.4 | 13.4 | + 6 | | 78 | 65 |
| | | | | | | | | | |

¹ The distribution by country in 1929, 1931 and 1932 not being available, it has been assumed that the distribution, in percentage, was the same as in 1930.

This table clearly illustrates the catastrophic fall in the foreign trade of the countries in question. At the same time, the figures, especially those in the last four columns, reflect the profound differences in structure among those countries.

Table II. — External Debt

(for dates, see annexes).

(In millions of Swiss francs.)

| Country | Long-term | | Short-term | | Total | Total per head of population (in francs) |
|--------------------------|-------------|--------------|-------------|--------------|--------------------|--|
| | Public debt | Private debt | Public debt | Private debt | | |
| Austria | 1,162 | 530 | 73 | 658 | 2,423 | 361 |
| Bulgaria | 630 | 51 | — | 34 | 715 | 118 |
| Czechoslovakia | 1,457 | 230 | — | 350 | 2,037 | 138 |
| Greece | 2,153 | 194 | 45 | 26 | 2,418 | 378 |
| Hungary | 1,647 | 719 | 302 | 1,106 | 3,774 | 432 |
| Poland | 2,797 | 178 | — | 1,482 | 4,457 | 139 |
| Roumania | 4,705 | 151 | 1 | 410 | 5,266 | 292 |
| Yugoslavia | 2,979 | ? | 290 | ? | 3,269 ² | 235 ² |

Table III. — Service of the External Debt in 1931-32

(Including Interest on the Short-term Debt.)

(In millions of Swiss francs.)

| Country | Service of the internal public debt ³ | Service of the external debt | | | |
|--------------------------|--|------------------------------|--------------|------------------|------------------------------------|
| | | Public | private debt | Total | |
| | | | | General | As a percentage of exports in 1931 |
| Austria | 90 | 134 | 80 | 214 | 22 |
| Bulgaria | 20 | 30 | 5 | 35 | 16 |
| Czechoslovakia | 274 | 70 | 35 | 105 | 5 |
| Greece | 107 | 127 | 13 | 140 | 49 |
| Hungary | 6 | 116 | 132 | 248 | 48 |
| Poland | 31 | 152 | 116 | 268 | 24 |
| Roumania | 26 | 172 | 31 | 203 | 28 |
| Yugoslavia | 28 | 124 | ? | 124 ⁴ | 29 ⁴ |

Note. — The figures shown in Tables II and III are not in all cases strictly comparable with each other. For further details, see the returns for each country (Annex 3). In cases in which the figure for the interest on the short-term private debt is not available, the amount has been calculated on the basis of a 6 per cent rate. The same method has been employed in some cases for the service of the long-term private debt.

It has not been possible, for the years 1929 and 1930, to determine the percentage of the amount of the service of the debt in relation to exports. The percentages in the last column of Table III refer exclusively to the year 1931 and far exceed the average for the last three years, as may be seen by glancing at the movement of exports during that period as shown in Table I. Further, it has to be considered that the sometimes considerable withdrawal of short-term credits has, for certain countries, lightened the service of the external debt to a corresponding extent.

¹ Included in the long-term public debt.

² Public debt only.

³ Figures for comparison.

⁴ Service of the public debt only.

Lastly, we give for all the countries as a whole, in millions of Swiss francs, the total figures derived from the foregoing tables.

External Trade after Elimination of the Trade of Countries concerned inter se.

| Year | Imports | Exports | Adverse balance |
|-----------------------------|---------|---------|-----------------|
| 1929 | 7,474 | 6,103 | — 1,378 |
| 1930 | 5,777 | 5,472 | — 305 |
| 1931 | 4,422 | 4,286 | — 136 |
| January-June 1932 | 1,389 | 1,176 | — 213 |

External Debt in 1931-32.

(In millions of Swiss francs.)

| | |
|------------------------|--------|
| Public debt | 18,240 |
| Private debt | 6,119 |
| Total | 24,359 |

Service of the External Debt in 1931-32.

(In millions of Swiss francs.)

| | |
|------------------------|-------|
| Public debt | 925 |
| Private debt | 412 |
| Total | 1,337 |

II. DEVELOPMENT OF THE RESTRICTIONS ON FOREIGN EXCHANGE DEALINGS IN THESE COUNTRIES.

The immediate reason which led the majority of countries to restrict free dealings in foreign exchange—so far, only Poland has been able to dispense with such measures—was the withdrawal of short-term external credits, which was soon followed by an increasing flight of capital. The first signs of this withdrawal were perceptible during the early months of 1931. It is not astonishing, then, that when, on May 12th, the difficulties of the Credit Anstalt, historically the most important banking institution in Central and Eastern Europe, became known, this movement should have gained considerable impetus and have extended to countries other than Austria.

The movement was further aggravated by a series of other events which, following close on one another, led to a general loss of confidence; special mention may be made of the banking difficulties that occurred in Germany in the middle of July, and, in September, the abandonment of the gold standard by Great Britain and by several other countries.

Despite the inevitable diversity of the measures taken by the countries concerned—as shown by the particulars given in an Annex relating to each of them—a common tendency is discernible in the provisions adopted; it is possible to note the successive stages of the course pursued by the different countries, a course on which some of them were able to pull up sooner than others.

The measures were, of course, designed, in the first place, to protect the gold and foreign exchange holdings of the Central Banks against mass withdrawals. Thus, in chronological order, mention should first be made of the attempts to induce the foreign creditor bankers to leave their short-term credits, or at all events the greater part of those credits, in the debtor countries. In those countries—Hungary and Austria—in which the biggest sums in respect of such credits were to be found, the debtor bankers were able to conclude collective *Stillhalte* agreements with the principal groups of foreign creditors. In Austria, thanks to the large foreign exchange reserves of the Bank of Issue at the beginning of the crisis, it was possible to make certain quarterly payments on the sums due, at all events for a time.

The scope of these agreements, however, was limited, and detrimental transfers of capital, more particularly the export of national capital, could not be prevented by such measures. In order to put an end to these withdrawals of capital, as, indeed, the *Stillhalte* agreements in the countries which we have mentioned implied, it was found necessary to take much stricter steps and institute general supervision over all payments to persons abroad, and at the same time to hold the assets of foreigners within the country.

This supervision was entrusted to the National Banks. But the point of difference between the countries was the extent to which exchange operations could be carried on by private banks under the more or less strict supervision of the Central Bank or must, on the other hand, be effected exclusively by the Central Bank itself.

If the application of these measures could have been restricted to movements of capital, their disastrous influence on commercial relations would not have been felt. Unfortunately, such limitation was not possible in any country. Several reasons contributed to this result.

In the first place, down to a very recent date the majority of the debtor countries could count upon a steady and more or less important influx of foreign capital. The national economic structure had grown accustomed to this influx and its sudden disappearance was bound to upset the balance.

Further, the introduction of restrictions resulted almost everywhere in the creation of clandestine markets on which the national currency was dealt in at a certain loss, which appeared also on the foreign markets. As all the Central Banks maintained the gold parity basis in their transactions, it was inevitable that the public should restrict to a minimum the handing over of foreign exchange to the Central Banks and should endeavour, on the other hand, to acquire as much as possible. Accordingly, the foreign exchange reserves of the Central Banks dropped more rapidly than the private exchange assets of the country as a whole.

Lastly, exports, which should be the principal source from which the National Bank obtains its foreign exchange, dropped off continuously as a result of the general depression and of the measures of protection taken by a whole series of countries. Furthermore, the restrictions placed by the other States on foreign exchange transactions meant that an increasingly large part of such exports—already reduced—was not paid in foreign exchange, or, if it was, that payment was subject to considerable delays.

The result of these various factors was that, almost immediately in all the countries which adopted this procedure, the Central Banks were no longer in a position to supply the total of the foreign exchange required to pay for imports and to supply other requirements—first and foremost, the payment of interest on short-term debts and the service of long-term loans. Something had to be done to relieve the charges resulting from imports. It was found possible to obtain relief either by limiting the amount of foreign exchange set aside for the payment of imports, or by restricting such imports themselves and admitting only a quantity of goods corresponding approximately to the foreign exchange imported.

While the first method does not constitute so direct an obstacle to trade, it does none the less present serious drawbacks. In point of fact, although the imports effected over and above the sums available in the Central Bank are partly paid for by assets abroad resulting often from the flight of national capital or by foreign exchange obtained by illicit means, another part, and probably the greater part, is obtained on credit, the foreign exporter covering himself, as a rule, against risk by increasing his sale price. These new credits make it still more difficult, in the future, to remove measures restricting the movement of capital.

Moreover, even those countries which at the beginning had adopted the first method were soon obliged to impose direct limitations on imports.

The effect of all these forms of restriction on commercial relations can easily be imagined. Every import is necessarily an export in another country; thus, there developed a process by which these foreign exchange restrictions produced, by their cumulative effect, a disastrous influence on the trade of those countries, both with each other and with third countries, at a time when international trade was already so badly hit by the world crisis.

Naturally, means were sought for attenuating these consequences, more particularly by agreements essentially involving exchanges of goods. The international clearing conventions belong to this group. Without going into details, it may be noted that these clearing conventions did not yield appreciable results, except when the monetary situation of the two contracting countries was practically equivalent.

In certain countries, it was necessary to go even farther. Some imports are indispensable, and the Central Bank cannot escape the obligation to furnish the necessary foreign exchange for the purchase of such goods. There is thus a point beyond which it is impossible to restrict the granting of foreign exchange for imports and, with the system adopted, it may happen that at some moment or other the Central Banks can no longer satisfy more than partially—sometimes even not at all—the foreign exchange required for the payment of interest on short-term debts or for the service of loans.

This is what has happened during the last few months in certain countries. Transfer moratoria were established imposing on the debtor the obligation to pay the amount he owed in national currency into a fund created at the National Bank, the foreign creditors having access to those payments subject to certain restrictions.

A transfer moratorium of this kind exists at present in Hungary and in Austria, while in Bulgaria only half of the service of foreign loans is paid in foreign exchange.

Greece, who a few months ago adopted a system different from the one described above, found herself obliged provisionally to stop all transfers for the service of her internal public debt and provisionally to suspend the service of that debt in national currency. At the same time she has entered into negotiations with her creditors for the partial payment of her public debts, and she is regularly paying the service of her external long-term private debts.

III. GENERAL CONSIDERATIONS SUGGESTED BY THIS EXAMINATION.

The first observation suggested both by the foregoing and by the information given in the Annex is that there are numerous and essential points of difference in the position of these various countries.

The majority of these countries have a predominantly agrarian form of economy; there are, however, some of a mixed or even predominantly industrial character.

The acuteness of the crisis varies as between the countries. Some have fulfilled all their undertakings; others have, in point of fact, had to resort to the partial suspension of payments.

Indebtedness, both public and private, vis-à-vis foreign debtors is, considered absolutely or in relation to their general capacity, heavy in some countries and moderate in others. In some, these obligations are to a large extent in the form of short-term debts, while elsewhere they are almost exclusively in the form of long-term obligations.

The monetary situation exhibits the same diversity. Some countries have successfully protected the stability of their currency; with others, such efforts have not been entirely successful. In one of them, even, currency depreciation has set in.

As regards budget equilibrium, every degree can be noted between two extremes, some countries having made heroic efforts to ensure a balanced budget, others being open to the reproach of showing some indifference in the matter.

As to the system of restrictions both in respect of foreign exchange and in that of trade, extreme diversity is found.

It appears, accordingly, impossible to classify these countries in one or more groups and equally impossible to conceive of a programme the application of which in all its parts could be recommended for all the countries now under review.

There are, however a number of general features which are found, some among all, others among the majority of the countries concerned.

(1) The crisis from which the countries of Central and Eastern Europe are suffering, while exhibiting its own peculiar characteristics and a special intensity, cannot, however, be isolated from the world depression. It constitutes a particularly typical manifestation of that depression. The whole problem is dominated by two fundamental considerations:

The first, which is of a general nature and concerns all States, but which falls with double force on the countries of Central and Eastern Europe, is the appreciation of the value of gold—or, in other terms, the drop in prices.

The second, which is peculiar to a series of European and extra-European countries, more especially several countries of Central and Eastern Europe, is the fact that their economic structure has adapted itself to working, during the last few years, under the continuous influence of an influx of foreign capital, an influx which to-day has ceased.

Hence the inevitable necessity of adapting the national economy to new conditions in regard to prices and capital.

(2) For the service of their debts abroad, the majority of Central and Eastern European countries have, essentially, at their disposal only the surplus of their trade balance.

Clearly, then, the drop in prices and the restrictions imposed on international trade have sensibly added to the burden of these debts, some of which have been imprudently increased. At the same time, in certain countries the application of a strict monetary policy and the free play of economic laws have resulted in an increase in the volume of exports and a reduction in that of imports.

Despite the crisis and despite obstacles to trade, the volume of exports, for agricultural products in particular, had not, up to quite recently, undergone such very profound modifications. It was in prices, and hence in the quantity of foreign exchange obtained for deliveries, that the heaviest reductions occurred. Thus the problem is one both of markets and of prices. In other words, there is in Central and Eastern Europe a correlation, first, between the means of payment available and the export capacity, and, secondly, between that capacity and the price-level of exportable products.

(3) The degree of indebtedness to foreign countries, although varying in the extreme, is, in the present circumstances, excessively heavy for several of these countries. The great difficulty lies in the fact that an unduly, high proportion of the capital lent was in the form of short-term obligations. A sudden movement to effect withdrawals on a large scale made transfer impossible and, in certain cases, finally upset the already very precarious balance of payments.

The sudden stoppage of the hitherto uninterrupted flow of foreign capital would, in any case, have necessitated a profound transformation of the mechanism of their internal economy. This operation, which would have been difficult of achievement even in normal times, requires in the present circumstances a very much greater effort, calling at times for quite extraordinary transitory measures—particularly as in several cases the capital lent by foreign countries during the last few years has been employed to pay wholly or in part the service of previous loans.

One definite conclusion may be deduced from this situation: to add, before the necessary adaptation has been completed—as a result of new loans—additional charges to those over-heavy burdens which exist to-day, would be for those countries at the present juncture as little in the interests of the lenders as of the borrowers. The difficulty would not be settled at all, but would simply be held over until later, while its solution would be rendered more complicated and burdensome. (The foregoing does not apply to the Austrian Loan under the terms of the Protocol of July 15th, 1932, account being taken of Point 8 of the recommendations of the Economic and Agricultural Committee.)

(4) One of the direct causes which led to the adoption and multiplication of restrictive measures in the sphere of exchange must be sought in psychological factors, particularly in a weakening of confidence both abroad and within the country. This was reflected in the withdrawal of short-term credits and the flight, varying in extent, of capital belonging to persons living within the country.

The introduction of these measures, in its turn, has frequently had the effect of increasing the existing distrust. In several countries, this action may have revived memories of the post-war period of inflation, during which the currency fell to a mere fraction—sometimes infinitesimal—of its former value.

The Committee agrees that it was difficult, in the present circumstances, to avoid establishing a temporary system of restrictions. Apart, however, from these temporary restrictions, born of necessity, it would undoubtedly be fatal to confer a permanent character on this regime.

Recourse to a monetary policy similar to that adopted by the United Kingdom and certain other countries might have produced too great a shock in Central and Eastern Europe, in view of the psychological situation and the extremely critical position of that part of Europe in regard to international debts.

A year has elapsed since the first measures were taken, and the same process has continued to undermine the situation. Foreign exchange dealings, and hence trade, have been subjected to constantly increasing restrictions. Transactions in capital have been almost completely arrested in the majority of countries; in some, the payment of interest has been suspended.

It has, however, become clear during this past year that there is no need in the majority of countries to fear inflation, as in the post-war period. The energetic steps taken—in many cases

in collaboration with the Financial Committee of the League of Nations—in order to avoid, or at all events to limit, deficits in the budgets of public authorities and public services have prevented the creation of that large additional purchasing power which is an essential condition of such inflation.

There is practically no country in which one finds direct loans obtained by Governments from the Central Bank for the purpose of meeting public expenditure. In certain cases, however, indirect loans or loans guaranteed by the Government have been contracted for other purposes, with the object, for example, of supporting the banking organisation.

It is true that, after the introduction of the foreign exchange restrictions, there was an agio in some countries on non-official or clandestine markets; but, generally speaking, this exchange premium has diminished latterly and it has in any case remained stationary.

(5) In order to guard against this disturbance of the balance, many countries have had recourse to a series of restrictions, affecting both transactions in foreign exchange and trade in general. Each State has tried to protect itself by shifting to others the consequences of a general situation; each has tried to push its exports and to reduce its imports to a minimum, this being indeed essential if it was to be able to ensure the service of the external debt. This policy might have produced results if it had been pursued by one country alone and if the others had accepted the situation. But, as each country was taking identical measures on a national basis, these measures neutralised one another. The result was—experience on this matter is conclusive—not only nil, but negative; it seriously increased the difficulties which it was desired to remove. In no case was the individual problem solved.

We find ourselves, then, faced with a difficulty which is not merely of a national character, and the final solution of which can only be found in joint action on international lines.

PART II. — MEASURES TO BE APPLIED TO BRING ABOUT A GENERAL IMPROVEMENT IN THE SITUATION.

The Committee considered the question by what means a removal of exchange restrictions could be achieved. It came to the conclusion that these restrictions could not be removed until a new equilibrium of the balance of payments has been brought about.

To attain this purpose, different kinds of measures are necessary which mutually supplement one another and which we propose to examine below. They include both internal and external measures.

I. INTERNAL MEASURES.

From the foregoing, it will be clear that the States concerned cannot rely on others to supply a solution. On the contrary, each one of them must do all in its power to revive its national economy, so as to enable international co-operation to take concrete form and to bear fruit. Moreover, it is only by the simultaneous enforcement of a programme which is identical in its main outlines and in its essential aims that the countries concerned can avoid paralysing, and even injuring, one another.

There would appear to be no fear of a new inflation similar to that which followed the war, on condition that budget equilibrium is maintained. Moreover, it is possible that the world crisis has reached its extreme point. In these circumstances, the Committee considers that the different countries ought to restore greater freedom to the trade in commodities.

There are two methods of achieving the aim in view: on the one hand, that of continuing deflation, like the process to which gold-standard countries are at present having to submit and which involves such a reduction of prices, accompanied by a reduction in the incomes of the different classes of the population, that a new equilibrium is reached based on the original gold value of the national currency; and, on the other hand, that of leaving the value of the currency to adjust itself to the new situation—while, of course, continuing with the greatest energy the efforts necessary to balance the different budgets and the whole national economic system.

These considerations, which as a rule apply without restriction, may nevertheless, in exceptional cases, encounter such obstacles as to justify the temporary adoption of measures of compromise.

As regards this point, the Committee confines itself to pointing out that the policy hitherto followed of officially maintaining the gold standard, without succeeding in establishing the internal conditions which can give it reality, makes the abolition of existing barriers practically impossible. These barriers can only be removed by adopting one of the two methods indicated above.

It must add that neither of these two policies would in itself be sufficient if other measures, which will be dealt with below, were not taken to ensure a final equilibrium of the balance of payments.

A third method has sometimes been envisaged—that of replacing the present legal parity of a currency by another. The Committee considers that this operation would be most hazardous in present circumstances in the absence of effective outside support.

Decisions touching upon monetary policy belong, of course, exclusively to the sovereignty of each country. In particular, the question whether the level at which the currency is at present

attached to the gold standard should or should not be maintained must be left for each country to decide for itself. It is probable that the currency will in some countries remain at its present par value and in others will eventually be lowered.

Be that as it may, it does not seem possible to lay down on this point any rule which would apply to all the countries concerned.

Among the factors which have to be taken into account, some of those put forward are of undoubted importance.

Some years ago, several of these countries went through the horrors of unlimited inflation, and are still suffering from its distant consequences. Public opinion has remained nervous and extremely distrustful with regard to monetary phenomena. In such circumstances, an abandonment of the outward signs of stability might provoke psychological reactions.

Furthermore, certain of these countries have a heavy external debt in foreign currency. Depreciation of the national currency would in no way lighten the immediate real burden, and would at once increase its relative importance in the budget.

The problem of the gold standard itself from the point of view of its international operation—whether it be the gold standard itself or the gold standard of exchange—must, of course, be studied, and perhaps dealt with, on an international plane. But it is obviously outside the competence of this Committee and directly within that of the forthcoming World Economic and Financial Conference. Certain delegates here recalled in this connection the motion voted on July 11th, 1932, by the Governing Body of the Bank for International Settlements emphasising the advantages of the gold standard.

At the centre of all efforts of adjustment the necessity of an energetic policy by the Bank of Issue will make itself felt. In this connection, the exchange of views which took place in the Committee again gave prominence to certain principles which we shall proceed to summarise.

The reserves of the Central Banks must play the part of a barometer rather than of a regulator.

The indications which they give must be translated into acts of consistent monetary and financial policy. All the classical measures should, if necessary, be employed—changes in the bank rate, relaxation or tightening up of the conditions for the acceptance of paper, direct or indirect operations on the open market, etc.

As “regulator”, these reserves can only serve to counterbalance moderate fluctuations in the balance of payments. In the case of profound disequilibrium, whether permanent or exceptional, it must not be thought that the difficulty can be solved by their intervention alone.

The Committee is bound to admit, however, that the considerable amount of debts frozen in certain countries, and the different internal measures having the character of a moratorium applied in certain agrarian countries, make it difficult for the various banks of issue to employ the traditional measures mentioned above. For this reason, also, it is very desirable that this considerable increase in credits with the Central Banks should disappear as soon as possible.

The Committee desires to recall here a self-evident truth: whatever the method chosen, it is absolutely essential to maintain a satisfactory budget equilibrium at all costs.

Only by making such an internal effort can the States concerned obtain the assistance of foreign countries on the lines here indicated. It is not so much in the interest of the creditors as in that of the countries themselves that such efforts are necessary.

II. MEASURES INVOLVING OUTSIDE CO-OPERATION.

Economic Measures.

The Committee, of course, deliberately refrained from examining any particular measure of an economic nature. It was led, however, to enunciate certain general considerations which either relate directly to the recommendations which it makes on financial questions or are likely to have some influence thereon.

In the first place, without wishing to express any opinion on the future trend of prices, we would point out that, if prices in general, and particularly the prices of agricultural products, were to rise, some of the difficulties with which we are dealing, at any rate as regards the future, would find an easier solution.

This shows the importance of the success of the efforts being made to raise the price of cereals in Central and Eastern Europe.

The work being pursued at Stresa forms an integral part of the work of the forthcoming World Economic and Financial Conference, and the results of the latter will in their turn influence the application of our recommendations.

Lastly—and the Committee considers this point essential—it cannot be sufficiently repeated that the restoration of normal conditions for the exchange of goods will be the best and surest means of consolidating an improvement in the financial sphere and remains a *sine qua non* of the success of the individual measures of which we are going to speak.

Financial Measures.

A. *Debts.*

From the statements made by several delegates, it is clear that, in present circumstances, certain countries consider themselves incapable of making all the transfers or even, in individual cases, all the payments abroad necessitated by the full service of their long-term debt. In the

case of most of the countries in which there are large amounts of foreign short-term capital, it appears from the statements made that they are not in a position to effect the immediate and full repayment of these funds.

The Committee was obliged to recognise that present economic conditions have materially increased the burden of the external debts, whether public or private, of the States of Central and Eastern Europe, and that, if these conditions were to continue, the situation would be further aggravated.

This question of debts more than any other brings out the profound differences which exist between the various countries of Central and Eastern Europe. There can therefore be no question of conceiving or applying a single solution.

In some of those countries whose figures are annexed to the present report, the problem does not arise, or arises in quite a different manner, and elsewhere it is already on the way to solution or is being made the object of negotiations. Any decision in whatever sense must be taken solely by the creditors themselves; and the solutions to be applied to the difficulties of the moment must be sought and elaborated by direct negotiations between creditors and debtors.

In approaching this delicate problem, the Committee has thought it necessary, in the first place, to affirm those principles a disregard of which would involve still more serious evils than those we are endeavouring to remedy.

Once an obligation has been entered into, it is final; it must be carried out in full and as stipulated in the contract. If circumstances occur which are stronger than the will or the capacity of the debtor, they create for the parties a new situation in which the creditor must be able to form an idea of the real situation of the debtor and demand guarantees for safeguarding his interests. But, at the same time, it may be said that such a situation should incite the creditor to assist the debtor to return to normal conditions.

It must not be forgotten, however, that we are at present in the heart of the crisis, so that the measures to be taken should have a temporary rather than a final character.

Setting out from these principles, certain delegates of debtor countries have stated that, to their minds, the measures taken, although sometimes difficult to justify from the legal standpoint, constitute measures for the conservation of the interests of the creditors.

The direct interest of the debtors demands, moreover, that in dealing with their debts, they should never lose sight of the necessity of safeguarding their credit for the future.

We repeat that the whole problem of debts will be simplified by the disappearance or gradual lowering of the barriers to international trade in general. Conversely, the aggravation or maintenance of these barriers, accentuating the stagnation of business, would complicate the problem to the extent of rendering it in certain cases insoluble.

The abolition of restrictions on dealings in foreign exchange may, in certain cases, necessitate an at least temporary adjustment of foreign debts. In this connection we would refer to the remarks made below.

In the light of these considerations, we shall now approach the problem at issue, which differs according to whether the debts are short or long term.

1. Short-term Debts. — One of the general characteristics of the crisis is to be found in the breakdown of equilibrium in the distribution of capital. This takes two principal forms—first, the excess of capital maintained in short-term form, and, in the second place, the use of short-term funds for long-term expenditure, or the *de facto* immobilisation of these funds owing to the crisis.

These disharmonies have made their effects doubly felt in certain countries of Central and Eastern Europe. In the first place, a series of credits have been "frozen"—that is to say, the debtors are materially unable to repay them at short term. Next, even when the capital is mobile within the national frontiers, the means of transfer abroad are lacking.

We would emphasise that, in certain cases, there are situations similar to those which too often arise in business and with which banks are too familiar. This constitutes a risk inherent in the lending of money and must be accepted by the parties and dealt with according to the ordinary rules of private law.

Thus we note two facts: funds lent on short term are immobilised into long-term investments, and short-term credits which remain liquid cannot be refunded for lack of means of transfer.

Even in the hypothesis of a material rise in the price of exportable products, the immediate mobilisation and transfer of all short-term credits appear to be improbable.

The present "standstill" agreements, which have been concluded with the idea that they will only be for a provisional period, present evident drawbacks. In certain cases, they have lumped together the sums falling due, further increased by arrears, and have fixed the same date of payment for all of them, thus intensifying the difficulty of a solution. In the interior of each country they have prevented the liquidation of intrinsically bad debts and have thus stopped the painful but normal process of improvement and reduction. Several of them have already fallen due or will soon do so. A transfer moratorium, whether official or *de facto*, has the same drawbacks, and others as well.

Under the shelter of these agreements, creditors and debtors will have to negotiate direct regarding other arrangements to be made for the future. We are not in a position to say what agreements presenting fewer drawbacks might be concluded immediately. No doubt the moment has not yet come to adopt final solutions. The evolution of the crisis and the possible or probable improvement of the economic position will, it may be hoped, automatically solve numerous difficulties.

Nevertheless, it is in the interests of both parties—the creditors and the debtors—to correct to the greatest possible extent the defects which practice has revealed.

The exchange of views which took place in the Committee brought out a number of ideas which would appear possible of application immediately in certain cases and which would have valuable results from the general point of view.

The procedure of settlement should be as elastic as possible. A means of arriving at this elasticity would be the development of individual negotiations leading to direct agreements. The two parties may perhaps find it necessary to undertake thorough investigations conducted by themselves or under the direction of bodies which are both competent and impartial. In any case, the consequence of these agreements should be to relieve the balance of payments of the weight of arrears, which have become considerable.

One observation which we are bound to make is that measures taken to "block" funds place foreign creditors in a position which is always difficult and sometimes critical. Some of them could not, without exposing themselves to grave danger, accept the pure and simple transformation of their short-term credits into medium- or long-term credits. It goes without saying that this aspect of the problem must never be lost sight of.

In several cases, short-term credits are not only forcibly retained in the country, but are also rendered subject to supplementary restrictions within the frontiers. The result is that the position of foreign creditors is worse than that of national creditors. To explain this anomaly the necessity is invoked of avoiding a breach which would render vain the other measures for the protection of the exchanges. But this explanation provides the only possible excuse for such differences of treatment which should never be imposed for any other reason.

The funds belonging to foreigners should at least be available for capital employment within the country.

But arrangements should be made for their gradual liberation within the frontiers and their progressive utilisation for the payment of exported goods.

Lastly, foreign creditors must, as soon as possible, be able to choose their debtor within the country and enjoy all advantages granted to national creditors; otherwise, the creditor might demand compensating guarantees.

In the process of liberation and transfer, distinctions and preferences might be established, according to the origin or nature of the funds. Thus, it would be natural to liberate first of all funds relating to commercial transactions; while, on the other hand, it would also be natural to retain for a longer period credits which possess a more permanent character as a result of the incessant movement of renewed bills.

Sums due on short term whose transfer is suspended are derived from numerous sources; but moneys derived from the payment of debt coupons which, not being transferable, are paid into trustee accounts or special accounts must be placed in a special category. These sums should in any case be available within the country to holders wishing to cash their coupons therein. This is an aspect of the problem of long-term debts, but it weighs on the balance of payments in the same way as short-term debts.

Mention may also be made of the funds lent by the Bank for International Settlements to the banks of issue to facilitate their monetary action at a time when other capital was being withdrawn; these loans have a special character as being in the nature of assistance. They are not blocked, but clearly they constitute one of the elements of the problem.

As we have said, each case must be examined and dealt with separately. It is inevitable, however, that relations should exist between the problems arising in different countries and that in certain countries negotiations between several groups may be necessary.

But, if the creditors are induced in this way to make concessions to their debtors, they will undoubtedly be justified in obtaining adequate guarantees when they think it necessary to call for them.

Nevertheless, the measure which will form the essential counterpart of these concessions and the best guarantee for the future will be the abolition of restrictions on exchange operations and on trade.

The Committee recognises, on the other hand, that in many countries it would be impossible to abolish exchange restrictions in the near future unless agreements were concluded settling the problem of short-term debts.

In respect of the latter question, however, certain delegates asserted that, on a number of the points raised—in connection, more especially, with standstill (*Stillhalte*) agreements, and the necessary rules of differentiation and priority in the process of release—they were insufficiently informed and therefore did not feel qualified to express an opinion. They urged, however, that all adjustments should be settled directly between creditors and debtors.

2. Long-term Debts. — Most, and in certain countries even all, long-term debts are public debts. The question has, therefore, two aspects, and turns partly upon budgetary capacity and partly upon foreign transfer capacity.

It is obvious, that in the countries of Central and Eastern Europe, the service of foreign debts is, to a varying extent, an important element on the debit side of the balance-sheet, and cannot be ensured in its entirety unless the other side of the account shows assets for an equivalent amount. Whether such assets can be procured depends in large measure on the financial policy of the debtor States; but, as has been shown in the present report, it also depends upon the extent of international economic activity—that is to say, to a degree varying from country to country, upon factors beyond their control. Provided that the debtors first prove that they have made the necessary efforts to meet their obligations, and that no other possibility remains,

it may therefore be in the interests of the creditors themselves to refrain from putting forward demands which, for the time being at least, it would, in practice, be impossible to satisfy.

But—and this is a point which deserves special emphasis—if a debtor country considers itself unable to meet its obligations in full, it is in duty bound to communicate with its creditors, directly and without delay, and, if the latter deem such a course necessary, to submit to any reasonable investigation of its position by qualified persons acceptable to both parties.

Contractual obligations can in no circumstances be modified unilaterally.

If, moreover, adjustments appear necessary, it would, in principle, be preferable, in the interests of debtors and creditors alike that they should be given a provisional character; for it is possible that world trade is on the eve of revival.

It has been pointed out that, in certain cases, the present burden would be appreciably lightened by comparatively slight modifications in the rate of amortisation.

At all events, if foreign creditors were induced to make concessions in regard to the burden which these debts represent, such concessions should not result in placing home creditors in a more favourable position than foreign creditors. It would appear that the position of the former should, on the contrary, be regarded as a minimum. Nevertheless, it must be kept in mind that foreigners themselves have an incontestable, though indirect, interest in each country's preserving intact its ability to raise loans on the home market.

There can, moreover, be no doubt that the creditors would frequently derive the greatest benefit if the representation of their interests were more effectively organised.

The foregoing recommendations apply equally to private and public debts.

B. *Currency Normalisation Fund.*

It may be hoped that the various measures which we recommend in the economic and financial sphere will safeguard the balance of payments of the countries concerned from a sudden attack at what has hitherto been its most vulnerable point. This will lead to a state of affairs in which it will be possible, by prompt and decided action, to abolish the system of restrictions on foreign exchange dealings, and to return to normal conditions of freedom. Such measures should therefore be introduced at the earliest possible moment, and, as far as is practicable, simultaneously in all the countries concerned.

In other words, the attempt to direct economic activity through currency control would be discontinued, and banks of issue would resume their proper function of supplementing the action of a free currency market.

But, when all these conditions have been fulfilled, when, as a result of the various measures described, the countries concerned have reached the threshold of a final adjustment in regard both to international relations and the relations of their own economic life with that of the world at large, situations may arise in which even limited foreign assistance in currency matters will be found both necessary and expedient.

Hence the idea of instituting a fund for the purpose of assisting at the opportune moment the normalisation or final regularisation of currency conditions in Central and Eastern Europe.

In the minds of the authors of this suggestion, the fund would operate in the following manner:

The immediate object of the fund would be to assist Central Banks by increasing their reserves at the opportune moment. It would therefore be concerned with currency matters.

It would not be called into play until the last stage, and would, as it were, form the coping-stone of the edifice raised by the interested parties themselves. But the conditions necessary to its employment might perhaps be satisfied more rapidly in some countries than in others; in any case, it is to be hoped that this would be brought about at the earliest possible moment.

Everything considered, it would be desirable that a movement for promoting the idea of such measures should be launched without further delay, as its value in stimulating confidence might be immense. In the countries of Central and Eastern Europe, the psychological factor is of exceptional importance, on account of the impression left on the public mind by the currency disaster of a few years ago.

In the same connection it may, moreover, be noted that it would represent an unmistakable and valuable manifestation of the general desire for European co-operation, as well as a basis for efforts for the further improvement of conditions.

The creation of a fund intended to facilitate the final abolition of exchange restrictions in certain countries which at the present moment transfer no more than a fraction of their foreign debts would be of the greatest importance to all creditors.

It is this fact which would determine the general character of the fund and the rules which should govern its composition and operation.

For the moment, the Committee did not consider itself competent to work out this idea, which, moreover, did not obtain unanimous support, in complete detail.

The rôle of the Stresa Conference is confined to enunciating measures or general recommendations for submission to the Commission of Enquiry for European Union. It will be for the latter to take any further steps for the scheme's application. In this connection, the view was expressed that the Commission should entrust the detailed elaboration of any future scheme to a small committee consisting of technical experts or specialists, with general terms of reference and extensive powers of decision.

The fund would be constituted through an appeal to Governments, which would make the necessary sums available, either directly or indirectly.

The fund would form an important part of a system the effect of which should be to regularise the chaotic situation resulting from the crisis in the interests of all countries, including those outside Europe. All would benefit directly by a business revival in Europe, either as producers

or consumers, creditors or debtors. Contribution to the fund would be an earnest of the economic revival of Europe.

That being the case, it would be desirable that as many countries as possible, especially the leading Powers, should contribute to the fund.

As regards the assessment of contributions, various systems were suggested. For the time being, however, the question remains open.

The working methods should be modelled upon commercial practice; capital would be lent at interest and in accordance with the accepted rules for credit transactions. Subsidies paid into the fund would therefore have the character of loans, recoverable as soon as the fund had completed its task.

It is, moreover, to be desired that the rules laid down for support of, and participation in, the fund should be as elastic as possible; for, in certain cases, its purpose might be attained by mere guarantees, without the contribution of actual funds.

At this point in its proceedings, the Financial Committee was called upon to consider a scheme for the revalorisation of cereals worked out by the Economic Committee. The Financial Committee was asked to enquire into the possibility of combining the fund provided for in this scheme with the Currency Fund. The methods of operation and the objects of the two funds are obviously different. The Committee reviewed a number of possibilities, none of which was ruled out, though the Committee refrained at the present juncture from deciding among their respective merits.

In these circumstances, it will no doubt be preferable to postpone the selection of a final solution until a later stage in the enquiry. The Committee nevertheless wishes to stress the necessity of finding such a solution without delay. Certain members of the Committee emphasised the urgent need—irrespective of the solution adopted—of devising means for the immediate application of the schemes for the revalorisation of cereals.

It may finally be recommended that the administration of the fund should be entrusted to the Bank for International Settlements. Certain delegates are, however, of the opinion that the Bank should be invested with the fullest powers, comprising the general direction of operations, as well as their technical execution; others, on the other hand, would prefer that the fund should be made a distinct legal entity, which, while taking advantage of the banking services of the Bank for International Settlements, should retain full control of its own activities.

The Committee finally decided to leave the World Conference to examine the extent to which the fund might be incorporated with measures of a more general character.

CONCLUSION.

Having reached this stage in our proceedings, we must stress one of the important characteristics of all the measures proposed—namely, that they should preferably be simultaneously applied by all countries with permanently interrelated interests or in closely similar conditions. It is, more especially, by such a concerted movement that a general atmosphere of mutual confidence and faith in the future, which will permit of the spontaneous solution of numerous difficulties, may be created.

The removal of obstacles to trade, especially exchange prohibitions, is, therefore, to our mind, both the consequence and condition of international collaboration.

Moreover, the restoration of normal commercial relations and the revival of general trade movements in the countries of Central and Eastern Europe resulting from the abolition of existing restrictions will be a capital and indispensable factor in the permanent success of the various other aids to revival. Just as the measures hitherto adopted, within their own limits, by each of the countries concerned, were in origin a consequence of the depression and subsequently accentuated its severity, so the disappearance of trade restrictions resulting from thorough-going efforts at restoration will ensure the continuation and consolidation of the improvements which we expect.

We have stressed the necessity of joint action on international lines in the interests of the countries of Central and Eastern Europe.

At this point, in many cases, there is no need to distinguish between restrictions applicable to foreign exchange transactions and those applicable to trade in goods; the one series produces the other, and the same results are obtained in different countries by procedures which essentially concern now foreign exchange and now goods. The abolition of restrictions on exchange transactions and the corresponding trade restrictions should therefore proceed *pari passu* in the different European countries.

* * *

At the same time, while the final object is the re-establishment of full liberty, transitions may, of course, be necessary.

As regards restrictions on currency transactions, one fundamental distinction may be made. It is essential, first, to abolish those particular measures which in actual fact have the effect of restricting, complicating or paralysing exchanges of goods.

An adequate degree of liberty on the foreign exchange market, and the resumption of the convertibility at sight of notes of banks of issue, are compatible with the maintenance of a certain supervision over-movements of capital. These last restrictions will lose their *raison d'être* and lapse of themselves when the balance of accounts has been re-established at a normal level.

Even pending the removal of those restrictions everywhere, it is essential to renounce measures the practical effect of which might be obtained by other methods less injurious to foreign contracting parties.

* * *

Among the recommendations deriving from the present report, we have endeavoured to bring out the most important. Several of them do not apply to certain of the countries under consideration, but, taken as a whole, they express our general views as to the best means of surmounting the present difficulties.

In consideration of the foregoing, the Committee recommends:

General Principles.

- (1) *That effective budgetary equilibrium be maintained or established.*
- (2) *That the Central Banks endeavour to enforce a strict credit policy.*
- (3) *That financial and economic policy be based on an endeavour to promote the adaptation of national life to the new conditions resulting from the drop in prices and the withdrawal of capital.*

Short-term Debts.

(4) *That, with a view to permitting of the abolition of exchange restrictions and the "restoration" which is indispensable in countries in which short-term credits are immobilised, direct contact be established between creditors and debtors with the object of arriving, so far as may be necessary, at adaptations taking into account, in particular, the real value of the credits immobilised and their nature.*

(5) *That the debtor countries should, with the object of re-establishing the minimum credit indispensable for purely commercial activities, proceed as soon as possible to effect the progressive transfer, by whatever methods may be appropriate, of foreign short-term capital, taking duly into account the nature and the use to which that capital may be put.*

(6) *That foreign short-term credits, in countries in which they form the subject of special measures, may gradually, but as rapidly as possible, be utilised within the said countries as freely as national capital.*

Long-term Debts.

(7) *That if, after having made the internal efforts necessary for the execution of undertakings entered into, and by reason of the special difficulties ensuing from the economic crisis, a debtor (State, public body or private individual) finds it necessary to apply for a certain adjustment of his contractual obligations, such debtor shall communicate direct and in good time with his creditors, who are alone entitled to accord any adjustments that may be found necessary.*

(8) *That, if arrangements appear necessary, they shall, in principle, be of a provisional character, taking into account the present situation of world affairs.*

(9) *That the treatment of foreign creditors, which in an ordinary way must be privileged by reason of the security and guarantees which they hold, shall not be more unfavourable either in law or in fact than that of national creditors.*

Currency Normalisation Fund.

(10) *That measures be contemplated forthwith for the constitution of the necessary funds, in order that the States of Central and Eastern Europe may, when the moment arises, find financial assistance such as will enable them definitely to strengthen or restore their monetary situation and will inspire immediately a feeling of security.*

It has been suggested in this connection that a fund should be created which would be constituted by means of repayable advances supplied by all the States parties thereto, and from which, in case of need, loans for a reasonable term would be granted to banks of issue.

The Committee did not feel able to examine in detail the means whereby effect might be given to this proposal, which did not meet with the unanimous approval of its members, but appeared to the majority of them worthy of submission to the Commission of Enquiry for European Union. The latter would have to decide what body should be made responsible for the administration of the fund, the general lines of such administration, the method of calculating contributions, and the manner in which such contributions might be supplied.

C. REPORT OF THE ECONOMIC AND AGRICULTURAL COMMITTEE.

Chairman: M. Georges BONNET (France).

Rapporteur: M. Richard SCHÜLLER (Austria).

INTRODUCTION.

The Stresa Conference, to which the Lausanne Conference had confided the task of submitting to the Commission of Enquiry for European Union proposals for the economic reconstruction of Central and Eastern Europe, approached the problem in its two main aspects—the monetary and financial and the economic aspect.

Indeed, without the restoration of a sound currency, it would be difficult to contemplate the abolition of all the new restrictions which, since about a year ago, have been added to the ordinary policy of protection, thereby placing still more serious obstacles in the way of the normal development of trade.

Undoubtedly, too, no measures intended, with the help of the admittedly necessary financial reconstruction, to restore to the currency its full functions as an instrument of exchange could produce their full effect unless at the same time these obstacles were reduced *pari passu*.

In order to overcome the grave difficulties of the hour in the financial as well as in the economic sphere, the action that is possible and natural is of three kinds.

In the first place, it is more important than ever that each of the States of Central and Eastern Europe should persevere in its efforts to strengthen its internal economy, in order to do its utmost to withstand the present depression and pave the way to recovery in the near future.

Further, it is also essential for the States of Central and Eastern Europe to endeavour by direct negotiations to settle, in the most desirable way and in a spirit of equal goodwill, their trade relations among themselves and with other countries. In this field there is much to be done, because, under the pressure of the world crisis, the contractual system which ensured normal trade for the States of Central and Eastern Europe has been seriously impaired.

But, in the abnormal circumstances we are now experiencing, the action that individual States can take, whether in the field of their national economy or by means of bilateral agreements, is necessarily limited. These two means of recovery must therefore be supplemented by collective action enabling them to be both co-ordinated and perfected.

While not underestimating the importance of these direct negotiations for the economic restoration of Central and Eastern Europe, the Economic and Agricultural Committee devoted its efforts mainly to seeking ways and means of giving practical application to the last-named method, as it felt that therein lay the essential mandate conferred upon the Stresa Conference by the Lausanne Conference.

I. TRADE RESTRICTIONS.

Among all the obstacles and restrictions which are to-day hindering the international trade of the countries of Central and Eastern Europe, whether among themselves or with other countries, we may distinguish—though not by any clear line of demarcation—two main categories of different origins: the restrictions dictated by economic considerations and those necessitated by the need to protect the currencies and by difficulties of transfer.

Any alleviation of the first-named restrictions is closely dependent on the improvement of the world economic situation and on the development of European economic policy. It will be one of the principal tasks of the future World Economic Conference. Nevertheless, it would be desirable for the different countries to prepare the ground now by making every possible effort towards this end.

On the other hand, it should be possible for the second category of restrictions to disappear, *pari passu*, with the restoration of the finances and the currencies. It was to this category that we gave our chief attention, since the measures for which it calls are the most urgent and seem capable of more immediate achievement.

The primary need is that the various States, setting aside purely unilateral considerations and taking up a stand against interests which have grown up as a result of the abnormal situation, should endeavour, in the matter of the exchange of commodities, to put an end to artificial conditions which would nullify the attempts that all the States represented here intend to make to help the countries of Central and Eastern Europe to restore their finances and their currency. If we take properly into account the existing interdependence between monetary and economic action, we shall have gone far towards restoring the normal course of trade.

It should be borne in mind, however, that the efforts made by the States of Central and Eastern Europe might be hindered if the other European countries, which maintain important trade and financial relations with them—that is to say, the same countries that are to-day trying to support them in their struggle with present difficulties—continued to apply to their imports, and with unabated severity, special restrictions which, in view of the improvement in the financial situation, were no longer justified.

As already pointed out, one of the most urgent needs is the re-establishment of a system of normal commercial treaties. The contractual policy of the countries of Central and Eastern Europe at present bears visible evidence of the depression; it is entirely dominated by monetary and financial considerations. Faced with the necessity of restoring their balance of payments at all costs by reducing imports to the lowest possible level and endeavouring to increase exports—and of these attempts only the first has succeeded—and the further necessity of being in a position to adapt their import policy from day to day to a monetary situation which is constantly changing and is in a very dangerous state, these countries have, as a rule, tried to free themselves from the bond represented by normal commercial treaties intended to be valid for long periods and based on the principle of freedom of individual commercial transactions.

Hence the attempts to deconsolidate duties and thereby enable States to regain their full tariff freedom; hence, also, the conclusion of short-term treaties, often limited to particular classes of goods, rather resembling market arrangements than international instruments, and intended to maintain only the minimum amount of trade consistent with the monetary policy of the respective countries. Barter agreements, compensation agreements and even clearing agreements generally come within this category.

As progress is made towards recovery in financial and currency matters, it will become essential for these countries to try to re-establish, both among themselves and with other countries, a stable system of commercial treaties capable of affording adequate guarantees.

Undoubtedly, a complete and final economic recovery from the present depression cannot be expected until the world crisis has become less acute and business in general has been resumed. It should be pointed out at present, however, that, if at any moment the natural play of economic forces begins to bring about such a recovery, that recovery may be seriously hindered unless the countries in question endeavour now, with the help of the other European countries, to free themselves, both in the monetary and in the commercial sphere, from the defensive armour in which they are encased and which is a danger to themselves. They must now, through the measures they take in the financial and monetary field and by reverting to a more liberal economic policy, prepare to take their part in the general economic recovery. Moreover, it may legitimately be hoped that, by taking these measures, they will hasten recovery.

Having taken note of the work of the Financial Committee, the Economic and Agricultural Committee would point out that a first important advance would be made if the restrictions on dealings in foreign exchange were removed.

There then remains to be considered the body of measures limiting the number of commercial transactions and the quantities of goods exchanged—the regime of prohibitions, of licences, of indirect and administrative protection, and of quotas. All these methods are closely inter-allied.

The quota system, a form of restriction which is only too widespread, is due to several causes, some of which are of a monetary character: direct causes in countries whose currencies seemed to be in danger, and indirect causes in countries which felt themselves threatened with an abnormal importation of goods in search of foreign exchange having an appreciated value. It is to be hoped that, as the monetary or other causes disappear, these measures will also be partly or wholly abolished. Their disadvantages are well known, and have been fully explained in a recent report by the Economic Committee of the League of Nations. In the meantime, however, we consider it urgently necessary that the countries of Europe, and particularly those of Central and Eastern Europe, should gradually abolish the restrictions on trade—prohibitions, licences, quotas and administrative protection. Pending the complete removal of these restrictions, the individual countries should, of their own accord, increase unduly restrictive quotas and abolish those that are no longer needed. By means of bilateral agreements, they should arrange and increase the quotas so as to maintain or restore normal currents of trade.

It is further necessary that States which continue to apply quotas should make the methods of allocation more elastic, so as to mitigate to the fullest extent consistent with international agreements the possible effects of such quotas on the economic development of the States of Central and Eastern Europe.

As trade questions naturally affect more countries than those of Central and Eastern Europe, the problem of providing greater freedom for international trade—by the abolition of prohibitions, of the licensing system, of quotas and of indirect protection—can be completely solved only by the future World Economic Conference.

2. REVALORISATION OF CEREALS.

The collapse of prices of agricultural products, and particularly prices of cereals, plays an all-important part in the crisis through which the States of Central and Eastern Europe are passing. Accordingly, the Stresa Conference—acting, moreover, in accordance with an express recommendation of the Lausanne Conference—tried to find means of remedying, at all events in part, the fall in prices by attempting to give an enhanced value to exportable surpluses of cereals.

Since the Conference for Concerted Economic Action indicated in 1930 the lines on which certain "preferential" agreements could be concluded for European cereals, various States have concluded agreements of the kind suggested. Some of them are already in force; in the case of others, it has not yet been possible to apply them on account of the opposition of other States enjoying most-favoured-nation treatment.

It has been found that, even if all these agreements; were in force, they would probably fail to achieve the most important result—namely, an increase in the home price in the producing countries. Such a result, indeed, seems attainable only by a method which would have the effect of revalorising to a certain extent all exportable surpluses of the various cereals under consideration. If a higher price is obtained for all exports, home prices will follow such a rise in export prices.

It is further necessary that, while the total covering all such surpluses should not be exceeded, the quantities of each of the cereals in question should be variable according to harvest fluctuations. This two-fold result seems very difficult to attain merely by means of bilateral treaties concluded independently of each other and without any co-ordination; hence the idea of collective European action which the Committee has endeavoured to incorporate in the attached draft Convention.

The object of this draft Convention is the revalorisation of cereals by combining the two means referred to—the granting of preferences in bilateral treaties subject to the rights of third States, and financial contributions to a special fund.

The draft limits the preferences granted by the bilateral treaties or by collective action to the average quantities exported during the last three years (1929, 1930 and 1931).

This limitation is of great importance both to the European countries taking part in the action contemplated and also for oversea countries. It lays down limits, which the former can accept, to the concessions asked of them; and it gives the latter an assurance that the production of cereals in Central and Eastern Europe will not increase behind the shelter of an unlimited preferential regime and will thus not be likely to have a prejudicial effect on their own exports. For that reason, the Conference hopes that the oversea countries, which have so great an interest in the reconstruction of European economy, realising that the action suggested is intended to bring about that reconstruction and is of such a nature as not to injure their interests, will give it favourable consideration, and, by not placing any obstacle in its way, will take their part in the movement.

There is no need to dwell further on the details of the draft. We will merely point out that, if it is to be put into application, it must be possible for the bilateral treaties which have been concluded, and any which may be concluded in the future, to enter into force. Obviously, the advantages derived from it must not be rendered nugatory by other measures.

Further, if they are to be effective without the risk of injuring third States, the special facilities granted to the cereals of exporting countries must apply only to part—and an exactly defined part—of the imports of purchasing countries.

The special fund which it is proposed to establish should be allocated by a committee. The charges would be divided equitably among the participating States in accordance with a specified criterion. Any disputes would be settled by an adaptable and rapid system of arbitration. It is laid down that States may free themselves by means of bilateral treaties from the obligation to contribute. The method to be employed in these treaties may vary, and does already vary, according to the special relations of the countries which have already concluded, or may in future conclude, such agreements, due allowance being made for the rights of third States.

As the counterpart of the benefits they receive both in the monetary or financial sphere and also in regard to cereals, the exporting States, desirous to contribute their share towards the establishment of a liberal commercial policy and a moderate Customs policy, undertake to make satisfactory concessions to the contributing countries, by means of bilateral agreements, in so far as an equivalent has not already been granted in respect of the facilities accorded to them. Such advantages must in no case affect the rights held by third States under the most-favoured-nation clause and will apply to all the signatory States.

The realisation of this scheme will depend on whether a large number of European States, and particularly the most important States, are prepared to take part in it, since all European States are interested in the economic reconstruction of Central and Eastern Europe, on account of their commercial and financial relations with the latter and also on account of the position it holds in European life.

This action, which is to be applied to a problem of extreme urgency and which can now be taken, thanks to the international effort of the last few years, is intended to go hand-in-hand with monetary action. The proposals it embodies will have their full effect if on the financial side the monetary and financial restoration of the countries concerned is successfully carried out on sound and solid bases.

As regards the world aspect of the cereals problem, the Committee considers it very desirable that the market should be so organised as to enable the chaotic condition of prices and selling conditions to be remedied. It expresses a desire that the efforts to bring about this organisation should be continued.

3. AGRICULTURAL PRODUCTS OTHER THAN CEREALS. LIVE-STOCK AND ANIMAL PRODUCTS. TIMBER.

The Committee realises that the effects of the catastrophic fall in prices are not confined to the production of cereals; the fall has also reduced very considerably the revenue derived by several countries of Central and Eastern Europe from the trade in other important agricultural products.

Desirous, however, of achieving a practical result and of avoiding the risk of trying to do too much and thereby jeopardising the results of its efforts, the Committee, while hoping that international measures may be taken as regards other products, has felt bound for the moment to confine itself to cereals in order to give this experiment time to develop and prove its value.

At the same time, it feels that it cannot pass over in silence the primordial importance, from the standpoint of certain Central and Eastern European countries, of the crisis in the live-stock and timber trades. It desires, accordingly, to stress the necessity of continuing and expediting the work undertaken by the League of Nations Economic Organisation in regard to veterinary

questions. Indeed, if the conditions, other than those relating to Customs, under which the trade in live-stock and animal products has been carried on in Europe could be improved, the result would certainly be highly beneficial to the exporting countries.

Furthermore, the Conference expresses the hope that the efforts to bring about international agreements relating to timber, which originated in the meetings organised by the League of Nations Economic Committee, may succeed, through the collaboration of all the countries concerned, in eliminating some at least of the dangers of uncontrolled competition.

4. TOBACCO.

The Committee cannot refrain from devoting some special remarks to the crisis in the tobacco trade, in view of the absolutely decisive importance of the export of this product for the re-establishment of the national economic life of Greece and Bulgaria.

In this connection, the Committee is happy to refer to a report submitted to the Commission of Enquiry for European Union by the Special Committee which met at Geneva in October 1931.

It notes that, since the publication of that report, the situation—already critical—of the countries producing Oriental tobacco has become very much worse, owing to the marked decline in sales and the heavy fall in prices. The value of their tobacco exports has dropped 50 per cent compared with 1930.

This has resulted in extremely serious difficulties for both these countries, in which tobacco exports are of vital importance. For Bulgaria, they actually represent 35 to 40 per cent of the total exports; for Greece, which produces 40 per cent of the Oriental tobaccos, they represent 55 to 60 per cent of a total export which does not cover half the imports. The deplorable consequences of this situation are rendering even more acute the economic and financial crisis from which these countries are suffering.

The discussions on this state of affairs led to the conviction that the Oriental tobacco question has assumed a particularly urgent character, and that it would be extremely useful as a means of assisting the countries affected by this crisis to apply the recommendations made by the Special Committee appointed to study the extension of preference to agricultural products other than cereals, in so far as those recommendations have not yet produced results.

5. NON-AGRICULTURAL PRODUCTS.

Lastly, there still remains the particularly important problem of Austria, whose exports are not mainly agricultural and who has to cope with particularly serious marketing difficulties. The need of alleviating these difficulties has been repeatedly recognised. Commercial negotiations with Austria are proceeding with a view to improving the general situation of the country. They will form the subject of subsequent communications to the Commission of Enquiry for European Union, all the rights of third States naturally being reserved.

6. IMPROVEMENT OF THE TRANSPORT SYSTEM.

The Committee also devoted its attention to the improvement of the transport system in Central and Eastern European countries, and their railway and waterway relations with other countries.

It expresses the hope that rapid progress may be achieved in this sphere, and accordingly addresses an urgent appeal to the competent international bodies and to the Governments concerned, directing their attention more particularly to the following points:

A. *Transport by rail.*

- (1) Technical co-operation of the railway administrations of the States concerned;
- (2) Unification of the nomenclature of tariffs and of the classification of goods forming the subject of current exchanges in Central and Eastern European regions, in conjunction with the work proceeding in this sphere on an international plane;
- (3) Establishment of through tariffs from the station of departure to the station of arrival, for an international journey across the territory of the States agreeing to grant one another this facility.

B. *Transport by water.*

- (1) Simplification of Customs formalities, more particularly by the reciprocal recognition, for transit goods and vessels loaded exclusively with transit goods, of guarantees (lead and other seals, etc.) which habitually rank as evidence of transit, and by the application of the usual rules observed in this kind of traffic;
- (2) Better utilisation of ports, more particularly by the abolition, if necessary, of discrimination based on the flag flown;
- (3) Co-operation of shipping companies with railway administrations, more particularly with a view to establishing combined tariffs for transport by land and water.

7. PUBLIC WORKS.

In addition to these facilities provided for existing transport, consideration should be given to the means of rendering easier and less costly the transport of agricultural produce—for example, by creating better installations in the ports of exportation, by organising the warehousing of cereals, by constructing silos, and by developing transport facilities by the construction of country roads and the organisation of shipping routes. A lowering of transport rates would mean a great reduction in farmers' costs.

Studies in this domain have been already undertaken. The first Director of the International Labour Office, M. Albert Thomas, made special efforts in the last year of his life to create a current of activities and ideas in favour of a policy of national and international public works. He laid stress on the moral and economic desirability of replacing unemployment relief by employment in ordinary constructive undertakings.

It is to be hoped that the studies undertaken will be actively pursued and will shortly lead to the submission of concrete proposals. The Committee has been informed of the programme of international and national public works recommended by the Commission of Enquiry for European Union, the Assembly and the Council of the League as being likely to reduce the number of unemployed, attenuate the effects of the economic crisis and contribute towards a resumption of activities beneficial to all workers. The utility of such a policy in a period of crisis cannot be doubted. All the countries in which these works are carried out have a direct interest in them, while the other countries derive an indirect benefit, not only in consequence of the substantial improvements enjoyed by all users, but as a result of orders for plant and material, their repercussion on purchasing power, and the demand for commodities.

Such works also present psychological and moral advantages by enlisting the interest of all the countries of Europe in a joint co-operative undertaking.

Already a large number of plans prepared by Governments have been examined by the competent Technical Sub-Committee of the League of Nations and of the International Labour Office; the majority of these plans concern the agricultural countries of Central and Eastern Europe.

The Committee expresses the hope that the League of Nations, the Commission of Enquiry for European Union and the forthcoming World Economic Conference will adopt the decisions and take the measures necessary for the realisation, as speedily as possible, of the plans for public works answering to the needs outlined above, and particularly those which are in course of execution and run the risk of being interrupted for lack of capital.

8. INTERNATIONAL AGRICULTURAL CREDIT.

The Committee recalls the advantages which would accrue to the agricultural countries from the application of the financial measures contemplated up to the present in the international sphere, and particularly the organisation of international agricultural mortgage credits and international short-term agricultural credits adapted to the special requirements of agriculture. It recommends that the International Convention of 1931 on the establishment of an International Agricultural Mortgage Credit Company should be put into force as quickly as possible, and that the International Institute of Agriculture should pursue its efforts with a view to the creation of an International Short-term Agricultural Credit Bank.

RECOMMENDATIONS.

To sum up, the Economic and Agricultural Committee recommends, all the rights of "third countries" being reserved:

I.

(1) *With a view to extending and improving the commercial relations of the countries of Central and Eastern Europe, the establishment of a rational contractual policy by the negotiation and conclusion of commercial agreements of a nature to permit of the normal development of the trade of the said countries, both among themselves and between them and other European countries.*

(2) *The removal as rapidly as possible of the restrictions placed on dealings in foreign exchange.*

(3) *The progressive abolition of restrictions on trade, such as prohibitions, licences, indirect protection, quotas. Pending the abolition of these restrictions:*

(a) *By autonomous measures, an increase in unduly restrictive quotas and the abolition of unnecessary quotas;*

(b) *By means of bilateral agreements, the adjustment and extension of the quotas in such a way as to maintain or restore, in general, the normal movement of trade;*

(c) *Particularly in the case of the States of Central and Eastern Europe, the introduction of greater elasticity in the methods of application, so as to attenuate to the greatest extent compatible with international agreements the effects which the quota system may have on their economic development.*

II.

(4) *The conclusion, on the model of the draft annexed to the present report, of an international convention for the revalorisation of the cereals of Central and Eastern Europe.*

(5) *The application, particularly as regards tobacco, of the recommendations made by the "Special Committee appointed to consider the extension of preference to agricultural products other than cereals".*

(6) *The prompt completion of the work undertaken by the Economic Organisation of the League with regard to veterinary questions and the application of the recommendations made as a result of this work.*

(7) *The co-operation of the States interested in concerted action, for the purpose of ensuring a better organisation of the trade in cereals and timber.*

III.

(8) *The continuation of the commercial negotiations initiated, particularly by Austria, whose exports are not of a chiefly agricultural character, and the communication of the results obtained from these negotiations to the Commission of Enquiry for European Union.*

(9) *The improvement of the regime of transport by land and water, more particularly by the technical co-operation of transport companies and the introduction of greater flexibility in the rules governing transit.*

(10) *The adoption of a programme of public works for improving economic conditions in Central and Eastern Europe, and particularly the disposal of agricultural products.*

(11) *The putting into force as quickly as possible of the International Convention of 1931 regarding the establishment of an International Agricultural Mortgage Credit Company and the continuance of the efforts of the International Institute of Agriculture with a view to the creation of an International Short-term Agricultural Credit Bank.*

DRAFT CONVENTION FOR THE REVALORISATION OF THE CEREALS
OF CENTRAL AND EASTERN EUROPE.

The draft provides for:

(1) The participation of all European countries¹ in the reconstruction of the countries of Central and Eastern Europe;

(2) A financial contribution by them to the monetary and financial rehabilitation of those countries and to the improvement of their agricultural conditions.

The undersigned States:

.....
referring to the resolution of the Lausanne Conference regarding measures to revive the activity of trade, both among the countries of Central and Eastern Europe themselves and between them and other States, and to overcome the difficulties caused to the agricultural countries of Central and Eastern Europe by the low price of cereals, it being understood that the rights of "third countries" remain reserved;

Desirous of contributing to the economic reconstruction of the countries of Central and Eastern Europe;

Considering that the very low price of cereals constitutes a fundamentally disturbing factor in their trade balance:

Have agreed as follows:

Article 1. — Those signatory countries which are exporters of wheat, barley for fodder, maize, rye, barley for brewing, and oats shall receive facilities for their exports within the limit of an aggregate tonnage equal to the average of those exports during the years 1929, 1930 and 1931, as follows:

Group I.

16 million quintals of wheat,
15 million quintals of barley for fodder,
13.5 million quintals of maize.

Group II.

4 million quintals of rye,
3 million quintals of barley for brewing,
1 million quintals of oats.

Article 2. — With a view to the application of Article 1, an aggregate sum of 75 million gold francs shall be taken annually from the proceeds of the general contribution of the adhering States² for the formation of a general fund for the economic and financial reconstruction of Central and Eastern Europe, and shall be used to promote the revalorisation of cereals. The share to be contributed by each State shall be reduced in proportion to the effective operation of the advantages that it has granted to selling countries under bilateral treaties for the importation of the above-mentioned cereals. The sums to be deducted shall be calculated by multiplying, in respect of each of these cereals, the amount of the effective advantages by the quantities imported under the said treaties.

¹ Or nearly all.

² See on this point the relevant passage in the Financial Committee's report, page 15.

Germany, for her part, will acquit herself of her contribution through such bilateral treaties concluded, or to be concluded, with beneficiary States as it may have been possible to put into force.

Article 3. — To ensure the execution of the foregoing provisions, a Committee shall be set up composed of representatives of the countries acceding to the present Convention: *one* delegate of each beneficiary country, *one* delegate of each cereal-buying country, and *two* representatives of the non-importing European countries.

The Committee may co-opt two representatives of oversea countries in an advisory capacity.

The Committee shall have its headquarters at Basle, at the Bank for International Settlements, subject to the consent of that body. The Committee may ask for the assistance of the technical services of the League of Nations and the International Institute of Agriculture.

Its duties shall be:

(1) To determine, on the basis of the figures fixed in Article 1, and taking into account the results of the harvest in the beneficiary countries and the effective advantages obtained by the selling countries in the bilateral agreements, the share of the aggregate sum fixed in Article 2 to be allotted to each of those countries. When for all the beneficiary countries the exportable surpluses of the said cereals are in a different proportion, as among the various classes of product, from that represented by the tonnages fixed in Article 1 for the products in the first group of cereals, the Committee may modify accordingly the distribution of the aggregate quantities admitted to the benefit above defined.

The same system shall be applied to the second group of cereals mentioned in Article 1 when the sums to be withdrawn from the fund in respect of the first group of cereals in Article 1 amount to 2 gold francs per quintal for wheat and 1.50 for barley and maize.

(2) To grant to the beneficiary States at the opening of the agricultural season, so far as the amount of the individual quotas and the operation of the special agreements in force permit, advances on the sums payable to those States in respect of their cereal exports.

(3) To keep itself informed of the operation of the agreements concluded, or to be concluded, with the agricultural States, in order to ascertain their real effect for the purposes of Article 2.

(4) To keep itself informed of the use made by the agricultural States of the sums they may have received.

The Committee shall draw up its own rules of procedure, which shall lay down the conditions for the application of the Convention and determine the procedure by which the Committee shall arrive at its decisions.

It shall determine unanimously the cases in which decisions are to be taken unanimously and without appeal.

Article 4. — Disputes of every kind that may arise in the application of the foregoing articles may be settled by the Committee itself, or, should this prove impossible, by an arbitrator or arbitrators to be appointed in each individual case by the Committee itself. A list of persons from whom the arbitrators are to be selected shall be drawn up in advance. They shall belong to different nationalities, and in each individual case the persons selected must belong to nationalities other than those of the countries concerned in the dispute.

Article 5. — In compensation for the advantages specified above, the beneficiary countries, desiring to co-operate with the other countries in introducing a liberal commercial policy and a moderate tariff policy, undertake, in recognition of the aid given them with a view to their economic and financial recovery, to grant adequate concessions to the contributing countries by bilateral agreements, so far as compensation has not already been given for the facilities accorded to them.

The above advantages shall in no case affect the rights derived by "third countries" from the most-favoured-nation clause, and shall extend to all the signatory States.

Article 6. — The present Convention shall be ratified. The instruments of ratification shall be deposited with the Secretary-General of the League of Nations. The Convention shall enter into force on the fifteenth day after the deposit of the last instrument of ratification when it has been ratified by . . . countries, including . . .

The present Convention shall not be binding upon each signatory until it has been possible to put into force the bilateral treaties provided for in Article 2.

The signatory Powers undertake to adopt all necessary measures to enable the Convention to be put into force as speedily as possible.

Article 7. — The present Convention shall remain in force until October 31st, 1935.

Since, however, it is designed to meet an exceptional situation, it may be terminated before that date by common consent, should it be agreed that world prices have reached a remunerative level.

Should such a remunerative level not have been reached six months before the expiry of the present Convention, the undersigned countries shall consult together as to the steps to be taken.

D. ANNEXES.

I. CLOSING SPEECH OF THE CHAIRMAN OF THE CONFERENCE

(September 20th, 1932).

Gentlemen, you will find it natural that my first words should be a tribute of gratitude to Italy, who has welcomed us so cordially.

The Conference unanimously begs Their Majesties the King and Queen of Italy and the Prime Minister, Head of the Government, to accept its respectful thanks. It desires to associate in this tribute the Deputy for Stresa and all the local authorities who have overwhelmed us all with kind attentions.

Italy has offered us her traditional hospitality, which we have daily occasion to appreciate. We shall never forget these sunny shores of Lake Maggiore, where the sunshine and the beauty of the scenery bring men closer together and help them to arrive at an understanding.

We also owe our thanks to Italy for giving us, among all her excellent technicians, two delegates of the highest authority, Ambassador de Michelis, who has been one of our surest guides in our economic deliberations, and M. Bianchini, whose advice on financial questions has been of the utmost value.

You will understand, gentlemen, my desire to address in your name a particular personal tribute to those whose guests we have the honour to be. I will also make special mention of the Rapporteurs of our two Committees, M. Schüller and M. van Zeeland, whose very full and lucid reports you will preserve as essential documents, and to the Chairman of the Financial Committee, M. Bachmann, who has so ably directed its difficult discussions, as well as to M. Avenol, M. Stoppani and M. de Bordes, who brought us the expert assistance of the technicians of the League of Nations. I should like to thank M. de Michelis, Mr. Addison, M. Posse and M. Madgearu for their kind congratulations. At the same time, I am bound to reply that, if the Stresa Conference has led to some results, that is due to your persevering labours during this past fortnight. It could hardly have been otherwise, since I see at the heads of all the delegations men who have studied these difficult questions with the utmost care, for years past, at all the international meetings at which they have been considered. Our discussions have, indeed, been strenuous, but they have never ceased to be cordial. A spirit of comradeship has prevailed throughout among us all, and I wish to say on this occasion that was the reason for our success.

Lastly, gentlemen, you will permit me to thank our Secretary-General, M. Stenček, who has so admirably acquitted himself of his difficult duties, M. Baumont, and all their assistants, secretaries and typists, who have worked unremittingly, often during the night, to ensure that the documents necessary for your work should reach you in time.

* * *

When, three months ago, the Lausanne Conference decided to set up our Committee for the reconstruction of Central and Eastern Europe, it must be admitted that, at the outset, little importance was attached to this step. Even a few weeks ago, when it was first announced that our Conference was to meet at Stresa, the news was frowned upon in certain circles. The most optimistic said that our meeting would be of no importance and lead to no results. Other less indulgent critics went so far as to assert that our Conference here would present a spectacle of insoluble discords and conflicts which had better not see the light of day.

But, as your work has progressed, and as the results of your discussions have been made known, the general opinion has gradually altered. You may have seen in the articles published in the Press the change that has taken place: a few days ago, one of the most important and authoritative newspapers in Europe wrote that "the Stresa Conference marked a very important stage in the task of European reconstruction". To use the strong expression employed just now by M. Posse, we have lived through an historic moment.

It must be admitted, gentlemen, that this pessimism which surrounded us when our work began was amply justified by past experience. The failure of the various conferences to which I referred in my opening speech remained in all your memories, and you said to yourselves with every justification: "How can we succeed where so many eminent men have failed?"

There are two fundamental reasons that explain our agreement. In the first place, we came here as technical experts to deal with an important problem which we proposed to solve by objectively applying to it all our mental capacities, and we all of us resolutely banished from our minds all political combinations or views. The delegates of the agricultural countries, of whom M. Madgearu was the eloquent spokesman, had already pointed the way by preparing an agreement among those countries on solid foundations. We have thus worked as experts, and as experts alone. And if we have been fortified in our resolution to preserve impartiality, it is because, hearing the striking descriptions of European life given you by eye-witnesses, you have all been convinced that there was not a moment to lose.

Let me now try, gentlemen, to extract the dominant ideas of the work to which you have just given your approval.

First of all, you have asserted that, if any lasting recovery is to be brought about in Europe, the problem as a whole must be resolutely attacked and a European plan drawn up. The Financial

Committee of the League has itself recognised the inefficacy of isolated measures. It is not by giving help at the eleventh hour to any one particular country that a lasting remedy can be found for the troubles of Europe. Such a policy is as injurious to the borrower as to the lender. The effect of the remedy soon passes off. A little while after it has been applied, the disease again develops more severely than before.

That, gentlemen, is the whole novelty and the whole strength of our plan. I would beg those few countries which have exhibited some hesitation in accepting all our views on certain points to rally to us without delay.

If the work is to bear fruit, it must be universal. Every country must take its share if we are to accomplish our heavy task with success. They will not only be thus upholding a generous and lofty ideal; they will also be serving their own material interests, some because they will gradually regain their credit, and others because the work will lead to the reopening of markets which were closed against them to the great detriment of their trade and industry.

The second idea that emerges from your work is that of the deadly peril in which Europe stands if it continues to multiply barriers, restrictions, prohibitions, and impediments of every kind to the freedom of trade. Your feeling, gentlemen, on this point has been so unanimous, and your conviction so profound, that, after mature reflection, you have almost exceeded your original terms of reference, and have decided to set down in your report that it is not only the countries of Central and Eastern Europe, but all the European countries, that must gradually, with the necessary adjustments, return to a system of freedom of trade. The eyes of the peoples are at last beginning to open to the way in which restrictions are being abused. They are realising that restrictions only temporarily relieve their difficulties, and that this short-sighted policy is prolonging the crisis, and is indisputably drawing Europe into difficulties that it will no longer be able to overcome.

On the financial side, you have forcibly asserted certain fundamental truths.

There can be no sound finance without a rigorously balanced budget and a strict control of commitments.

There can be no credit, and consequently no lasting recovery, unless each country can convince all those to whom it has appealed in difficult times that it has spared no effort to fulfil its obligations. And if, owing to special difficulties due to the present economic crisis, a debtor finds it necessary to ask for an adjustment of his contractual obligations, he must enter into direct negotiations in good time with his creditors, who are alone entitled to grant any relief that may prove necessary.

But, while you have given essential advice, backed by all your authority, you have realised perfectly well that that is not enough. You have provided for the formation of a fund for monetary aid—a fund for European solidarity. With the agreement of the beneficiary countries, the Conference has decided that this monetary aid can be usefully given when internal reconstruction is so far advanced that there is no danger that external aid will be given in vain.

We are bound to recognise, gentlemen, that the Stresa Conference is only one stage in the work of European reconstruction. We have left it to the Commission for European Union to define more specifically the conditions for the formation of the European "common fund". I could have wished that it had been more fully defined. I could have wished that we had decided here and now upon the basis for the assessment of the contribution to be paid by each country. This point will have to be settled by the Commission for European Union, and I think it will have to be settled immediately, and will be one of the Commission's most important tasks.

Lastly, gentlemen, your deliberations are the best answer to all those who have maintained that the Stresa Conference ought to have been postponed until after the World Conference.

That is not so. As some of you have said with eloquence, your position is such that you cannot afford to wait months longer for urgent decisions. It will be to our merit that we have framed schemes which can be put into effect at once. Such, for instance, is the Convention for the revalorisation of cereals, which must be the essential factor in your recovery. It is clearly worded, and can be put into force to-morrow if so desired.

It is true that, on other points, you have very wisely concluded that the final decision must rest with the World Conference, and that your recommendations will gain in authority and force by receiving a more general sanction. There again, however, you have pointed out the way, and laid down the principles by which every future international conference must necessarily be guided.

All your schemes are founded upon this great and fruitful idea of solidarity. If a small sacrifice is freely made by all, considerable results can be secured. Think what a moral force such an institution would be if at the same time Europe gradually ridded itself of the hindrances to its trade!

Will this work of solidarity that has been outlined here become a living force? That depends on you, my dear colleagues—it depends on us all. When we go home, shall we forget too quickly the dramatic narratives that we have heard? Shall we realise that the egotistical measures that we frequently adopt, in the belief that we are effectively defending our national interests, are in reality precipitating the ruin of our countries? Shall we forget the atmosphere of understanding that has prevailed at Stresa, and the task of conciliation and concord that has been accomplished here?

I cannot believe it. I believe that, when you go home, you will all work to bring to fruition, through the action of your Governments and Parliaments, the schemes we have framed here, the execution of which is urgent. It is our duty to share in this great work. For my part, in the name of the French delegation, I shall not fail.

2. LIST OF DELEGATIONS.

President of the Conference: M. Georges BONNET, Deputy, former Minister (France).

Germany.

Delegates:

M. POSSE, Director at the Ministry of Public Economy.
M. BERGER, Assistant Director at the Finance Ministry.

Experts and Advisers:

M. SARNOW, Councillor, Finance Ministry.
M. WALTER, Councillor, Ministry of Agriculture.
M. WIEHL, Councillor of Legation, Ministry for Foreign Affairs.
M. NORDHOFF, of the Reichsbank.
Dr. VOIGT, of the Reichsbank.
M. VON SÜSSKIND-SCHWENDI, Secretary of the Delegation.
Dr. SCHMIDT, Interpreter.

Austria.

Delegates:

M. SCHÜLLER, Director of Commercial Agreements.
M. BRUNEIS, Governor of the National Bank of Austria.

Experts:

M. BOLLER, Councillor at the Ministry of Commerce.
Dr. STRAUBINGER, Councillor at the Ministry of Agriculture.

Belgium.

Delegates:

M. VAN LANGENHOVE, Secretary-General of the Ministry for Foreign Affairs.
M. VAN ZEELAND, Director of the National Bank of Belgium.

Experts and Advisers:

M. SUETENS, Director of Commercial Agreements.
M. SMEERS, Under-Director at the Finance Ministry.

United Kingdom.

Delegates:

Mr. ADDISON, British Minister at Prague.
Mr. St. Quentin HILL, of the Board of Trade.

Experts and Advisers:

Mr. T. K. BEWLEY, Attached to the Delegation (financial questions).
Mr. P. SCRIVENER, Secretary of Embassy.

Bulgaria.

Delegates:

Professor Nicolas STOYANOFF, Director of the Public Debt.
Dr. Nicolas SAKAROFF, Governor of the Bulgarian Agricultural Bank.

France.

Delegates:

M. Georges BONNET, President of the Conference, Deputy, former Minister.
M. COULONDRE, Minister Plenipotentiary, Under-Director of Commercial Relations.

Experts and Advisers:

M. ELBEL, Director of Commercial Agreements at the Ministry of Commerce.
M. J. J. BIZOT, Deputy-Director of the General Movement of Funds at the Finance Ministry.
M. Y. DE BOISANGER, Inspector of Finance.

M. BILLET, Chief of Section at the Ministry of Agriculture.
M. ROUMILHAC, Financial Attaché at Rome.
M. Maxime ROBERT, Inspector of Finance.
M. BOURDEILLETTE, French Consul.
M. P. CHARPENTIER, Secretary of Embassy.
M. H. ALPHAND, Inspector of Finance.
M. DRILLIEN, of the Ministry of Commerce.

Greece.

Delegates:

M. RAPHAËL, Permanent Delegate of the Greek Government accredited to the League of Nations.
M. Styllanos GREGORIOU, Director of the Bank of Greece.

Hungary.

Delegates:

M. Jean TELESZKY, Former Minister of Finance.
Baron PRONAY, former Under-Secretary of State at the Ministry of Agriculture.

Experts:

M. J. J. FERENCZI, Under-Secretary of State at the Ministry of Commerce.
M. F. DE PECHY, Ministerial Councillor at the Ministry of Agriculture.
M. BARANYAY, Director of the National Bank of Hungary.
M. Zoltán BARANYAY, Councillor of Legation.

Italy.

Delegates:

M. DE MICHELIS, Ambassador, Senator.
M. BIANCHINI, Member of the Chamber of Deputies, President of the General Banking Confederation.

Experts and Advisers:

Dr. Eugenio ANZILOTTI, Director-General at the Ministry of Corporations.
Professor Mario MARIANI, Director-General at the Ministry of Agriculture.
Professor Giuseppe DEL VECCHIO, Chief of Section at the Ministry of Finance.
Dr. Arturo COLOMBO, of the General Customs Directorate.
Dr. Manlio MASI, Director-General of the National Exports Institute.
Dr. Vittorio TERRAGNI, Press Attaché.
Dr. Umberto GRAZZI, of the Ministry for Foreign Affairs, Secretary-General of the Italian Delegation.

Netherlands.

Delegates:

M. J. W. Y. BRUINS, Royal Commissioner of the Netherlands Bank.
M. J. A. NEDERBRAGT, Director of Economic and Consular Affairs at the Department for Foreign Affairs.

Poland.

Delegates:

M. Jozef TARGOWSKI, Senator and Minister Plenipotentiary.
M. Adam ROSE, Director of Department at the Ministry of Agriculture.

Experts and Advisers:

M. Mieczyslaw SOKOLOWSKI, Director of Department at the Ministry of Industry and Commerce.
M. Antoni ROMAN, Economic Adviser to the Ministry for Foreign Affairs.
M. Jerzy NOWAK, Chief of Section at the Finance Ministry.
M. Jean PAWLICA, Secretary of the Delegation, Councillor at the Ministry for Foreign Affairs.

Roumania.

Delegates:

M. TITULESCO, Former Minister for Foreign Affairs, Roumanian Minister in London.
M. MADGEARU, Minister of Commerce.

Deputy-Delegate:

M. Savel RADULESCO, Minister Plenipotentiary, Director of Economic Affairs at the Ministry for Foreign Affairs.

Experts and Advisers:

- M. Emil MARIAN, Director of the National Exports Institute.
- M. Eugène PORN, Commercial Adviser to the Roumanian Legation at Rome.
- M. Théodore SOLACOLO, Secretary of the Roumanian Delegation.

Switzerland.

Delegates:

- M. G. BACHMANN, Chairman of the Directorate of the Swiss National Bank, Zurich.
- M. Walter STUCKI, Director of the Commercial Division of the Federal Department of Public Economy at Berne.

Czechoslovakia.

Delegate:

- M. FIERLINGER, Envoy Extraordinary and Minister Plenipotentiary of the Czechoslovak Republic in Vienna.

Experts and Advisers:

- M. FRIEDMANN, Minister Plenipotentiary, Chief of the Economic Section at the Ministry for Foreign Affairs.
- M. PAZDERKA, Minister Plenipotentiary, Chief of Section at the Ministry of Agriculture.
- M. PEROUTKA, Former Minister, Chief of Section at the Ministry of Commerce.
- M. ANTUSCH, Ministerial Councillor at the Ministry of Finance.
- M. SKORKOWSKY, Councillor of Section at the Ministry for Foreign Affairs.
- M. KRAL, of the National Bank of Czechoslovakia.

Yugoslavia.

Delegates:

- Dr. Milan TODOROVIC, Professor at Belgrade University.
- M. PILJA, Director at the Ministry of Commerce.
- Dr. Velimir STOJKOVITCH, Director of Agrarian Policy at the Ministry of Agriculture.
- M. PROTITCH, Director of the National Bank of Yugoslavia.

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Latvia.

Observer:

- M. J. FELDMANS, Minister Plenipotentiary, Permanent Delegate accredited to the League of Nations.

Also represented:

League of Nations.

- M. AVENOL, Deputy Secretary-General.
- M. STOPPANI, Director of the Economic Relations Section.
- M. DE BORDES, Member of the Financial Section.
- M. HUSSLEIN, Member of the Economic Relations Section.

International Labour Office.

- M. MAURETTE, Chief of Division.
- M. VIPLE, Chief of Section.

International Institute of Agriculture.

- M. BRIZI, Secretary-General.
- M. PAWLOWSKY, Chief of Section.

General Secretariat of the Conference.

- M. STENCEK, of the Secretariat of the League of Nations.
 - M. BAUMONT, of the Secretariat of the League of Nations.
 - M. P. VITA-FINZI, of the Italian Ministry for Foreign Affairs.
 - M. VON SÜSSKIND-SCHWENDI, of the German Delegation.
 - M. P. CHARPENTIER, of the French Delegation.
 - M. H. ALPHAND, of the French Delegation.
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3. RESTRICTIONS ON DEALINGS IN FOREIGN EXCHANGE AND STATISTICAL DATA FOR EACH OF THE FOLLOWING COUNTRIES: AUSTRIA, BULGARIA, GREECE, HUNGARY, ROUMANIA, POLAND, CZECHOSLOVAKIA, YUGOSLAVIA.

I. Austria.

Although the collapse of the Credit-Anstalt occurred within her territory, Austria, owing to the exceptionally strong position of the National Bank at the outset of the crisis, was not obliged to restrict dealings in foreign exchange until the beginning of October 1931. At that time, the cover in gold and foreign exchange amounted to 94 per cent of the circulation. However, this rapidly diminished, and, on October 9th, it was necessary to introduce fairly strict regulations in regard to foreign exchange transactions. In view of the heavy deficit in the trade balance, severe restrictions in the amount of foreign exchange granted for the payment of imports had to be imposed from the outset. This amount became smaller and smaller, and, on June 23rd, 1932, a moratorium in regard to transfers was introduced, covering, in addition to the interest on short-term credits, the service of all long-term loans.

A feature of the policy adopted in Austria, which is a commercial and industrial country, is the considerable decentralisation of foreign exchange transactions, the National Bank exercising general supervision. During the last few months, the system of private clearings, based on a rate differing from the gold parity of the schilling, has been systematically developed. This system has recently been more or less regularised. The depreciation of the schilling in these private clearings at first amounted to 30 per cent, but has been reduced to 18 to 20 per cent during the last few weeks.

STATISTICAL DATA.

A. *Population* at the end of 1930: 6.72 millions.

B. *Budget figures* (in millions of Swiss francs):

Cl. = Closed accounts; E. = Estimates.

| | Receipts | Expenditure | Balance |
|----------------------|----------|-------------|---------|
| 1929 (Cl.) | 1,467 | 1,452 | + 15 |
| 1930 (Cl.) | 1,479 | 1,670 | — 191 |
| 1931 (Cl.) | 1,466 | 1,700 | — 234 |
| 1932 (E) | 1,461 | 1,459 | + 2 |

C. *Foreign trade* (in millions of Swiss francs; commodities only):

| | Total | Imports | Exports | Balance | Total per head of the population (en francs) |
|-----------------------------|-------|---------|---------|---------|--|
| 1929 | 3,976 | 2,379 | 1,597 | — 782 | |
| 1930 | 3,318 | 1,970 | 1,348 | — 622 | 494 |
| 1931 | 2,530 | 1,576 | 954 | — 622 | 376 |
| January-June 1932 | 819 | 544 | 275 | — 269 | |

In 1930-31 exports of cereals represented on an average approximatively 0.1 per cent of the total exports.

D. *External debts* (in millions of Swiss francs):

I. *External public debt* (in foreign currency or gold):

| Position at December 31st, 1931 | | Interest | Service amortisation | Total |
|--|------------------|----------------|----------------------|-------|
| Consolidated debt | 1,162 | 1929 | 61 49 | 110 |
| Floating debt | 73 | 1930 | 70 40 | 110 |
| | | 1931 | 81 54 | 135 |
| Total | 1,235 | 1932 | 81 53 | 134 |
| Total per head of the population | 184 Swiss francs | | | |

These figures refer to State debts only.

Internal public debt (comparative figures):

| | |
|---|---------------|
| Position at December 31st, 1931 | 168 |
| Annual service: 1929 | 11 |
| 1931 | 16 |
| 1932 | 90 (estimate) |

These figures refer to State debts only.

2. *Other external debts:*

| | | |
|--|--------------------|---------------------------------|
| Position in 1932 | | Service of these debts in 1932: |
| Consolidated debt | 530 | |
| Floating debt: | | |
| Of the Central Bank | } 658 | 80-85 million Swiss francs |
| Of other banks | | |
| Other | 1 | |
| Total | 1,188 ¹ | |
| Total per head of population | 177 Swiss francs | |

E. *Reserves of the Central Bank* (in millions of Swiss francs):

| | At the end of each quarter | Gold reserve | Foreign exchange | Total |
|-------------------|----------------------------|--------------|------------------|-------|
| 1931. I | | 157 | 464 | 621 |
| II | | 157 | 257 | 414 |
| III | | 139 | 147 | 286 |
| IV | | 139 | 93 | 232 |
| 1932. I | | 131 | 44 | 175 |
| II | | 109 | 31 | 140 |

2. **Bulgaria.**

Dealings in foreign exchange were regulated in Bulgaria from December 1923 down to the date of the stabilisation of the leva, which was carried out in December 1928 with the help of the 1928 External Stabilisation Loan. Although restrictions on the importation of commodities were abolished, it was not possible to re-establish complete freedom of trade in foreign exchange, which continued to be subject to a certain measure of control by the National Bank.

On October 15th, 1931, it became necessary to reintroduce the regulation of foreign exchange dealings based on an absolute monopoly by the National Bank.

At present, the Bank refuses to grant any foreign exchange for the importation of luxury goods and, in the case of other commodities, foreign exchange is granted only up to 50 per cent of the 1931 imports.

The National Bank has also ceased to grant foreign exchange for the settlement of private internal short-term credits and commercial debts save in exceptional cases and up to 10 per cent. As regards the public debt service—the only long-term external debt—transfer is made to the amount of 50 per cent as recommended by the League and with the consent of the holders. The 50 per cent not transferred will be paid in leva to a special fund opened at the National Bank under the control of the Adviser attached to the Bank. A part of these payments has been utilised to wipe out the deficits on previous State budgets.

STATISTICAL DATA.

A. *Population* at the end of 1930: 5.94 millions.
At the end of 1931: 6.07 millions.

B. *Budget figures* (in millions of Swiss francs):

Cl. = Closed accounts; E. = Estimates.

| | Receipts | Expenditure | Balance |
|-------------------------|----------|-------------|---------|
| 1929-30 (Cl.) | 242 | 253 | — 11 |
| 1930-31 (Cl.) | 221 | 261 | — 40 |
| 1931-32 (Cl.) | 196 | 230 | — 34 |

These figures refer solely to the State. In 1928-29, the figures for 16 departments, 94 urban communes and 2,434 rural communes were:

| | |
|-------------------------------|------------|
| Receipts (total) | 73.6 (Cl.) |
| Expenditure (total) | 73.6 (Cl.) |

On August 31st, 1932, the Treasury deficit amounted to 118 million francs.

¹ The debt of industrial, commercial and other undertakings or that corresponding to short-term mortgage bonds is not known.

C. *Foreign trade* (in millions of Swiss francs):

| | Total | Imports | Exports | Balance | Total per head of population (in francs) |
|-----------------------------|-------|---------|---------|---------|--|
| 1929 | 547 | 308 | 239 | — 69 | 67 |
| 1930 | 398 | 169 | 229 | + 60 | 65 |
| 1931 | 393 | 173 | 220 | + 47 | 65 |
| January-June 1932 | 145 | 77 | 68 | — 9 | |

In 1930 exports of cereals amounted to 15 per cent and in 1931 to 22 per cent of the total exports.

D. *External debts* (in millions of Swiss francs):

I. *External public debt.*

| Position at July 31st, 1932 | | Service | | | |
|--|-------------------|-------------------|--------------|-------|----|
| | | Interest | Amortisation | Total | |
| Consolidated debt | 630 | 1929-30 | 22 | 2 | 24 |
| Floating debt | — | 1930-31 | 29 | 2 | 31 |
| | | 1931-32 | 27 | 3 | 30 |
| Total | 630 | | | | |
| Total per head of the population | 103 Swiss francs. | | | | |

These figures refer to State debts only. Loans contracted abroad under guarantee of the State amount to 51 million Swiss francs.

Internal public debt (comparative figures).

| | |
|--|-----|
| Position at July 31st, 1932 (total debt) | 285 |
| Annual service 1929-30 | 18 |
| 1931-32 | 20 |

These figures refer to State debts only. The loans contracted in the country under guarantee of the State amount to 71 million Swiss francs and the other debts of the departments, communes, etc., to 65 millions Swiss francs. The amount of pensions to war invalids, appropriations-in-aid for the Pensions Fund for retired officials, etc., which are not included in the above figures relating to the yearly internal public debt, amounted to 24 million francs for each of the two given years.

2. *Other external debts.*

| Position in September 1932 | Service of these debts |
|--|------------------------|
| Consolidated debt | 51 |
| Floating debt: | Figures not available. |
| Of the Central Bank | 4 ¹ |
| Of other banks } | |
| Other } | 30 ² |
| Total | 85 |
| Total per head of the population | 14 Swiss francs. |

E. *Reserves of the Central Bank* (in millions of Swiss francs):

| At the end of each quarter | Gold reserve | Foreign exchange | Total |
|----------------------------|-------------------|------------------|-------|
| 1931. I | 54 | 20.8 | 74.8 |
| II | 54.2 | 20.8 | 75 |
| III | 56.5 | 22.2 | 78.7 |
| IV | 56.6 | 32 | 88.6 |
| 1932. I | 56 ³ | 6 | 62 |
| II | 56.1 ³ | 6.5 | 62.6 |

¹ Blocked debt.

² Blocked debt; this figure represents only the declared debt (the amount of other debts is not known).

³ Including 4 blocked.

3. Greece.

At first, Greece followed the same system as the other countries. On September 28th, 1931, restrictions on dealings in foreign exchange were introduced, which from the outset made it necessary for the Bank of Greece to limit the amount of foreign exchange assigned to the payment of imported goods. More and more drastic restrictions were subsequently required, and in the end foreign exchange was granted solely for the purchase of the cereals and produce necessary for the food supply of the population.

On April 23rd, 1932, this system was changed in various essential points. The gold standard was abandoned, and the importation of goods other than cereals, animal products and foodstuffs was severely restricted. The obligation to hand over to the Bank of Greece the foreign exchange derived from exports continued to hold good. It was further stipulated that from 10 to 20 per cent of the foreign exchange derived from the export of certain products should be handed over to the Bank of Greece at the former parity of the drachma (98 drachmæ = 1 dollar).

The foreign exchange handed over to the Bank of Greece is used to cover the whole, or almost the whole, of the limited import requirements. As regards financial payments, a distinction must be made between private debts and public debts. On private short-term commercial debts the interest is paid in full; repayment is, however, made gradually by means of foreign exchange granted every six months to the extent of not less than 10 per cent of the total debt. The service of private long-term debts is met in full.

As regards State debts, which constitute much the most important part of the country's external debt, the service has been temporarily suspended, both in foreign exchange and in national currency. As already stated, negotiations are in progress for the purpose of ensuring partial payment of the public debt service.

The value of the drachma has fallen to about 150 drachmæ to the dollar. It should be noted that in August a law was promulgated under which all obligations contracted in foreign currencies within the country are required to be converted into drachmæ at the rate of 100 drachmæ to the dollar. Debts owing to foreigners not resident in Greece are exempted from this obligatory conversion.

STATISTICAL DATA.

A. *Population* at end of 1930: 6.39 millions.

B. *Budget figures* (in millions of Swiss francs).

Cl. = Closed accounts; E. = Estimates.

| | Receipts | Expenditure | Balance |
|-------------------------|----------|-------------|------------------|
| 1929-30 (Cl.) | 727 | 676 | + 51 |
| 1930-31 (Cl.) | 692 | 688 | + 4 |
| 1931-32 (E) | 683 | 682 | + 1 ¹ |

C. *Foreign trade* (in millions of Swiss francs; merchandise only).

| | Total | Imports | Exports | Balance | Total per head of the population (in francs) |
|-----------------------------|-------|---------|---------|---------|--|
| 1929 | 1,356 | 892 | 464 | — 428 | |
| 1930 | 1,099 | 710 | 389 | — 321 | 158 |
| 1931 | 829 | 544 | 285 | — 309 | 130 |
| January-June 1932 | 292 | 212 | 80 | — 132 | |

D. *External debts* (in millions of Swiss francs):

I. *External public debt:*

Position at December 31st, 1932

| | | Interest | Service Amortisation | Total |
|--|-------------------|-------------------|----------------------|-------|
| Consolidated debt | 2,153 | 1929-30 | — | 117 |
| Floating debt | 45 ² | 1930-31 | 90 | 121 |
| | | 1931-32 | 91 | 127 |
| Total | 2,198 | | | |
| Total per head of the population | 344 Swiss francs. | | | |

Note. — These figures refer to State debts only.

Internal public debt (comparative figures):

| | |
|---|-----|
| Position at December 31st, 1932 | 685 |
| Annual service 1929-30 | 95 |
| Annual service 1931-32 | 107 |

¹ The closed accounts for 1931-32 show a deficit of 16 million Swiss francs; this deficit is covered by the surpluses from previous years.

² At March 31st, 1930, the floating debt amounted to 85 million francs.

2. *Other external debts.*

| | | |
|--|-----------------|------------------------|
| Position in 1932 | | Service of these debts |
| Consolidated debt . . . | 194 | |
| Floating debt: | | |
| Of the Central Bank } . . . | 26 | Figures not available |
| Of other Banks . . . } | | |
| Other | 1 | |
| | 220 | |
| Total per head of the population | 34 Swiss francs | |

E. *Reserves of the Central Bank (in millions of Swiss francs).*

| At the end of each quarter | Gold reserve | Foreign exchange | Total |
|----------------------------|--------------|------------------|-------|
| 1931. I | 34 | 152 | 186 |
| II | 33 | 132 | 165 |
| III | 33 | 125 | 158 |
| IV | 58 | 70 | 128 |
| 1932. I | 48 | 15 | 63 |
| II | . | . | 47 |

4. *Hungary.*

Restrictions on dealings in foreign exchange were first introduced in July 1931. Under the Hungarian system, dealings in foreign exchange are entrusted almost exclusively to the National Bank and are effected on a gold parity basis.

From the outset, it appeared to be necessary severely to restrict the amount of foreign exchange assigned to the payment of imports. However, the progressive decline in the National Bank's cover led, on December 23rd, 1931, to the proclamation of a moratorium in regard to transfers, comprising the interest on short-term external debts and the service of long-term loans, including Treasury Bonds but excluding the 1924 Reconstruction Loan (League of Nations Loan). There is some doubt, however, as to whether it will be possible to maintain this exception, and, during the last few months, it has been necessary to have recourse to the reserve fund. Up to the present, a sum of 53 million Swiss francs has been paid into the fund opened with the National Bank.

In addition to this general fund, a special fund has been opened with the National Bank for the non transferable interest on short-term bank credits. Since, for the moment, it is possible for foreign bankers to cover themselves to a large extent out of the assets of Hungarian banks in their countries, payments into this fund amount to only 3.5 million Swiss francs, of which approximately one-third has been withdrawn by arrangement between the creditor and debtor banks.

STATISTICAL DATA.

A. *Population* at end of 1930: 8.68 millions.
at end of 1931: 8.73 millions.

B. *Budget figures (in millions of Swiss francs).*

| | | | |
|--------------------------------|----------------------|-------------|---------|
| | Cl. = closed account | | |
| | Receipts | Expenditure | Balance |
| 1928-29 (Cl.) | 1,483 | 1,496 | — 13 |
| 1929-30 (Cl.) | 1,316 | 1,391 | — 75 |
| 1930-31 ² | 1,143 | 1,306 | — 163 |
| 1931-32 ² | 1,123 | 1,237 | — 114 |

C. *Foreign trade (in millions of Swiss francs).*

| | Total | Imports | Exports | Balance | Total per head of the population (in francs) |
|-----------------------------|-------|---------|---------|---------|--|
| 1929 | 1,911 | 968 | 945 | — 23 | |
| 1930 | 1,576 | 748 | 828 | + 80 | 181 |
| 1931 | 1,016 | 500 | 516 | + 16 | 116 |
| January-June 1932 | 292 | 154 | 138 | — 16 | |

Exports of cereals represented as a percentage of the total exports:

| | |
|-------------------|------|
| In 1930 | 21 % |
| In 1931 | 15 % |

¹ Figures not available.

² Final results in the case of the administrations and provisional results in the case of undertakings.

D. *External debts* (in millions of Swiss francs).

1. *External public debt* (including the debt of corporations, etc.).

| Position at June 30th, 1931. | | Interest | Service Amortisation | Total |
|--|-------------------|-------------------|----------------------|-------|
| Consolidated debt | 1,647 | 1929 67 | 35 | 102 |
| Floating debt | 302 | 1930 79 | 36 | 115 |
| | | 1931 72 | 34 | 116 |
| Total | 1,949 | | | |
| Total per head of the population | 223 Swiss francs. | | | |

Internal public debt (of the State alone; comparative figure):

| | |
|---------------------------------------|-----|
| Position at June 30th, 1932 | 204 |
| Annual service: 1929-30 | 13 |
| 1931 | 6 |

2. *Other external debts.*

| Position at August 31st, 1931 | | Interest | Service Amortisation | Total |
|--|-------------------|--------------------|----------------------|-------|
| Consolidated debt | 719 | 1929 69 | 6 | 75 |
| Floating debt: | | 1930 76 | 64 | 140 |
| Of the Central Bank | 131 | 1931 108 | 24 | 132 |
| Of other banks | 639 ¹ | | | |
| Other | 336 | | | |
| Total | 1,825 | | | |
| Total per head of the population | 209 Swiss francs. | | | |

E. *Reserves of the Central Bank* (in millions of Swiss francs).

| At the end of each quarter | | Gold reserve | Foreign exchange | Total |
|----------------------------|--|--------------|------------------|-------|
| 1931. I | | 115 | 23 | 138 |
| II | | 102 | 9 | 111 |
| III | | 95 | 6 | 101 |
| IV | | 93 | 15 | 108 |
| 1932. I | | 91 | 11 | 102 |
| II | | 87 | 10 | 97 |

5. **Poland.**

Poland has not imposed any restrictions on dealings in foreign exchange.

STATISTICAL DATA.

A. *Population* at end of 1930: 32.15 millions.
at end of 1931: 32.56 millions.

B. *Budget figures* (in millions of Swiss francs).

Cl. = Closed account

| | Receipts | Expenditure | Balance |
|-------------------------|----------|-------------|---------|
| 1929-30 (Cl.) | 1,757 | 1,736 | + 21 |
| 1930-31 (Cl.) | 1,594 | 1,630 | — 36 |
| 1931-32 (Cl.) | 1,312 | 1,430 | — 118 |

These figures refer to the State budget only.

¹ August 31st, 1932.

C. *Foreign trade* (in millions of Swiss francs; merchandise only).

| | Total | Imports | Exports | Balance | Total per head of the population (in francs) |
|-----------------------|-------|---------|---------|---------|--|
| 1929 | 3,440 | 1,808 | 1,632 | — 176 | |
| 1930 | 2,714 | 1,303 | 1,411 | + 108 | 84 |
| 1931 | 1,938 | 848 | 1,090 | + 242 | 60 |
| January.-June 1932. . | 564 | 251 | 313 | + 62 | |

In 1931, exports of cereals represented 5 per cent of the total exports.

D. *External debts* (in millions of Swiss francs).

1. *External public debt:*

| Position at June 15th, 1932 | | Service (state debt only) | | Total |
|--|--------------------|---------------------------|--------------|-------|
| | | Interest | amortisation | |
| Consolidated debt | 2,797 ¹ | | | |
| Floating debt | — | 1929-30 . 58 | 55 | 113 |
| | | 1930-31 . 89 | 56 | 145 |
| Total | 2,797 | 1931-32 . 100 | 52 | 152 |
| Total per head of the population | 87 Swiss francs. | | | |

Internal public debt (comparative figures):

| | |
|--|-----|
| Position at June 15th, 1932 (State debts only) | 250 |
| Service: 1929-30 | 33 |
| Service: 1931-32 | 31 |

2. *Other debts.*

| Position at December 31st, 1931 | | Service of these debts |
|--|--------------------|------------------------|
| Consolidated debt | 178 | Figures not available. |
| Floating debt: | | |
| Of the Central Bank | 200 ² | |
| Of other banks | | |
| Other | 1,282 ³ | |
| Total | 1,660 | |
| Total per head of the population | 52 Swiss francs. | |

E. *Reserves of the Central Bank* (in millions of Swiss francs).

| At the end of each quarter | Gold reserve | Foreign exchange | Total |
|----------------------------|--------------|------------------|------------------|
| 1931. I | 327 | 221 | 547 |
| II | 329 | 203 | 532 |
| III | 330 | 145 | 475 |
| IV | 350 | 124 | 474 |
| 1932. I | 333 | 111 | 444 |
| II | 281 | 27 | 308 ⁴ |

6. *Roumania.*

There was no official control of foreign exchange transactions in Roumania until February 27th, 1932. By a law of that date it was decided that payments to countries possessing regulations which prevent in law or in fact payments to Roumanian creditors in foreign exchange could only be validly made in lei, and solely by the clearing office set up at the National Bank.

These measures came into force on March 7th, 1932, as regards relations with Hungary and Austria, and on July 20th with Czechoslovakia.

The clearing agreement with Austria, which came into operation on July 15th, abolished these measures as regards transactions with that country.

On May 17th, 1932, a general regulation of dealings in foreign exchange was introduced, it being provided that all sales or purchases should be made exclusively through the National Bank.

It appeared to be necessary to restrict the amount of foreign exchange assigned to the payment of imported goods. As regards the repayment of short-term credits, the National Bank endeavours, as a general rule, to meet reasonable requests in full.

¹ The Corporation debts included in this figure (125.5 million francs) refer to December 31st, 1931.

² At March 31st, 1932.

³ This sum includes credits of an industrial nature granted by trusts for an amount of 1,143 million Swiss francs.

⁴ On August 31st, the total gold reserve and foreign exchange amounted to 304 million Swiss francs.

The full amount of foreign exchange is granted for the payment of interest on short-term debts and the service of long-term debts.

STATISTICAL DATA.

A. *Population* at end of 1930: 18.03 millions.

B. *Budget figures* (in millions of Swiss francs).

| | Receipts obtained | Commitments | Balance |
|----------------|----------------------|-------------|-------------------|
| 1929 | 1,291 | 1,154 | + 47 ¹ |
| 1930 | 1,070 | 1,142 | — 72 |
| 1931 | 959 | 1,153 | — 197 |

C. *Foreign trade* (in millions of Swiss francs; merchandise only).

| | Total | Imports | Exports | Balance | Total per head of the population (in francs) |
|-----------------------------|-------|---------|---------|---------|--|
| 1929 | 1,808 | 911 | 897 | — 14 | |
| 1930 | 1,598 | 714 | 884 | + 170 | 89 |
| 1931 | 1,176 | 492 | 684 | + 192 | 65 |
| January-June 1932 | 401 | 169 | 232 | + 63 | |

In 1931, exports of cereals represented 39 per cent of the total exports.

D. *External debts* (in millions of Swiss francs).

1. *External public debt* (of the State only):

Position at January 1st, 1932

| | | Interest | Service Amortisation | Total |
|---|-------------------|--------------------|-------------------------|-------|
| Consolidated debt } | 4,705 | 1930 101 | 64 | 165 |
| Floating debt } | | 1931 105 | 67 | 172 |
| | | 1932 | . | 194 |
| Total | 4,705 | | | |
| Total per head of the population | 261 Swiss francs. | | | |

Internal public debt (comparative figures):

| | |
|---|-----|
| Position at December 31st, 1930 | 515 |
| Annual service: 1929 | 69 |
| 1931 | 26 |

2. *Other external debts.*

Position in 1932

| | | Interest | Service in 1931 Amortisation | Total |
|---|------------------|----------|---------------------------------|-------|
| Consolidated debt | 151 | | | |
| Floating debt: | | 23 | 8 | 31 |
| Of the Central Bank | 70 ² | | | |
| Of other banks | 123 ³ | | | |
| Other | 217 ⁴ | | | |
| Total | 561 | | | |
| Total per head of the population | 31 Swiss francs. | | | |

E. *Reserves of the Central Bank* (in millions of Swiss francs).

| At the end of each quarter | Gold reserve | Foreign exchange | Total |
|----------------------------|--------------|------------------|-------|
| 1931. I | 271 | 39 | 310 |
| II | 274 | 52 | 326 |
| III | 277 | 48 | 325 |
| IV | 300 | 9 | 309 |
| 1932. I | 293 | 10 | 303 |
| II | 292 | 3 | 295 |

¹ The surplus of 47 million Swiss francs for 1929 appears to have been absorbed by expenditure not entered.

² Temporary advances repayable in the course of the year.

³ Including 70 million francs of blocked debt.

⁴ Including 60 million francs of blocked debt.

7. Czechoslovakia.

The regulation of dealings in foreign exchange was introduced on October 2nd, 1931.

The National Bank does not possess a monopoly of the sale and purchase of foreign exchange, these transactions being effected to a large extent by the banks and firms authorised by the Minister of Finance. With the exception of single transactions not exceeding a certain limit, the special authorisation of the National Bank is required in each case.

The effect on the National Bank's stock of foreign exchange of the restrictive measures imposed in the countries of greatest importance for Czechoslovakia's foreign trade led the Government to introduce, in January 1932, direct control over the importation of certain commodities. A special commission was set up at the Ministry of Finance to authorise the importation of goods in each case, in so far as the National Bank is in a position to supply foreign exchange. No goods to which these regulations apply may enter the country without this authorisation, but for all goods entering Czechoslovakia the National Bank is obliged to supply the foreign exchange necessary for payment.

The National Bank grants foreign exchange for the service of short-term and long-term debts and the due repayment of short-term and long-term loans without any restriction. Special regulations apply to certain countries, such as Austria, Hungary, Yugoslavia, Bulgaria, Roumania and Greece. In relations with those countries the debts in question are paid, not in foreign exchange, but by means of various kinds of clearings or blocked accounts.

STATISTICAL DATA.

A. *Population* at end of 1930: 14.74 millions.

B. *Budget figures* (in millions of Swiss francs).

Cl. = closed account; E. = estimates.

| | Receipts | Expenditure | Balance |
|---------------------|----------|-------------|---------|
| 1929 (Cl) | 1,604 | 1,577 | + 27 |
| 1930 (Cl) | 1,483 | 1,524 | — 41 |
| 1931 (E) | 1,514 | 1,513 | + 1 |
| 1932 (E) | 1,434 | 1,433 | + 1 |

These figures refer to the State budget only.

C. *Foreign trade* (in millions of Swiss francs; merchandise only).

| | Total | Imports | Exports | Balance | Total per head of the population (in francs) |
|-----------------------------|-------|---------|---------|---------|--|
| 1929 | 6,224 | 3,073 | 3,151 | + 78 | |
| 1930 | 5,100 | 2,412 | 2,688 | + 276 | 346 |
| 1931 | 3,821 | 1,804 | 2,017 | + 213 | 259 |
| January-June 1932 | 1,176 | 606 | 570 | — 36 | |

In 1929 to 1931, exports of cereals represented 1 per cent of the total exports.

D. *External debts* (in millions of Swiss francs).

1. *External public debt.*

| Position in summer of 1932 | | Interest | Service Amortisation | Total |
|--|--------------------|----------------|----------------------|-------|
| Consolidated debt | 1,457 ¹ | 1929 | 10 | 51 |
| Floating debt | — | 1930 | 16 | 86 |
| | | 1931 | 9 | 70 |
| Total | 1,457 | 1932 | 19 | 52 |
| Total per head of the population | 99 Swiss francs. | | | |

Internal public debt (of the State only; comparative figures).

| | |
|---|-------|
| Position at December 31st, 1931 | 4,357 |
| Service: 1929 | 323 |
| 1931 | 274 |
| 1932 | 280 |

¹ Including 72 for the corporations.

2. *Other external debts.*

| Position at end of 1930 | | Debt service |
|--|------------------|------------------------|
| Consolidated debt | 230 | |
| Floating debt: | | No estimate available. |
| Of the Central Bank | — | |
| Of other banks | 200 | |
| Other | 150 | |
| | 580 | |
| Total per head of the population | 39 Swiss francs. | |

E. *Reserves of the Central Bank* (in millions of Swiss francs).

| At the end of each quarter | Gold reserve | Foreign exchange | Total |
|----------------------------|--------------|------------------|-------|
| 1931. I | 237 | 339 | 576 |
| II | 237 | 295 | 532 |
| III | 233 | 181 | 414 |
| IV | 253 | 163 | 416 |
| 1932. I | 252 | 120 | 372 |
| II | 252 | 160 | 412 |

8. *Yougoslavia.*

Up to the date of the legal stabilisation—*i.e.*, June 28th, 1931—dealings in foreign exchange were always subject to control in Yugoslavia. These restrictions were then abolished, but shortly afterwards, on October 7th, 1931, the Government was again obliged to have recourse to a system of restrictions. Dealings in foreign exchange are concentrated in the hands of the National Bank and the private banks authorised to undertake these transactions. The amount of foreign exchange assigned to the payment of imports is limited. Moreover, the obligation to hand over to the National Bank foreign exchange derived from exports covers only 80 per cent of this exchange, the exporters being allowed to keep 20 per cent.

Foreign exchange derived from other sources must be handed over in its entirety.

As regards short- and long-term debts, the National Bank at present grants foreign exchange to the State to cover the whole of its requirements and to individuals as far as it is able to do so. However, foreign bank credits have almost all been repaid. In the case of certain short-term debts of the State or towns, arrangements have been made to extend the date of maturity.

STATISTICAL DATA.

A. *Population* at end of 1930: 13.88 millions.
March 1931: 13.93 millions.

B. *Budget figures* (in millions of Swiss francs).

Cl. = closed account; E. = estimates.

| | Receipts | Expenditure | Balance |
|------------------------|----------|-------------|---------|
| 1929-30 (Cl) | 1,222 | | |
| 1930-31 (Cl) | 1,132 | | |
| 1931-32 (E) | 915 | | |

C. *Foreign trade* (in millions of Swiss francs; merchandise only).

| | Total | Imports | Exports | Balance | Total per head of the population (in francs) |
|-----------------------------|-------|---------|---------|---------|--|
| 1929 | 1,415 | 695 | 720 | + 25 | |
| 1930 | 1,249 | 623 | 617 | — 15 | 90 |
| 1931 | 870 | 435 | 435 | — | 62 |
| January-June 1932 | 254 | 124 | 130 | + 6 | |

In 1931, exports of cereals represented 15 per cent of the total exports.

D. *External debts* (in millions of Swiss francs).

I. *External public debt:*

| Position at July 1st, 1932 | | 1932-33. | Interest | Annual service Amortisation | Total |
|---|------------------|----------|----------|--------------------------------|-------|
| Consolidated debt . . . | 2,979 | 67 | | 49 | 116.1 |
| Floating debt. | 150 | | | | |
| Total | 3,129 | | | | |
| Total per head of the population | 225 Swiss francs | | | | |

These figures refer to the State debt only.

Internal public debt (comparative figures):

| | |
|---|------|
| Position at July 1st, 1932 (State debt) | 564 |
| Annual service in 1932-33 | 27.5 |

2. *Other external debts:*

| Position at July 1st, 1932 | |
|--|------------------|
| Consolidated debt . . . | ? |
| Floating debt of certain institutions | 140 ¹ |

E. *Reserves of the Central Bank* (in millions of Swiss francs):

| At the end of each quarter | Gold reserve | Foreign exchange | Total |
|----------------------------|--------------|------------------|-------|
| 1931. I | 99 | . | . |
| II | 145 | 69 | 214 |
| III | 151 | 40 | 191 |
| IV | 160 | 31 | 191 |
| 1932. I | 161 | 18 | 179 |
| II | 161 | 20 | 181 |

¹ Debts of the Monopolies Administration, of the town of Belgrade, of the State Mortgage Bank, and of the National Bank. The other short-term debts are not known.

Communiqué au Conseil
et aux Membres de la
Société.

C.663. M.320. 1932. VII. Addendum.

Genève,

le 17 novembre 1932.

SOCIÉTÉ DES NATIONS

APPEL DU GOUVERNEMENT CHINOIS.

Addendum au rapport de la Commission d'Etude. (C.663.M.320.1932.VII.)

Les deux phrases suivantes doivent être insérées à la page 123,
ligne 34, après "politiques":

"En 1926, la Diète japonaise vota une loi demandant au gouvernement de se charger de ces emprunts pour un montant de 100.000.000 yens, plus les intérêts. Il était aussi apparu que beaucoup des emprunts consentis à des entreprises chinoises étaient d'une valeur douteuse. Néanmoins, les investissements du Japon, etc..."

LEAGUE OF NATIONS

APPEAL BY THE CHINESE GOVERNMENT.

Addendum to the Report of the Commission of Enquiry. (C.663.M.320.1932.VII.)

The two following sentences are to be inserted on page 113, English text, last line but one, between "considerations." and "Notwithstanding":

"In 1926 the Japanese Diet, however, passed a law requiring the Government to take over these loans to the extent of 100,000,000 Yen, plus interest. Many of the loans to Chinese enterprises had also proved to be of doubtful value."

| |
|---|
| Series of League of Nations Publications VII. POLITICAL 1932.VII.12. - Addendum |
|---|

[Communicated to the Council
and the Members of the League.]

Official No. : C. 663. M. 320. 1932. VII.

Geneva, October 1st, 1932.

LEAGUE OF NATIONS

APPEAL
BY THE CHINESE GOVERNMENT

REPORT

OF THE

COMMISSION OF ENQUIRY

12

Note by the Secretary-General :

The Secretary-General has the honour to circulate to the Council and the Members of the League the Report of the Commission of Enquiry, which was signed by the Members of the Commission on September 4th, 1932, at Peiping.

Series of League of Nations Publications

VII. POLITICAL

1932. VII. 12.

REPORT OF THE COMMISSION OF ENQUIRY

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-

INTRODUCTION

On September 21st, 1931, the representative of the Chinese Government at Geneva wrote to the Secretary-General of the League of Nations asking him to bring to the attention of the Council the dispute between China and Japan which had arisen from the events which took place at Mukden on the night of September 18th-19th, and appealed to the Council, under Article 11 of the Covenant, to "take immediate steps to prevent the further development of a situation endangering the peace of nations".

On September 30th, the Council passed the following resolution :

"The Council :

"(1) Notes the replies of the Chinese and Japanese Governments to the urgent appeal addressed to them by its President and the steps that have already been taken in response to that appeal ;

"(2) Recognises the importance of the Japanese Government's statement that it has no territorial designs in Manchuria ;

"(3) Notes the Japanese representative's statement that his Government will continue, as rapidly as possible, the withdrawal of its troops, which has already been begun, into the railway zone in proportion as the safety of the lives and property of Japanese nationals is effectively assured and that it hopes to carry out this intention in full as speedily as may be ;

"(4) Notes the Chinese representative's statement that his Government will assume responsibility for the safety of the lives and property of Japanese nationals outside that zone as the withdrawal of the Japanese troops continues and the Chinese local authorities and police forces are re-established ;

"(5) Being convinced that both Governments are anxious to avoid taking any action which might disturb the peace and good understanding between the two nations, notes that the Chinese and Japanese representatives have given assurances that their respective Governments will take all necessary steps to prevent any extension of the scope of the incident or any aggravation of the situation ;

"(6) Requests both Parties to do all in their power to hasten the restoration of normal relations between them and for that purpose to continue and speedily complete the execution of the above-mentioned undertakings ;

"(7) Requests both Parties to furnish the Council at frequent intervals with full information as to the development of the situation ;

"(8) Decides, in the absence of any unforeseen occurrence which might render an immediate meeting essential, to meet again at Geneva on Wednesday, October 14th, 1931, to consider the situation as it then stands ;

"(9) Authorises its President to cancel the meeting of the Council fixed for October 14th, should he decide, after consulting his colleagues, and more particularly the representatives of the two Parties, that, in view of such information as he may have received from the Parties or from other Members of the Council as to the development of the situation, the meeting is no longer necessary. "

Formal
appeal by
China,
September
21st, 1931.

Resolution
of the Council,
September
30th.

In the course of the discussions that preceded the adoption of this resolution, the Chinese representative expressed the view of his Government that "the best method that may be devised by the Council for securing the prompt and complete withdrawal of the Japanese troops and police and the full re-establishment of the *status quo ante* is the sending of a neutral commission to Manchuria".

Session of
the Council,
October
13th-24th.

The Council held a further session for the consideration of the dispute from October 13th to the 24th. In consequence of the opposition of the Japanese representative, unanimity could not be obtained for the resolution proposed at this session.

Session of
the Council at
Paris,
November 16th-
December 10th.

The Council met again on November 16th in Paris and devoted nearly four weeks to a study of the situation. On November 21st, the Japanese representative, after stating that his Government was anxious that the resolution of September 30th should be observed in the spirit and letter, proposed that a Commission of Enquiry should be sent to the spot. This proposal was subsequently welcomed by all the other Members of the Council and, on December 10th, 1931, the following resolution was unanimously adopted :

Resolution
of December
10th.

"The Council :

"(1) Reaffirms the resolution passed unanimously by it on September 30th, 1931, by which the two Parties declare that they are solemnly bound ; it therefore calls upon the Chinese and Japanese Governments to take all steps necessary to assure its execution so that the withdrawal of the Japanese troops within the railway zone may be effected as speedily as possible under the conditions set forth in the said resolution ;

"(2) Considering that events have assumed an even more serious aspect since the Council meeting of October 24th, notes that the two Parties undertake to adopt all measures necessary to avoid any further aggravation of the situation and to refrain from any initiative which may lead to further fighting and loss of life ;

"(3) Invites the two Parties to continue to keep the Council informed as to the development of the situation ;

"(4) Invites the other Members of the Council to furnish the Council with any information received from their representatives on the spot ;

"(5) Without prejudice to the carrying out of the above-mentioned measures ;

"Desiring, in view of the special circumstances of the case, to contribute towards a final and fundamental solution by the two Governments of the questions at issue between them :

"Decides to appoint a Commission of five members to study on the spot and to report to the Council on any circumstance which, affecting international relations, threatens to disturb peace between China and Japan, or the good understanding between them upon which peace depends ;

"The Governments of China and of Japan will each have the right to nominate one Assessor to assist the Commission ;

"The two Governments will afford the Commission all facilities to obtain on the spot whatever information it may require ;

"It is understood that, should the two Parties initiate any negotiations, these would not fall within the scope of the terms of reference of the Commission, nor would it be within the competence of the Commission to interfere with the military arrangements of either Party ;

"The appointment and deliberation of the Commission shall not prejudice in any way the undertaking given by the Japanese Government in the resolution of September 30th as regards the withdrawal of the Japanese troops within the railway zone ;

“ (6) Between now and its next ordinary session, which will be held on January 25th, 1932, the Council, which remains seized of the matter, invites its President to follow the question and to summon it afresh if necessary. ”

In introducing this resolution, the President, M. Briand, made the following declaration :

**Declaration
of the
President.**

“ It will be observed that the resolution which is before you provides for action on two separate lines : (1) to put an end to the immediate threat to peace ; (2) to facilitate the final solution of existing causes of dispute between the two countries.

“ The Council was glad to find during its present sittings that an enquiry into the circumstances which tend to disturb the relations between China and Japan, in itself desirable, would be acceptable to the Parties. The Council therefore welcomed the proposal to establish a Commission which was brought before it on November 21st. The final paragraph of the resolution provides for the appointment and functioning of such a Commission.

“ I shall now make certain comments on the resolution, paragraph by paragraph.

“ *Paragraph 1.* — This paragraph reaffirms the resolution unanimously adopted by the Council on September 30th, laying particular stress on the withdrawal of the Japanese troops within the railway zone on the conditions described therein as speedily as possible.

“ The Council attaches the utmost importance to this resolution and is persuaded that the two Governments will set themselves to the complete fulfilment of the engagements which they assumed on September 30th.

“ *Paragraph 2.* — It is an unfortunate fact that, since the last meeting of the Council, events have occurred which have seriously aggravated the situation and have given rise to legitimate apprehension. It is indispensable and urgent to abstain from any initiative which may lead to further fighting, and from all other action likely to aggravate the situation.

“ *Paragraph 4.* — Under paragraph 4, the Members of the Council other than the Parties are requested to continue to furnish the Council with information received from their representatives on the spot.

“ Such information having proved of high value in the past, the Powers which have the possibility of sending such representatives to various localities have agreed to do all that is possible to continue and improve the present system.

“ For this purpose, these Powers will keep in touch with the two Parties, so that the latter may, should they so desire, indicate to them the localities to which they would desire the despatch of such representatives.

“ *Paragraph 5* provides for the institution of a Commission of Enquiry. Subject to its purely advisory character, the terms of reference of the Commission are wide. In principle, no question which it feels called upon to study will be excluded, provided that the question relates to any circumstances which, affecting international relations, threaten to disturb peace between China and Japan, or the good understanding between them upon which peace depends. Each of the two Governments will have the right to request the Commission to consider any question the examination of which it particularly desires. The Commission will have full discretion to determine the questions upon which it will report to the Council, and will have power to make interim reports when desirable.

“ If the undertakings given by the two Parties according to the resolution of September 30th have not been carried out by the time of the arrival of the Commission, the Commission should as speedily as possible report to the Council on the situation.

“ It is specially provided that, ‘should the two Parties initiate any negotiations, these would not fall within the scope of the terms of reference of the Commission, nor would it be within the competence of the Commission to interfere with the military arrangements of either Party’. This latter provision does not limit in any way its faculty of investigation. It is also clear that the Commission will enjoy full liberty of movement in order to obtain the information it may require for its reports.”

Reservations
and comments
of the two
Parties.

The Japanese representative, in accepting the resolution, made a reservation concerning paragraph 2 of the resolution, stating that he accepted it on behalf of his Government, “ on the understanding that this paragraph was not intended to preclude the Japanese forces from taking such action as might be rendered necessary to provide directly for the protection of the lives and property of Japanese subjects against the activities of bandits and lawless elements rampant in various parts of Manchuria ”.

The Chinese representative, on his part, accepted the resolution, but asked that certain of his observations and reservations on points of principle should be placed on record as follows :

“ I. China must and does fully reserve any and all rights, remedies and juridical positions to which she is or may be entitled under and by virtue of all the provisions of the Covenant, under all the existing treaties to which China is a party, and under the accepted principles of international law and practice.

“ II. The present arrangement evidenced by the resolution and the statement made by the President of the Council is regarded by China as a practical measure embodying four essential and interdependent elements :

“ (a) Immediate cessation of hostilities ;

“ (b) Liquidation of the Japanese occupation of Manchuria within the shortest possible period of time ;

“ (c) Neutral observation and reporting upon all developments from now on ;

“ (d) A comprehensive enquiry into the entire Manchurian situation on the spot by a Commission appointed by the Council.

“ The said arrangement being in effect and in spirit predicated upon these fundamental factors, its integrity would be manifestly destroyed by the failure of any one of them to materialise and be effectively realised as contemplated.

“ III. China understands and expects that the Commission provided for in the resolution will make it its first duty to enquire into and report, with its recommendations, on the withdrawal of the Japanese forces, if such withdrawal has not been completed when the Commission arrives on the spot.

“ IV. China assumes that the said arrangement neither directly nor by implication affects the question of reparations and damages to China and her nationals growing out of the recent events in Manchuria, and makes a specific reservation in that respect.

“ V. In accepting the resolution laid before us, China appreciates the efforts of the Council to prevent further fighting and bloodshed by enjoining both China and Japan to avoid any initiative which may lead to further fighting or any other action likely to aggravate the situation. It must be clearly pointed out that this injunction should

not be violated under the pretext of the existence of lawlessness caused by a state of affairs which it is the very purpose of the resolution to do away with. It is to be observed that much of the lawlessness now prevalent in Manchuria is due to the interruption of normal life caused by the invasion of the Japanese forces. The only sure way of restoring the normal peaceful life is to hasten the withdrawal of the Japanese troops and allow the Chinese authorities to assume the responsibility for the maintenance of peace and order. China cannot tolerate the invasion and occupation of her territory by the troops of any foreign country ; far less can she permit these troops to usurp the police functions of the Chinese authorities.

“ VI. China notes with satisfaction the purpose to continue and improve the present system of neutral observation and reporting through representatives of other Powers, and China will from time to time, as occasion requires, indicate the localities to which it seems desirable to despatch such representatives.

“ VII. It should be understood that, in agreeing to this resolution which provides for the withdrawal of the Japanese forces to the railway zone, China in no way recedes from the position she has always taken with respect to the maintenance of military forces in the said railway zone.

“ VIII. China would regard any attempt by Japan to bring about complications of a political character affecting China's territorial or administrative integrity (such as promoting so-called independence movements or utilising disorderly elements for such purposes) as an obvious violation of the undertaking to avoid any further aggravation of the situation. ”

The Members of the Commission were subsequently selected by the President of the Council, and, after the approval of the two parties had been obtained, the membership was finally approved by the Council on January 14th, 1932, as follows :

**Appointment
of the
Commission of
Enquiry.**

H.E. Count ALDROVANDI (Italian),
Général de Division Henri CLAUDEL (French),
The Rt. Hon. The EARL OF LYTTON, P.C., G.C.S.I., G.C.I.E.
(British),
Major-General Frank ROSS MCCOY (American),
H.E. Dr. Heinrich SCHNEE (German).

The European members, with a representative of the American member, held two sittings in Geneva on January 21st, at which Lord Lytton was unanimously elected Chairman and a provisional programme of work was approved. The Governments of Japan and China, each of which had, by virtue of the resolution of December 10th, “ the right to nominate one Assessor to assist the Commission ”, subsequently appointed as their Assessors H.E. Mr. Isaburo YOSHIDA, Ambassador of Japan in Turkey, and H.E. Dr. Wellington KOO, a former Prime Minister and former Minister for Foreign Affairs of China.

**Organisation
of the
Commission.**

The Secretary-General of the League designated M. Robert HAAS, Director in the Secretariat of the League, to act as Secretary-General of the Commission. ¹

¹ The Secretary-General had put at the disposal of the Secretariat of the Commission :

Mr. PELT, member of the Information Section ; Mr. VON KOTZE, assistant to the Under-Secretary-General in charge of International Bureaux ; Mr. PASTHOV, member of the Political Section ; the Hon. W. W. ASTOR, temporary member of the Secretariat acting as Secretary of the Chairman of the Commission ; and M. CHARRÈRE, of the Information Section.

Major P. JOUVELET, Army Medical Corps, French Army, acted as personal

In the course of its work, the Commission was assisted by the technical advice of Professor G. H. BLAKESLEE, Professor at the Clark University, U. S. A., Ph.D., L.L.D. ; M. DENNERY, Agrégé de l'Université de France ; Mr. Ben DORFMAN, B.A., M.A., William Harrison Mills Fellow, University of California, U.S.A. ; Dr. A. D. A. de KAT ANGELINO, Colonel T. A. HIAM, assistant to the Chairman of the Canadian National Railways ; G. S. MOSS, Esq., C.B.E., H.B.M. Consul in Weihaiwei ; Dr. C. Walter YOUNG, M.A., Ph.D., Far Eastern Representative of the Institute of Current World Affairs, New York City.

The European members of the Commission sailed from Le Havre and Plymouth on February 3rd, and were joined by the American member at New York on February 9th.

Chinese
Appeal to the
League of
Nations under
Articles 10, 11
and 15 of the
Covenant.

Meanwhile, the development of the situation in the Far East caused the Chinese Government, on January 29th, to submit a further appeal to the League of Nations under Articles 10, 11 and 15 of the Covenant. On February 12th, 1932, the Chinese representative requested the Council to submit the dispute to the Assembly in accordance with paragraph 9 of Article 15 of the Covenant. Since no further instructions were received from the Council, the Commission continued to interpret its mandate according to the resolution of the Council of December 10th. This included :

(1) An examination of the issues between China and Japan, which were referred to the Council, including their causes, development and status at the time of the enquiry ;

(2) A consideration of a possible solution of the Sino-Japanese dispute which would reconcile the fundamental interests of the two countries.

Arrival of
the Commission
at Tokyo,
February 29th,
1932.

This conception of its mission determined the programme of its work.* Before reaching Manchuria, the main theatre of the conflict, contact was established with the Governments of Japan and China and with representatives of various shades of opinion, in order to ascertain the nature of the interests of the two countries. The Commission arrived in Tokyo on February 29th, where it was joined by the Japanese Assessor. It had the honour of being received by His Majesty the Emperor. Eight days were spent in Tokyo, and daily conferences were held with members of the Government and others, including the Prime Minister, Mr. INUKAI, the Minister for Foreign Affairs, Mr. YOSHIZAWA, the Minister of War, Lieutenant-General ARAKI, the Minister of Navy, Admiral OSUMI. Interviews were also held with leading bankers, business-men, representatives of various organisations and others. From all of these we received information regarding the rights and interests of Japan in Manchuria and her historical associations with that country. The Shanghai situation was also discussed. After leaving Tokyo, we learned while in Kyoto of the establishment of a new " State " in Manchuria, under the name of " Manchukuo " (the Manchu State). In Osaka, conferences were arranged with representatives of the business community.

Shanghai,
March
14th-26th.

The Commission reached Shanghai on March 14th and was joined there by the Chinese Assessor. Here a fortnight was occupied, in addition to our general enquiry, in learning as much as possible about the facts of the recent fighting and the possibility of an armistice, which we had

assistant to General Claudel, and Lieut. BIDDLE as personal assistant to General McCoy, and collaborated also in the general work of the Secretariat.

M. DEPEYRE, French Vice-Consul at Yokohama, acted as interpreter in the Japanese language.

Mr. AOKI and Mr. WOU SAO-FONG, members of the Information Section, collaborated with the Secretariat of the Commission.

* Note by the Secretariat : For the itineraries of the Commission, see the Appendix, page 140, and Maps Nos. 13 and 14.

previously discussed with Mr. YOSHIZAWA in Tokyo. We paid a visit to the devastated areas, and heard statements from the Japanese naval and military authorities regarding recent operations. We also interviewed some of the members of the Chinese Government and leaders of business, educational and other circles, including Canton.

On March 26th, the Commission proceeded to Nanking, some of its members visiting Hangchow on the way. During the following week, it had the honour of being received by the President of the National Government. Interviews were held with Mr. WANG CHING-WEI, President of the Executive Yuan; General CHIANG KAI-SHEK, Chairman of the Military Council; Dr. LO WEN-KAN, Minister for Foreign Affairs; Mr. T. V. SOONG, Minister of Finance; General CHENG MING-CHU, Minister of Communications; Mr. CHU CHIA-HUA, Minister of Education; and other members of the Government.

Nanking,
March 26th-
April 1st.

In order to acquaint ourselves more fully with representative opinion and with conditions existing in various parts of China, we proceeded on April 1st to Hankow, stopping *en route* at Kiukiang. Some representatives of the Commission visited Ichang, Wanhsien and Chungking in the province of Hupeh and Szechuan.

Yangtze Valley,
April 1st-7th.

On April 9th, the Commission arrived at Peiping (as Peking is now called), where several conferences were held with Marshal CHANG HSUEH-LIANG and with officials who had been members of the administration in Manchuria until September 18th. Evidence was also given by the Chinese Generals who had been in command of the troops at the barracks at Mukden on the night of September 18th.

Peiping,
April 9th-19th.

Our stay in Peiping was prolonged owing to a difficulty which arose regarding the entry into Manchuria of Dr. Wellington Koo, the Chinese Assessor.

In proceeding to Manchuria, the Commission divided into two groups, some of the party travelling to Mukden by rail via Shanhaikwan, and the remainder, including Dr. Koo, by sea via Dairen, thus remaining within the Japanese railway area. The objection to Dr. Koo's entry into "Manchukuo" territory was finally withdrawn after the arrival of the Commission in Changchun, the northern terminus of the Japanese railway area.

We remained in Manchuria for about six weeks, visiting Mukden, Changchun, Kirin, Harbin, Dairen, Port Arthur, Anshan, Fushun and Chinchow. We had intended to visit Tsitsihar as well, but, while we were in Harbin, there was continuous fighting in the surrounding districts, and the Japanese military authorities stated that they were unable at that moment to guarantee the safety of the Commission by rail on the western branch of the Chinese Eastern Railway. Accordingly, some members of our staff visited Tsitsihar by air. From there they travelled by the Taonan-Angangchi and Ssuping-kai-Taonan Railways and rejoined the main body in Mukden.

Manchuria,
April 20th-
June 4th.

During our stay in Manchuria we wrote a Preliminary Report, which we despatched to Geneva on April 29th.¹

We had numerous conferences with Lieutenant-General HONJO, Commander of the Kwantung Army, other military officers, and Japanese consular officials. At Changchun we visited the Chief Executive of "Manchukuo", the former Emperor, HSUAN TUNG, now known by his personal name of Henry Pu-Yi. We also had interviews with members of the "Manchukuo" Government, including officials and advisers of Japanese nationality, and Governors of Provinces. Delegations were received from the local population, most of which were presented by the Japanese or "Manchukuo" authorities. In addition to our public meetings, we were able to arrange interviews with a great number of individuals, both Chinese and foreign.

¹ See Annex I (separate volume).

Peiping,
June 5th-28th.

The Commission returned to Peiping on June 5th, where an analysis of the voluminous documentary material collected was begun. Two more conferences were also held with Mr. WANG CHING-WEI, President of the Executive Yuan ; Dr. LO WEN-KAN, Minister for Foreign Affairs ; and Mr. T. V. SOONG, Minister of Finance.

Tokyo,
July 4th-15th.

On June 28th the Commission proceeded to Tokyo via Chosen (Korea). Its departure for Japan was delayed by the fact that no Foreign Minister had yet been appointed in the Cabinet of Admiral Viscount Saito. After their arrival in Tokyo on July 4th, conferences were held with leaders of the new Government, including the Prime Minister, Admiral Viscount SAITO ; the Minister for Foreign Affairs, Count UCHIDA ; and the Minister of War, Lieutenant-General ARAKI. From these we learned the present views and policy of the Government regarding the development of the situation in Manchuria and Sino-Japanese relations.

Peiping,
July 20th.

Having thus renewed contact with both the Chinese and the Japanese Governments, the Commission returned to Peiping, where the drafting of the Report was undertaken.

Assessors.

The two Assessors, who throughout spared no effort to assist the work of the Commission, presented a great amount of valuable documentary evidence. The material received from each Assessor was shown to the other, and an opportunity given for subsequent comment. These documents will be published.

The large number of persons and organisations interviewed, as listed in the Appendix, will illustrate the amount of evidence examined. Further, in the course of our travels, we have been presented with a great quantity of printed pamphlets, petitions, appeals, and letters. In Manchuria alone, we received approximately 1,550 letters in Chinese and 400 letters in Russian, without mentioning those written in English, French or Japanese.

The arrangement, translation and study of these documents involved a considerable labour, which was carried out in spite of our continual movement from place to place. It was finally completed on our return to Peiping in July and before our last visit to Japan.

The
conception
of its mission
under
resolution of
December 10th
determined the
plan of the
Commission's
Report.

The Commission's conception of its mission, which determined the programme of its work and itinerary, has equally guided the plan of its Report.

First, we have tried to provide an historical background by describing the rights and interests of the two countries in Manchuria, which provide the fundamental causes of the dispute ; the more recent specific issues which immediately preceded the actual outbreak were then examined, and the course of events since September 18th, 1931, described. Throughout this review of the issues, we have insisted less on the responsibility for past actions than on the necessity of finding means to avoid their repetition in the future.

Finally, the Report concludes with some reflections and considerations which we have desired to submit to the Council upon the various issues with which it is confronted, and with some suggestions on the lines on which it seemed to us possible to effect a durable solution of the conflict and the re-establishment of a good understanding between China and Japan.

Chapter I.

OUTLINE OF RECENT DEVELOPMENTS IN CHINA.

The events of September 18th, 1931, which first brought the present conflict to the notice of the League of Nations, were but the outcome of a long chain of minor occasions of friction, indicating a growing tension in the relations between China and Japan. A knowledge of the essential factors in the recent relations of these two countries is necessary, to a complete understanding of the present conflict. It has been necessary, therefore, to extend our study of the issues beyond the limits of Manchuria itself and to consider in their widest aspect all the factors which determine present Sino-Japanese relations. The national aspirations of the Republic of China, the expansionist policy of the Japanese Empire and of the former Russian Empire, the present dissemination of Communism from the U.S.S.R., the economic and strategic needs of these three countries: such matters as these, for example, are factors of fundamental importance in any study of the Manchurian problem.

A knowledge of antecedent conditions necessary to a complete understanding of the present conflict.

Situated as this part of China is geographically between the territories of Japan and Russia, Manchuria has become politically a centre of conflict, and wars between all three countries have been fought upon its soil. Manchuria is in fact the meeting-ground of conflicting needs and policies, which themselves require investigation before the concrete facts of the present conflict can be fully appreciated. We shall therefore begin by reviewing these essential factors *seriatim*.

The dominating factor in China is the modernisation of the nation itself which is slowly taking place. China to-day is a nation in evolution, showing evidence of transition in all aspects of its national life. Political upheavals, civil wars, social and economic unrest, with the resulting weakness of the Central Government, have been the characteristics of China since the revolution of 1911. Those conditions have adversely affected all the nations with which China has been brought into contact and, until remedied, will continue a menace to world peace and a contributory cause of world economic depression.

China, a nation in evolution.

Of the stages by which the present conditions have been reached only a brief summary can here be given, which in no sense aims at being a comprehensive history. Throughout the first centuries of her intercourse with individual Occidentals, China remained, as far as Western influence is concerned, practically an isolated country. This condition of isolation was bound to come to an end when, at the beginning of the 19th century, the improvement of modern communication diminished distance and brought the Far East within easy reach of other nations, but in fact the country was not ready for the new contact when it came. As a result of the Treaty of Nanking, which ended the war of 1842, some ports were opened to foreign trade and residence. Foreign influences were introduced into a country whose Government had made no preparations to assimilate them. Foreign traders began to settle in her ports before she could provide for their administrative, legal, judicial, intellectual and sanitary requirements. The former therefore brought with them conditions and standards to which they were accustomed. Foreign cities sprang up in the Treaty

China first opened to foreigners in 1842.

Ports. Foreign methods of organisation, of administration and business asserted themselves. Any efforts there may have been on either side to mitigate the contrast were not effective, and a long period of friction and misunderstanding followed.

The efficacy of foreign arms having been demonstrated in a series of armed conflicts, China hoped, by building arsenals and by military training according to Western methods, to meet force with force. Her efforts in this direction, restricted as they were in scope, were doomed to failure. Much more fundamental reforms were needed to enable the country to hold its own against the foreigner, but China did not desire such reforms. On the contrary, she wanted to protect her culture and dominion against them.

Japanese comparison.

Japan had to face similar problems when that country was first opened to Western influences: new contacts with disturbing ideas, the conflict of different standards, leading to the establishment of foreign settlements, one-sided tariff conventions and extra-territorial claims. But Japan solved these problems by internal reforms, by raising her standards of modern requirements to those of the West and by diplomatic negotiations. Her assimilation of Western thought may not yet be complete, and friction may sometimes be seen between the old and the new ideas of different generations, but the rapidity and the thoroughness with which Japan has assimilated Western science and technique and adopted Western standards without diminishing the value of her old traditions have aroused general admiration.

China's problem vastly more difficult.

However difficult Japan's problems of assimilation and transformation may have been, those faced by China were much more difficult, owing to the vastness of her territory, the lack of national unity of her people, and her traditional financial system, under which the whole of the revenue collected did not reach the central Treasury. Although the complexity of the problem which China has to solve may be so much greater than that which confronted Japan as to make unjust any comparison between the two, yet the solution required for China must ultimately follow lines similar to those adopted by Japan. The reluctance of China to receive foreigners and her attitude towards those who were in the country was bound to have serious consequences. It concentrated the attention of her rulers on resistance to and restriction of foreign influence, and prevented her from profiting by the experience of more modern conditions in the foreign settlements. As a result, the constructive reform necessary to enable the country to cope with the new conditions was almost completely neglected.

China's losses from conflict with foreign Powers.

The inevitable conflict of two irreconcilable conceptions of respective rights and international relations led to wars and disputes resulting in the progressive surrender of sovereign rights and the loss of territory, either temporary or permanent. China lost a huge area on the north bank of the Amur River, and the Maritime Province; the Luchu Islands; Hong-Kong; Burma; Annam; Tongking; Laos; Cochin-China (provinces of Indo-China); Formosa; Korea; and several other tributary States; she also granted long leases of other territories. Foreign courts, administration, police and military establishments were admitted on Chinese soil. The right to regulate at will her tariff on imports and exports was lost for the time being. China had to pay damages for injuries to foreign lives and property and heavy war indemnities which have been a burden to her finances ever since. Her very existence was even threatened by the division of her territory into spheres of interest of foreign Powers.

Reform movement starts after Boxer uprising in 1900.

Her defeat in the Sino-Japanese war of 1894-95, and the disastrous consequences of the Boxer uprising of 1900, opened the eyes of some thoughtful leaders to the necessity for fundamental reform. The reform movement was willing at first to accept the leadership of the Manchu House, but turned away from this dynasty after its cause and its leaders had been

betrayed to the Empress Dowager, and the Emperor Kwang Hsu was made to expiate his hundred days of reform in virtual imprisonment to the end of his life in 1908.

The Manchu Dynasty had ruled China for 250 years. In its later years it was weakened by a series of rebellions: the Taiping rebellion (1850-1865), the Mohammedan risings in Yunnan (1856-1875), and the risings in Chinese Turkestan (1864-1877). The Taiping rebellion especially shook the Empire to its foundation and dealt a blow to the prestige of the dynasty, from which it never recovered. Finally, after the death of the then Empress Dowager in 1908, it collapsed through its own inherent weakness.

**Fall of the
Manchu
Dynasty.**

After some minor attempts at insurrection, the revolutionaries were successful in South China. A brief period followed during which a Republican Government was established at Nanking, with Dr. Sun Yat-sen, the leading figure of the Revolution, as provisional President. On February 12th, 1912, the then Empress Dowager, in the name of the child Emperor, signed a decree of abdication, and a provisional constitutional regime, with Yuan Shih-kai as President, was then inaugurated. With the abdication of the Emperor, his representatives in the provinces, prefectures and districts lost the influence and moral prestige which they had derived from his authority. They became ordinary men, to be obeyed only in so far as they were able to enforce their decisions. The gradual substitution of military for civil governors in the provinces was an inevitable consequence. The post of central executive could, likewise, be held only by the military leader who had the strongest army or was supported by the strongest group of provincial or local military chiefs.

This tendency towards military dictatorship, which was more apparent in the North, was facilitated by the fact that the army had gained some popularity by the support it had given in many instances to the Revolution. Military leaders did not hesitate to lay claim to the merit of having made the Revolution a success. Most of them were Northern leaders, to a certain extent grouped together in the so-called Peiyang Party — men who had risen from a low status to higher commands in the model army trained by Yuan Shih-kai after the Sino-Japanese war. They could more or less be trusted by him because of the tie of personal allegiance which, in China, has not yet given place to the corporate loyalty which characterises organisations in the West. These men were appointed military governors by Yuan Shih-kai in the provinces under his control. There the power rested in their hands and provincial revenues could accordingly be taken at will by them to be used for their personal armies and adherents.

**Tendency
towards
military
dictatorship
in the North.**

In the Southern provinces, the situation was different, partly as a result of intercourse with foreign countries and partly on account of the different social customs of the population. The people of South China have always been averse to military autocracy and official interference from outside. Dr. Sun Yat-sen and their other leaders remained faithful to the idea of constitutionalism. They had, however, little military force behind them, because the re-organisation of the army had not yet progressed very far in the provinces south of the Yangtze, and they had no well-equipped arsenals.

**Position in
the South.**

When, after much procrastination, the first Parliament was convened in Peking in 1913, Yuan Shih-kai had consolidated his military position, and lacked only sufficient financial resources to ensure the loyalty of the provincial armies. A huge foreign loan, the so-called Re-organisation Loan, provided him with the necessary financial means. But his action in concluding that loan without the consent of Parliament brought his political opponents of the Kuomintang or Nationalist Party, under Dr. Sun's leadership, into open revolt. In a military sense the South was weaker than the North, and was still more weakened when the victorious Northern

**Revolt against
Yuan Shih-kai,
1913.**

commanders, after conquering a number of Southern provinces, placed the latter under Northern generals.

**Civil war and
political
unrest,
1914-1928.**

There were several attempts to reinstate the 1913 Parliament, which had been introduced by Yuan Shih-kai, or to convene bogus Parliaments, two attempts to establish monarchical rule, many changes of Presidents and Cabinets, continuous shifting of allegiance among military leaders, and many declarations of temporary independence of one or more provinces. In Canton, the Kuomintang Government, headed by Dr. Sun, succeeded in maintaining itself from 1917 onwards, with occasional intervals during which it ceased to function. During these years China was ravaged by warring factions; and the ever-present bandits grew into veritable armies by the enlistment of ruined farmers, desperate inhabitants of famine-stricken districts, or unpaid soldiers. Even the constitutionalists, who were fighting in the South, were repeatedly exposed to the danger of militarist feuds arising in their midst.

**Re-organisation
of the
Kuomintang.**

In 1923, convinced by Russian revolutionists that a definite programme, strict party discipline, and systematic propaganda were necessary to ensure the victory of his cause, Dr. Sun Yat-sen re-organised the Kuomintang with a programme which he outlined in his "Manifesto" and "Three Principles of the People"¹. Systematic organisation ensured party discipline and unity of action through the intermediary of a Central Executive Committee. A political training institute instructed propagandists and organisers of local branches, while a military training institute at Whampoo, with the help of Russian officers, was instrumental in providing the party with an efficient army, the leaders of which were permeated with the idea of the party. Thus equipped, the Kuomintang was soon ready to establish contacts with the people at large. Sympathisers were organised in local branches or in peasant and labour unions affiliated to the party. This preliminary conquest of the people's mind was, after the death of Dr. Sun in 1925, followed up by the successful Northern Expedition of the Kuomintang Army, which, by the end of 1928, succeeded in producing a nominal unity for the first time in many years, and a measure of actual unity which lasted for a time.

The first, or military, phase of Dr. Sun's programme had thus been brought to a successful end.

The second period of political tutelage under party dictatorship could begin. It was to be devoted to the education of the people in the art of self-government and to the reconstruction of the country.

**A Central
Government
established.**

In 1927, a Central Government was established at Nanking. It was controlled by the party — it was, in fact, merely one important organ of the party. It consisted of five Yuans or Boards (the Executive, the Legislative, the Judicial, the Control, and the Examination Boards). The Government had been modelled as closely as possible on the lines of Dr. Sun's "Five-Power Constitution" — the Trias Politica of Montesquieu with the addition of two old Chinese institutions, the Censorate and the Public Services Examination Board — in order to facilitate the transition to the final or constitutional stage, when the people, partly directly and partly through its elected representatives, would itself take charge of the direction of its government.

In the provinces, similarly, a committee system was adopted for the organisation of provincial governments, while in villages, towns and districts, the people were to be trained in the handling of local self-government. The party was now ready to put into operation its schemes of political and economic reconstruction, but was prevented from doing so by internal dissensions, the periodical revolt of various Generals with personal armies,

¹ National Independence, Democratic Government and Social Re-organisation.

and the menace of Communism. In fact, the Central Government had repeatedly to fight for its very existence.

For a time unity was maintained on the surface. But not even the semblance of unity could be preserved when powerful war lords concluded alliances amongst themselves and marched their armies against Nanking. Though they never succeeded in their object, they remained, even after defeat, potential forces to be reckoned with. Moreover, they never took the position that war against the Central Government was an act of rebellion. It was in their eyes simply a struggle for supremacy between their faction and another one which happened to reside in the national capital and to be recognised as the Central Government by foreign Powers. This lack of hierarchical relations is all the more dangerous because serious dissensions in the Party itself have weakened the title of the Central Government to be the unquestioned successors of Dr. Sun. The new schism has led to the estrangement of influential Southern leaders, who retired to Canton, where the local authorities and the local branch of the Kuomintang frequently act independently of the Central Government.

From this summary description it appears that disruptive forces in China are still powerful. The cause of this lack of cohesion is the tendency of the mass of the people to think in terms of family and locality, rather than in terms of the nation, except in periods of acute tension between their own country and foreign Powers. Although there are, nowadays, a number of leaders who have risen above particularist sentiments, it is evident that a national outlook must be attained by a far greater number of citizens before real national unity can result.

Although the spectacle of China's transitional period, with its unavoidable political, social, intellectual and moral disorder, is disappointing to her impatient friends and has created enmities which have become a danger to peace, it is nevertheless true that, in spite of difficulties, delays and failures, considerable progress has in fact been made. An argument which constantly reappears in the polemics of the present controversy is that China is "not an organised State" or "is in a condition of complete chaos and incredible anarchy", and that her present-day conditions should disqualify her from membership of the League of Nations and deprive her of the protective clauses of the Covenant. In this connection, it may be useful to remember that an altogether different attitude was taken at the time of the Washington Conference by all the participating Powers. Yet, even at that time, China had two completely separate Governments, one at Peking and one at Canton, and was disturbed by large bandit forces which frequently interfered with communications in the interior, while preparations were being made for a civil war involving all China. As a result of this war, which was preceded by an ultimatum sent to the Central Government on January 13th, 1922, when the Washington Conference was still in session, the Central Government was overthrown in May, and the independence of Manchuria from the Government installed at Peking in its place was declared in July by Marshal Chang Tso-lin. Thus, there existed no fewer than three Governments professing to be independent, not to mention the virtually autonomous status of a number of provinces or parts of provinces. Although, at present, the Central Government's authority is still weak in a number of provinces, the central authority is not, at least openly, repudiated, and there is reason to hope that, if the Central Government as such can be maintained, provincial administration, military forces and finance will acquire an increasingly national character. Those, among others, were doubtless the reasons which induced the Assembly of the League of Nations last September to elect China to the Council.

The present Government has tried to balance its current receipts and expenditure and to adhere to sound financial principles. Various taxes have been consolidated and simplified. In default of a proper budgetary

The authority of the Central Government challenged from without and weakened by dissensions within.

Present condition of China compared with that at the time of the Washington Conference.

Efforts for Chinese reconstruction.

system, an annual statement has been issued by the Ministry of Finance. A Central Bank has been established. A National Financial Committee has been appointed, which includes among its members influential representatives of banking and commercial interests. The Ministry of Finance is also trying to supervise the finances of the provinces, where the methods of raising taxes are often still highly unsatisfactory. For all these measures the Government is entitled to credit. It has, however, been forced by recurrent civil wars to increase its domestic indebtedness by about a billion dollars (silver) since 1927. Lack of funds has prevented it from executing its ambitious plans of reconstruction, or completing the improvement of communications which is so vitally necessary for the solution of most of the country's problems. In many things, no doubt, the Government has failed, but it has already accomplished much.

Nationalism.

The nationalism of modern China is a normal aspect of the period of political transition through which the country is passing. National sentiments and aspirations of a similar kind would be found in any country placed in the same position. But, in addition to the natural desire to be free from any outside control in a people that has become conscious of national unity, the influence of the Kuomintang has introduced into the nationalism of China an additional and abnormal tinge of bitterness against all foreign influences, and has expanded its aims so as to include the liberation of all Asiatic people still subject to "imperialistic oppression". This is partly due to the slogans of its early communistic connection. Chinese nationalism to-day is also permeated by memories of former greatness, which it desires to revive. It demands the return of leased territories, of administrative and other not purely commercial rights exercised by a foreign agency in railway areas, of administrative rights in concessions and settlements, and of extra-territorial rights which imply that foreigners are not amenable to Chinese laws, law courts and taxation. Public opinion is strongly opposed to the continuance of these rights, which are regarded as a national humiliation.

**Attitude of
foreign
Powers on the
subject
of extra-
territoriality.**

Foreign Powers have in general taken a sympathetic attitude towards these desires. At the Washington Conference, 1921-22, they were admitted to be acceptable in principle, though there was divergence of opinion as to the best time and method of giving effect to them. It was felt that an immediate surrender of such rights would impose upon China the obligation to provide administration, police and justice of a standard which, owing to financial and other internal difficulties, she could not at present attain. The present single issue of extra-territoriality might lead to a number of separate issues with foreign Powers if the former were abolished prematurely. It was also felt that international relations would not improve but would deteriorate if foreign nationals were to be exposed to the same unjust treatment and extortionate taxation as Chinese citizens were subjected to in so many parts of the country. In spite of these reservations, much was actually accomplished, especially at Washington, or as a result of that Conference. China has recovered two out of five leased territories, many concessions, administrative rights in the area of the Chinese Eastern Railway, Customs autonomy, and postal rights. Many treaties on the basis of equality have also been negotiated.

Having started upon the road of international co-operation for the purpose of solving her difficulties, as was done at Washington, China might have made more substantial progress in the ten years that have since elapsed had she continued to follow that road. She has only been hampered by the virulence of the anti-foreign propaganda which has been pursued. In two particulars has this been carried so far as to contribute to the creation of the atmosphere in which the present conflict arose — namely, the use made of the economic boycott, to which reference is made in Chapter VII, and the introduction of anti-foreign propaganda into the schools.

It is provided in the Provisional Constitution of China promulgated on June 1st, 1931,¹ that "the Three Principles of the People shall be the basic principles of education in the Republic of China". The ideas of Dr. Sun Yat-sen are now taught in the schools as if they had the same authority as that of the Classics in former centuries. The sayings of the master receive the same veneration as the sayings of Confucius received in the days before the Revolution. Unfortunately, however, more attention has been given to the negative than to the constructive side of nationalism in the education of the young. A perusal of the text-books used in the schools leaves the impression on the mind of a reader that their authors have sought to kindle patriotism with the flame of hatred, and to build up manliness upon a sense of injury. As a result of this virulent anti-foreign propaganda, begun in the schools and carried through every phase of public life, the students have been induced to engage in political activities which sometimes have culminated in attacks on the persons, homes or offices of Ministers and other authorities, and in attempts to overthrow the Government. Unaccompanied by effective internal reforms or improvements in national standards, this attitude tended to alarm the foreign Powers and to increase their reluctance to surrender the rights which are at the moment their only protection.

In connection with the problems of maintaining law and order, the present inadequate means of communication in China is a serious handicap. Unless communications are sufficient to ensure prompt transportation of national forces, the safeguarding of law and order must largely, if not completely, be entrusted to provincial authorities, who, on account of the distance of the Central Government, must be allowed to use their own judgment in handling provincial affairs. Under such conditions, independence of mind and action may easily cross the boundary of law, with the result that the province gradually takes on the aspect of a private estate. Its armed forces are also identified with their commander, not with the nation. The transfer of a commander from one army to another by order of the Central Government is, in many cases, impossible. The danger of civil war must continue to exist so long as the Central Government lacks the material means to make its authority swiftly and permanently felt all over the country.

The problem of banditry, which may be traced throughout the history of China, and which exists to-day in all parts of the country, is subject to the same considerations. Banditry has always existed in China and the administration has never been able to suppress it thoroughly. Lack of proper communications was one of the reasons which prevented the administration from getting rid of this evil, which increased or decreased according to changing circumstances. Another contributing cause is to be found in the local uprisings and rebellions which have often occurred in China, especially as a result of maladministration. Even after the successful suppression of such rebellions, bandit gangs recruited from the ranks of the rebels often remained active in parts of the country. This was specially the case in the period following the suppression of the Taiping rebellion (1850-1865). In more recent times, bandits have also originated from the ranks of unpaid soldiers who were not able to find other means of living and had been accustomed to looting during the civil wars in which they had taken part.

Other causes which have given rise to an increase of banditry in parts of China were floods and droughts. These are more or less regular occurrences, and they have always brought famine and banditry in their wake. The problem has been further aggravated by the pressure of a rapidly increasing population. In congested areas, normal economic difficulties were still further increased and, amongst people living on a bare subsistence

**Nationalism
in the schools.**

**Problems of
law and order :
Necessity of
adequate
communica-
tions.**

Local armies.

Banditry.

¹ Article 47 of the Chapter on "Education of the Citizens".

level with no margin to meet times of crisis, the slightest deterioration in the conditions of life might bring large numbers to the point of destitution. Banditry, therefore, has been largely influenced by the prevailing economic conditions. In prosperous periods or districts it has diminished, but where for any of the reasons mentioned the struggle for existence was intensified or the political conditions were disturbed it was sure to increase.

When once banditry had become well established in any area, its suppression by force was rendered difficult because of the defective communications in the interior of the country. It is in regions which are difficult of access, where a few miles may involve days of travel, that large armed bands can move freely, appearing and disappearing suddenly, without their abodes and movements being known. When bandit suppression has been long neglected, and when the soldiers even co-operate with bandits secretly, as has happened often enough, traffic along highways and waterways is interfered with. Such occurrences can only be stopped by adequate police forces. In the districts of the interior, bandit suppression is much more difficult, because guerilla warfare inevitably develops.

Communism a challenge to the authority of the Central Government.

But, though the personal armies of local Generals and the prevalence of bandit hordes throughout the country may disturb the internal peace of the country, they are no longer a menace to the authority of the Central Government as such. There is, however, a menace of this kind from another source — namely, Communism.

Origin of Communism in China, 1921.

The Communist movement in China, during the first years of its existence, remained restricted within intellectual and labour circles, where the doctrine gained considerable influence in the period 1919-1924. Rural China was, at that time, scarcely touched by this movement. The manifesto of the Soviet Government of July 25th, 1919, declaring its willingness to renounce all privileges “extorted” from China by the former Tsarist Government, created a favourable impression throughout China, especially amongst the intelligentsia. In May 1921, the “Chinese Communist Party” was formally constituted. Propaganda was especially conducted in labour circles at Shanghai, where red syndicates were organised. In June 1922, at its second congress, the Communist Party, which did not then number more than three hundred members, decided to ally itself with the Kuomintang. Dr. Sun Yat-sen, although opposed to the Communist doctrine, was prepared to admit individual Chinese Communists into the party. In the autumn of 1922, the Soviet Government sent a Mission to China, headed by Mr. Joffe. Important interviews, which took place between him and Dr. Sun resulted in the joint declaration of January 26th, 1923, by which assurance was given of Soviet sympathy and support to the cause of the national unification and independence of China. It was explicitly stated, on the other hand, that the Communist organisation and the Soviet system of government could not be introduced at that time under the conditions prevailing in China. Following this agreement, a number of military and civil advisers were sent from Moscow by the end of 1923, and “undertook, under the control of Dr. Sun, the modification of the internal organisation of the Kuomintang and of the Cantonese Army”.

At the first National Congress of the Kuomintang, convened in March 1924, the admission of Chinese Communists into the party was formally agreed to, on condition that such members should not take any further part in the preparation of the proletarian revolution. The period of tolerance with regard to Communism thus began.

Period of tolerance with regard to Communism, 1924-1927.

This period lasted from 1924 until 1927. Early in 1924 the Communists counted about 2,000 adherents, and red syndicates approximately 60,000 members. But the Communists soon acquired enough influence inside the Kuomintang to raise anxiety amongst the orthodox members of the party. They presented to the Central Committee, at the end of 1926, a proposal going so far as to include the nationalisation of all landed properties

except those belonging to workmen, peasants or soldiers ; the re-organisation of the Kuomintang ; the elimination of all military leaders hostile to Communism ; and the arming of 20,000 Communists and 50,000 workmen and peasants. This proposal, however, was defeated, and the Communists ceased to support the intended campaign of the Kuomintang against the Northern militarists, although they had previously been most active in the organisation of the Nationalist forces. Nevertheless, at a later stage, they joined in it, and when the Northern Expedition reached Central China and established a Nationalist Government at Wu-Han in 1927, the Communists succeeded in obtaining a controlling position in it, as the Nationalist leaders were not prepared to join issue with them until their own forces had occupied Nanking and Shanghai. The Wu-Han Government put into operation in the provinces of Hunan and Hupeh a series of purely communistic measures. The Nationalist Revolution was almost on the point of being transformed into a Communist Revolution.

The Nationalist leaders at last decided that Communism had become too serious a menace to be tolerated any longer. As soon as they were firmly established at Nanking, where another National Government was constituted on April 10th, 1927, a proclamation was issued in which the Nanking Government ordered the immediate purification of the Army and the Civil Service from Communism. On July 15th, the majority of the Central Executive of the Kuomintang at Wu-Han, who had so far refused to join the Nationalist leaders at Nanking, adopted a resolution excluding Communists from the Kuomintang and ordering the Soviet advisers to leave China. As a result of this decision, the Kuomintang regained its unity and the Government at Nanking became generally recognised by the party.

During the period of tolerance, several military units had been gained to the Communist cause. These had been left in the rear, mostly in Kiangsi Province, when the Nationalist Army was marching to the North. Communist agents were sent to co-ordinate these units and to persuade them to take action against the National Government. On July 30th, 1927, the garrison at Nanchang, the capital of Kiangsi Province, together with some other military units, revolted and subjected the population to numerous excesses. However, on August 5th, they were defeated by the Government forces and withdrew to the South. On December 11th, a Communist rising at Canton delivered control of the city for two days into their hands. The Nanking Government considered that official Soviet agents had actively participated in these uprisings. An order of December 14th, 1927, withdrew the *exequatur* of all the consuls of the U.S.S.R. residing in China.

The recrudescence of civil war favoured the growth of Communist influence in the period between 1928 and 1931. A Red army was organised, and extensive areas in Kiangsi and Fukien were sovietised. Only in November 1930, shortly after the defeat of a powerful coalition of Northern militarists, was the Central Government able to take up the suppression of Communism in earnest. The Communist forces had operated in parts of Kiangsi and Hunan Provinces and were then reported to have caused in two or three months the loss of 200,000 lives and of property valued at about one billion dollars (silver). They had now become so strong that they were able to defeat the first and frustrate the second expedition sent against them by the Government. The third expedition, directed by the Commander-in-Chief, General Chiang Kai-shek, defeated the Communist armies in several encounters. By the middle of July 1931, the most important Communist strongholds had been taken, and their forces were in full retreat towards Fukien.

Whilst constituting a political commission to re-organise the areas which had been devastated, General Chiang Kai-shek pursued the Red armies, and drove them into the mountainous region north-east of Kiangsi.

**Break between
Kuomintang
and
Communism,
1927.**

**Affairs of
Nanchang and
Canton.**

**Continuation
of armed
struggle
with the
Communist
armies.**

The Nanking Government was thus on the point of putting the principal Red army out of action, when events occurred in different parts of China which obliged them to suspend this offensive and to withdraw a large part of their troops. In the North had occurred the rebellion of General Shih Yu-san, supported by a hostile intervention on the part of the Cantonese troops in the province of Hunan ; simultaneously with this intervention came the events of September 18th at Mukden. Encouraged by these circumstances, the Reds resumed the offensive, and before long the fruits of the victorious campaign were almost completely lost.

**Present
extent of
Communist
organisations.**

Large parts of the provinces of Fukien and Kiangsi, and parts of Kwangtung, are reliably reported to be completely sovietised. Communist zones of influence are far more extensive. They cover a large part of China south of the Yangtze, and parts of the provinces of Hupeh, Anhwei, and Kiangsu north of that river. Shanghai has been the centre of Communist propaganda. Individual sympathisers with Communism may probably be found in every town in China. So far, two provincial Communist governments only have been organised in Kiangsi and Fukien, but the number of minor Soviets runs into hundreds. The Communist government itself is formed by a committee elected by a congress of local workers and peasants. It is, in reality, controlled by representatives of the Chinese Communist Party, which sends out trained men for that purpose, a large number of whom have been previously trained in the U.S.S.R. Regional Committees, under the control of the Central Committee of the Chinese Communist Party, in their turn control provincial committees and these, again, district committees, and so on, down to the Communist cells organised in factories, schools, military barracks, etc.

**Methods
employed by
the
Communists.**

When a district has been occupied by a Red army, efforts are made to sovietise it, if the occupation appears to be of a more or less permanent nature. Any opposition from the population is suppressed by terrorism. A Communist government, as described above, is then established. The complete organisation of such governments comprises : Commissariats for Internal Affairs, for the struggle against the anti-revolutionaries (G. P. U.), for Financial Affairs, for Rural Economy, for Education, for Hygiene, for Post and Telegraph, for Communications ; and Committees for Military Affairs and for the control of workmen and peasants. Such elaborate government organisations exist only in completely sovietised districts.

Elsewhere the organisation is much more modest.

The programme of action consists in the cancellation of debts, the distribution amongs landless proletarians and small farmers of land forcibly seized, either from large private owners or from religious institutions, such as temples, monasteries and churches. Taxation is simplified ; the peasants have to contribute a certain part of the produce of their lands. With a view to the improvement of agriculture, steps are taken to develop irrigation, rural credit systems, and co-operatives. Public schools, hospitals and dispensaries may also be established.

Thus the poorest farmers derive considerable benefit from Communism, whereas the rich and middle-class landowners, merchants and local gentry are completely ruined, either by immediate expropriation or by levies and fines, and, in applying its agrarian programme, the Communist Party expects to gain the support of the masses. In this respect, its propaganda and action have met with considerable success, notwithstanding the fact that Communist theory conflicts with the Chinese social system. Existing grievances resulting from oppressive taxation, extortion, usury and pillage by soldiery or bandits were fully exploited. Special slogans were employed for farmers, workmen, soldiers and intellectuals, with variations specially adapted to women.

**Special
character of
Communism
in China.**

Communism in China not only means, as in most countries other than the U.S.S.R., either a political doctrine held by certain members of existing parties, or the organisation of a special party to compete for power with

other political parties. It has become an actual rival of the National Government. It possesses its own law, army and government, and its own territorial sphere of action. For this state of affairs there is no parallel in any other country. Moreover, in China, the disturbance created by the Communist war is made more serious by the fact that the country is going through a critical period of internal reconstruction, still further complicated during the last eleven months by an external crisis of exceptional gravity. The National Government seems to be determined to regain the control of the districts under Communist influence, and to pursue in those districts, once their recovery is achieved, a policy of economic rehabilitation ; but in its military campaigns, apart from difficulties already mentioned, both internal and external, it is hampered by lack of funds and defective communications. The problem of Communism in China is thus linked up with the larger problem of national reconstruction.

In the summer of 1932, important military operations, having for their object a final suppression of the Red resistance, were announced by the Government of Nanking. They were commenced and, as stated above, were to have been accompanied by a thorough social and administrative reorganisation of the recaptured regions, but up to the present no important results have been announced.

So far as Japan is China's nearest neighbour and largest customer, she has suffered more than any other Power from the lawless conditions described in this chapter. Over two-thirds of the foreign residents in China are Japanese, and the number of Koreans in Manchuria is estimated at about 800,000. She has more nationals, therefore, than any other Power, who would suffer if they were made amenable to Chinese law, justice and taxation under present conditions.

Japan felt it impossible to satisfy Chinese aspirations so long as satisfactory safeguards to take the place of her Treaty rights could not be hoped for. Her interests in China, and more especially in Manchuria, began to be more prominently asserted as those of the other major Powers receded into the background. Japan's anxiety to safeguard the life and property of her subjects in China caused her to intervene repeatedly in times of civil war or of local disturbances. Such action was bitterly resented by China, especially when it resulted in an armed clash such as occurred in 1928 at Tsinan. In recent years, the claims of Japan have come to be regarded in China as constituting a more serious challenge to national aspirations than the rights of all the other Powers taken together.

This issue, however, though affecting Japan to a greater extent than other Powers, is not a Sino-Japanese issue alone. China demands immediately the surrender of certain exceptional powers and privileges because they are felt to be derogatory to her national dignity and sovereignty. The foreign Powers have hesitated to meet these wishes as long as conditions in China did not ensure adequate protection of their nationals, whose interests depend on the security afforded by the enjoyment of special Treaty rights. The process of fermentation, inevitable in a period of transition, which this chapter has attempted to describe, has developed forces of public opinion which will probably continue to embarrass the Central Government in the conduct of its foreign policy, as long as it is weakened by failure to complete the unification and reconstruction of the country. The realisation of China's national aspirations in the field of foreign relations depends on her ability to discharge the functions of a modern Government in the sphere of domestic affairs, and until the discrepancy between these two has been removed the danger of international friction and of incidents, boycotts, and armed interventions will continue.

The present extreme case of international friction having forced China once more to seek the intervention of the League of Nations should, if a satisfactory settlement can be effected, convince her of the advantages of

Effect of these conditions upon Sino - Japanese relations.

International interest in the problems of Chinese reconstruction.

International co-operation offers the

best hope of
their solution.

the policy of international co-operation, which was inaugurated at Washington with such beneficial results in 1922. China has not at the moment the capital nor the trained specialists necessary for the unaided accomplishment of her national reconstruction. Dr. Sun Yat-sen himself realised this, and actually drew up an ambitious plan of international participation in the economic development of his country. The National Government, too, has in recent years sought and accepted international help in the solution of her problems — in financial matters since 1930, in matters relating to economic planning and development in liaison with the technical organisations of the League of Nations since the constitution of the National Economic Council in 1931, and in relief of the distress caused by the great flood of the same year. Along this road of international co-operation, China would make the surest and most rapid progress towards the attainment of her national ideals, and such a policy would make it easier for foreign Powers to give what support the Central Government may seek, and to help in the removal as rapidly and as effectively as possible of any causes of friction which may endanger her peaceful relations with the rest of the world. ✓

Chapter II.

MANCHURIA.

DESCRIPTION, RELATIONS WITH THE REST OF CHINA AND WITH RUSSIA.

1. DESCRIPTION.

Introductory.

Manchuria, which is known in China as the Three Eastern Provinces, a large, fertile region only forty years ago almost undeveloped and even now still under-populated, has assumed an increasingly important role in the solution of the surplus population problems of China and Japan. The provinces of Shantung and Hopei have poured millions of destitute farmers into Manchuria, while Japan has exported to that country her manufactured articles and capital, in exchange for food supplies and raw materials. In providing for the respective needs of China and Japan, Manchuria has proved the usefulness of their partnership. Without Japan's activity, Manchuria could not have attracted and absorbed such a large population. Without the influx of Chinese farmers and labourers, Manchuria could not have developed so rapidly, providing Japan thereby with a market and with supplies of food, fertilisers, and raw materials.

Manchuria a
coveted
region, first on
account of its
strategic
advantages,
subsequently
on account of
agricultural
and mineral
resources.

Yet, Manchuria, so largely dependent on co-operation, was destined, for reasons already indicated, to become a region of conflict: at first between Russia and Japan, later between China and her two powerful neighbours. At first, Manchuria entered into this great conflict of policies only as an area, the occupation of which was thought to imply domination of Far-Eastern politics. It became coveted for its own sake later, when its agricultural, mineral and forestry resources had been discovered. Exceptional treaty rights were acquired in the first instance by Russia at the expense of China. Those which concerned South Manchuria were subsequently transferred to Japan. The use of the privileges so acquired became more and more instrumental in furthering the economic development of South Manchuria. Strategical considerations have remained paramount, but the extensive economic interests resulting from the active part taken

by Russia and Japan in the development of Manchuria found an ever-increasing insistence in the foreign policy of these two countries.

China at first showed little activity in the field of development. She almost allowed Manchuria to pass from her control to that of Russia. Even after the Treaty of Portsmouth, which reaffirmed her sovereignty in Manchuria, the economic activities of Russia and Japan in developing those provinces figured more prominently than her own in the eyes of the world. Meanwhile the immigration of millions of Chinese farmers settled the future possession of the land. This immigration was in fact an occupation—peaceful, inconspicuous, but none the less real. While Russia and Japan were engaged in delimiting their respective spheres of interest in North and South Manchuria, Chinese farmers took possession of the soil and Manchuria is now unalterably Chinese. In such circumstances, China could afford to wait for a favourable opportunity to reassert her sovereign rights. The Russian revolution of 1917 gave her that opportunity in North Manchuria. She began to take a more active part in the government and development of the country, which had been so long neglected. In recent years she has tried to diminish Japan's influence in South Manchuria. Growing friction resulted from that policy, the culminating point of which was reached on September 18th, 1931.

**Occupation of
the soil by
Chinese
farmers.**

The total population is estimated at about 30,000,000, of whom 28,000,000 are said to be Chinese or assimilated Manchus. The number of Koreans is put at 800,000, of whom a large number are congregated in the so-called Chientao District on the Korean border, the remainder being widely scattered in Manchuria. Mongol tribes live in the pasture lands bordering Inner Mongolia, their number being small. There may be about 150,000 Russians in Manchuria, most of them living in the area along the Chinese Eastern Railway, especially at Harbin. About 230,000 Japanese are mainly concentrated in the settlements along the South Manchuria Railway and in the Kwantung Leased Territory (Liaotung Peninsula). The total number of Japanese, Russians and other foreigners (excluding Koreans) in Manchuria does not exceed 400,000.

Population.

Manchuria is a vast country with an area as large as that of France and Germany taken together, estimated at about 380,000 square miles. In China it is always referred to as the " Three Eastern Provinces " because of its administrative division into the three provinces of Liaoning (or Fengtien) in the South, Kirin in the East, and Heilungkiang in the North. Liaoning is estimated to have an area of 70,000 square miles, Kirin of 100,000, Heilungkiang of over 200,000.

Area

Manchuria is continental in its characteristics. There are two mountain ranges, the Changpai Range in the south-east and the Great Khingan Range in the north-west. Between these two mountain ranges lies the great Manchurian plain, of which the northern part belongs to the basin of the Sungari River and the southern part to that of the Liao River. The watershed between them, which has some historical importance, is a range of hills dividing the Manchurian plain into a northern and a southern part.

Geography.

Manchuria is bounded on the west by the province of Hopeh and by Outer and Inner Mongolia. Inner Mongolia was formerly divided into three special administrative areas — Jehol, Chahar and Suiyuan — which were given the full status of provinces by the National Government in 1928. Inner Mongolia, and more especially Jehol, has always had relations with Manchuria, and exercises some influence in Manchurian affairs. On the north-west, north-east, and east, Manchuria is bounded by the Siberian provinces of the U.S.S.R., on the south-east by Korea, and on the south by the Yellow Sea. The southern end of the Liaotung Peninsula has been held by Japan since 1905. Its area is over 1,300 square miles, and it is administered as a Japanese leased territory. In addition, Japan exercises

certain rights over a narrow strip of land, which extends beyond the Leased Territory, and which contains the lines of the South Manchuria Railway. The total area is only 108 square miles, whereas the length of the lines is 690 miles.

Economic resources.

The soil of Manchuria is generally fertile, but its development is dependent on transportation facilities. Many important towns flourish along its rivers and railways. Formerly, development was practically dependent on the river system, which is still of much importance, though the railways have now taken the first place as a means of transport. The production of important crops, such as soya beans, kaoliang, wheat, millet, barley, rice, oats, has doubled in fifteen years. In 1929, these crops were estimated at over 876,000,000 bushels. According to estimates given in the *Manchurian Year-Book*, 1931, only 12.6 per cent of the total area has been brought under cultivation in 1929, whereas 28.4 per cent was cultivable. A large increase of production may therefore be expected in the future if economic conditions improve. The total value of the agricultural products of Manchuria for the year 1928 was estimated at over £130,000,000 sterling. A large part of the agricultural produce is exported. Pongee or tussah silk is another important article of export from Manchuria.

Timber and minerals

The mountainous regions are rich in timber and minerals, especially coal. Important deposits of iron and gold are also known to exist, while large quantities of oil shale, dolomite, magnesite, limestone, fireclay, steatite, and silica of excellent quality have been found. The mining industry may therefore be expected to become of great importance.¹

2. RELATIONS WITH THE REST OF CHINA.

Early history of the fall of the Manchu Dynasty.

Manchuria has, since the dawn of history, been inhabited by various Tungus tribes, who mixed freely with Mongol Tartars. Under the influence of Chinese immigrants of superior civilisation they learned to organise themselves and established several kingdoms which sometimes dominated the greater part of Manchuria and some northern districts in China and Korea. The Liao, Chin, and Manchu Dynasties even conquered large parts or the whole of China over which they ruled for centuries. China, on the other hand, under strong emperors, was able to stem the tide from the North, and in her turn to establish sovereignty over large parts of Manchuria. Colonisation by Chinese settlers was practised at a very early date. Various Chinese towns which radiated the influence of Chinese culture through the surrounding districts date from the same early time. For two thousand years a permanent foothold has been maintained, and Chinese culture has always been active in the southernmost part of Manchuria. The influence of this culture had become very strong during the rule of the Ming Dynasty (1368-1644), whose authority extended over practically the whole of Manchuria. The Manchus were permeated by Chinese culture and had amalgamated to a great extent with the Chinese before they overthrew the Ming administration in Manchuria in 1616, and in 1628 passed the Great Wall to conquer China. In the Manchu Army were large numbers of Chinese who were organised in separate military units known as Chinese Banners.

After the conquest, the Manchus quartered their garrisons in the more important cities of China, forbade Manchus to engage in certain professions, prohibited intermarriage between Manchus and Chinese, and restricted the immigration of Chinese into Manchuria and Mongolia. These measures were inspired more by political than by racial discrimination, and aimed at safeguarding the permanent dominance of the dynasty. They did not

¹ See also Chapter VII and the special studies No. 2 and No. 3 annexed to this Report.

affect the numerous Chinese Bannermen, who enjoyed practically the same privileged status as the Manchus themselves.

The exodus of the Manchus and their Chinese allies greatly reduced the population of Manchuria. However, in the South, Chinese communities continued to exist. From this foothold a few settlers spread across the central part of Fengtien province. Their number was increased by a continuous infiltration of immigrants from China, who succeeded in evading the exclusion laws or who had profited by their modifications from time to time. Manchus and Chinese became still more amalgamated, and even the Manchu language was virtually replaced by Chinese. The Mongols, however, were not assimilated but pushed back by the advancing immigrants. Finally, to stem the Russian advance from the North, the Manchu Government decided to encourage Chinese immigration. In 1878, various parts of Manchuria were accordingly opened and various forms of encouragement given to immigrants, with the result that, at the time of the Chinese Revolution in 1911, the population of Manchuria was estimated at 18,000,000.

In 1907, a few years only before its abdication, the Manchu Dynasty had decided to reform the administration in Manchuria. These provinces had hitherto been administered as a separate, extra-mural dominion, with its own form of government. The Chinese practice of entrusting the civil administration in the provinces to scholars who had passed the competitive examinations had not been followed in Manchuria, which had been placed under a purely military regime in which Manchu officials and traditions were maintained. In China, officials were not allowed to hold office in their native province. Each Manchurian province had a military governor, who exercised complete power in civil as well as in military matters. Later, attempts had been made to separate military and civil administration. The results were not satisfactory. The demarcation of the respective spheres of authority was not adequate; misunderstandings and intrigues were frequent and inefficiency resulted. In 1907, therefore, this attempt was given up. The three military governors were replaced by a Viceroy for all Manchuria, with the object of centralising authority, especially in the domain of foreign policy. Provincial civil governors under the control of the Viceroy were in charge of provincial administration. This reorganisation prepared the way for the later administrative reforms which introduced the Chinese system of provincial government. These last measures of the Manchus were very effective, thanks to the able administrators in charge of Manchurian affairs after 1907.

When the Revolution broke out in 1911, the Manchurian authorities who were not in favour of the Republic succeeded in saving these provinces from the turmoil of civil war by ordering Chang Tso-lin, who was later to become the dictator of both Manchuria and North China, to resist the advance of the revolutionary troops. When the Republic had been established, the Manchurian authorities accepted the *fait accompli* and voluntarily followed the leadership of Yuan Shih-kai, who was chosen the first President of the Republic. To each province both civil and military governors were appointed. In Manchuria, as in the rest of China, the military governors soon succeeded in putting their civil colleagues into the background.

In 1916, Chang Tso-lin was appointed military governor of Fengtien province, concurrently acting as civil governor. His personal influence extended much further. When the question arose of declaring war against Germany, he joined the military leaders in China in their request to dissolve the Parliament which had opposed that measure. When the request was rejected by the President, he declared his province independent from the Central Government at Peking. Later, he withdrew that declaration and in 1918, in recognition of his service to the Central Government, he was appointed Inspector-General of all Manchuria. In this way Manchuria again became an administrative unit with its own special regime.

After the fall of
the Manchu
Dynasty.

1916.
Chang Tso-lin
appointed
Governor
of Fengtien
province.

**1922.
He severs
allegiance to
Central
Government
at Peking.**

Chang Tso-lin accepted the honours accorded by the Central Government, but his attitude from time to time depended on the nature of his personal relations with the military leaders who controlled the changing central authorities. He seems to have looked upon his relations with the Government in the sense of a personal alliance. In July 1922, when he failed to establish his authority south of the Great Wall and saw his rivals taking control of the Peking Government, he renounced allegiance to the Central Government and maintained complete independence of action in Manchuria until he extended his authority south of the Wall and became master of Peking as well. He expressed his willingness to respect foreign rights, and accepted the obligations of China, but he requested foreign Powers to negotiate henceforth directly with his administration in all matters concerning Manchuria.

**The Mukden
Agreement
with
U.S.S.R.
1924.**

Accordingly, he repudiated the Sino-Soviet Agreement of May 31st, 1924, though very advantageous to China, and persuaded the U.S.S.R. to conclude a separate agreement with him in September 1924. It was virtually identical with that of May 31st, 1924, with the Central Government. This fact emphasised Chang Tso-lin's insistence on the recognition of his complete independence of action, both in domestic and foreign policy.

**Marshal Chang
Tso-lin defeats
General
Wu Pei-fu.**

In 1924, he invaded China again and was successful, because General (now Marshal) Feng Yu-hsiang abandoned his superior, General (now Marshal) Wu Pei-fu, at a critical moment in the campaign. The immediate result was the overthrow of the Central Government and the expansion of Marshal Chang's influence as far south as Shanghai.

**Mutiny of Kuo
Sung-lin, 1925.**

In 1925, Marshal Chang had again to resort to arms, this time against his late ally, General Feng. In this campaign one of his commanders, Kuo Sung-lin, abandoned him at a most critical moment in favour of General Feng. The mutiny of Kuo Sung-lin in November 1925 was of more than passing interest, because it involved both the U.S.S.R. and Japan, the action of the former having been indirectly of advantage to General Feng and that of the latter to Marshal Chang. Kuo Sung-lin, though a subordinate of the Marshal, shared General Feng's views about social reform, and turned against his superior in the belief that his downfall was necessary to put an end to civil war. This defection put the Marshal in a most critical position. Kuo Sung-lin was in possession of the territory west of the railway and the Marshal was at Mukden with greatly reduced forces. At this moment, Japan, in her own interests in South Manchuria, declared a neutral zone of 20 li (7 miles) on each side of the South Manchuria Railway, across which she would allow no troops to pass. This prevented Kuo Sung-lin from advancing against the Marshal and allowed time for the reinforcements from Heilungkiang to reach him. They were delayed by the action of the Soviet railway authorities, who refused to allow them to travel over the railway without first paying their fares in cash, but they managed to travel by another route.

The arrival of these reinforcements and the more or less open help given by the Japanese settled the campaign in the Marshal's favour. Kuo Sung-lin was defeated and General Feng was forced to withdraw and to abandon Peking to Marshal Chang. Marshal Chang resented the action of the authorities of the Chinese Eastern Railway on this occasion and left no stone unturned to retaliate by continuous encroachments on the rights of this railways. The experience provided by this incident appears to have been an important factor in causing him to build an independent railway system connecting the three provincial capitals of Manchuria.

**Meaning of
Manchurian
independence.**

The independence declared by Marshal Chang Tso-lin at different times never meant that he or the people of Manchuria wished to be separated from China. His armies did not invade China as if it were a foreign country, but merely as participants in the civil war. Like the war lords of any other province, the Marshal alternately supported, attacked, or declared

his territory independent of the Central Government, but never in such a way as to involve the partition of China into separate States. On the contrary, most Chinese civil wars were directly or indirectly connected with some ambitious scheme to unify the country under a really strong Government. Through all its wars and periods of "independence", therefore, Manchuria remained an integral part of China.

Although Marshal Chang Tso-lin and the Kuomintang had been allies in the wars against Wu Pei-fu, the former did not himself accept the doctrines of the Kuomintang. He did not approve of the constitution as desired by Dr. Sun, as it did not seem to him to harmonise with the spirit of the Chinese people; but he desired the unification of China, and his policy with regard to the spheres of interest of the U.S.S.R. and Japan in Manchuria shows that he would have liquidated both if he could have done so. Indeed, he almost succeeded in accomplishing this in the case of the sphere of the U.S.S.R. and initiated the policy of railway construction already referred to, which was to cut off the South Manchuria Railway from some of its feeder districts. This attitude towards U.S.S.R. and Japanese interests in Manchuria may be attributed partly to impatience at the limitations of his authority in dealing with these countries and partly to the resentment which he shared with all shades of Chinese opinion regarding the privileged position of foreigners in China. In fact, in November 1924, he invited Dr. Sun to a re-organisation conference in the programme of which the latter wanted to include the improvement of the standard of living, the convening of a national convention, and the abolition of unequal treaties. Dr. Sun's fatal illness prevented this conference from taking place; but his proposals suggest a certain understanding with the Marshal and a possible basis of agreement between them with regard to the foreign policy of their country.

In the last years of his life, Marshal Chang Tso-lin showed increasing unwillingness to allow Japan to profit by the privileges she derived from various treaties and agreements. Their relations at times became somewhat strained. Japanese advice that he should keep out of the factional strife in China and concentrate his energy on the development of Manchuria he resented and disregarded, as did his son after him. After the defeat of General Feng, Chang Tso-lin became the chief of the alliance of the Northern militarists, with the title of Great Marshal.

In 1928, he suffered defeat at the hands of the Kuomintang Army in their Northern Expedition referred to in Chapter I, and was advised by Japan to withdraw his armies into Manchuria before it was too late. The declared object of Japan was to save Manchuria from the evils of civil war which would have resulted from the entry of a defeated army pursued by its victors.

The Marshal resented the advice, but was obliged to follow it. He left Peiping (formerly Peking) on June 3rd, 1928, for Mukden, but was killed the next day by an explosion which wrecked his train just outside the city at the spot where the Peiping-Mukden Railway passes underneath the bridge over which run the lines of the South Manchuria Railway.

The responsibility for this murder has never been established. The tragedy remains shrouded in mystery, but the suspicion of Japanese complicity to which it gave rise became an additional factor in the state of tension which Sino-Japanese relations had already reached by that time.

After the death of Marshal Chang Tso-lin, his son, Chang Hsueh-liang, became the ruler of Manchuria. He shared many of the national aspirations of the younger generation, and desired to stop civil warfare and assist the Kuomintang in its policy of unification. As Japan had already some experience of the policy and tendencies of the Kuomintang, she did not welcome the prospect of such influences penetrating into Manchuria. The young Marshal was advised accordingly. Like his father, he resented that

**Chang Tso-lin
and the
Kuomintang.**

**Last years of
Chang Tso-lin.**

**Death of
Marshal
Chang Tso-lin,
June 4th, 1928.**

**Succeeded by
his son,
Marshal
Chang
Hsueh-liang.**

**The young
Marshal
declares
allegiance to
the Central
Government.**

advice and decided to follow his own counsel. His relations with the Kuomintang and with Nanking became closer and, in December 1928, he accepted the national flag and declared his allegiance to the Central Government. He was made Commander-in-Chief of the North-Eastern Frontier Army and was also confirmed as chief of the administration of Manchuria, with the addition of Jehol, a part of Inner Mongolia with an area of about 60,000 square miles.

**Kuomintang
connection
more nominal
than real.**

The union of Manchuria with Nationalist China necessitated some changes in the administrative organisation, which was made to approximate to that of the Central Government. The committee system was introduced and Kuomintang headquarters were established. In reality, the old system and its personnel continued to function as before. The interference of party branches with the local administrations, such as continually occurred in China, was not tolerated in Manchuria. The provision which required all important military officers and civil officials to be members of the Kuomintang was treated as a mere formality. The relationship with the Central Government depended, in all affairs — military, civil, financial and foreign — on voluntary co-operation. Orders or instructions requiring unquestioning obedience would not have been tolerated. Appointments or dismissals against the wishes of the Manchurian authorities were unthinkable. In various other parts of China, a similar independence of action in government and party affairs existed. All important appointments are, in such cases, really made by the local authorities and only confirmed by the Central Government.

**Effect of
union with
Nationalist
Government on
foreign policy
in Manchuria.**

In the domain of foreign policy, the union of Manchuria with the Nationalist Government was to have more important consequences, although, in this respect, the local authorities were also left much liberty of action. The persistent assaults of Marshal Chang Tso-lin on the position of the Chinese Eastern Railway in Manchuria and his disregard of certain rights claimed by Japan show that, in Manchuria, a "forward policy" had already been adopted before the union with the Nationalists. However, after the union, Manchuria was opened to well-organised and systematic Kuomintang propaganda. In its official party publications and numerous affiliated organs, it never ceased to insist on the primary importance of the recovery of lost sovereign rights, the abolition of unequal treaties, and the wickedness of imperialism. Such propaganda was bound to make a profound impression in Manchuria, where the reality of foreign interests, courts, police, guards or soldiers on Chinese soil, was apparent. Through the Nationalist school-books, party propaganda entered the schools. Associations such as the Liaoning Peoples' Foreign Policy Association made their appearance. They stimulated and intensified the nationalist sentiment and carried on an anti-Japanese agitation. Pressure was brought to bear on Chinese house-owners and landlords to raise the rents of Japanese and Korean tenants, or to refuse renewal of rent contracts¹. The Japanese reported to the Commission many cases of this nature. Korean settlers were subjected to systematic persecution. Various orders and instructions of an anti-Japanese nature were issued. Cases of friction accumulated and dangerous tension developed. The Kuomintang Party headquarters in the provincial capitals were established in March 1931, and subsequently branch organisations were set up in the other towns and districts. Party propagandists from China came North in increasing numbers. The Japanese complained that the anti-Japanese agitation was intensified every day. In April 1931, a five-days' conference under the auspices of the People's Foreign Policy Association was held at Mukden, with over three hundred delegates from various parts of Manchuria in attendance. The possibility of liquidating the Japanese position in Manchuria was discussed, the

¹ See special study No. 9, annexed to this Report.

recovery of the South Manchuria Railway being included in the resolutions adopted. At the same time, the U.S.S.R. and her citizens suffered from similar tendencies, while the White Russians, although they had no sovereign rights or exceptional privileges to surrender, were subjected to humiliation and ill-treatment.

As regards domestic affairs, the Manchurian authorities had retained all the power they wanted, and they had no objection to following administrative rules and methods adopted by the Central Government so long as the essentials of power were not affected.

Soon after the union, the Political Committee of the North-Eastern Provinces was established at Mukden. It was, under the nominal supervision of the Central Government, the highest administrative authority in the North-Eastern Provinces. It consisted of thirteen members, who elected one of their number as President. The Committee was responsible for the direction and supervision of the work of the Governments of the four provinces of Liaoning, Kirin, Heilungkiang and Jehol, and of the so-called Special District which, since 1922, had replaced the administrative sphere of the Chinese Eastern Railway. The Committee had authority to deal with all matters not specifically reserved to the Central Government and to take any action which did not conflict with their laws and orders. It was the duty of the Governments of the Provinces and of the Special District to carry out the decisions reached by the Committee.

The administrative system of the Provinces did not differ essentially from the organisation adopted in the rest of China. The concession made with regard to the preservation of Manchuria as an administrative unit was the most important difference. Without this concession, voluntary union would probably not have taken place. In fact, notwithstanding external changes, the old conditions continued to exist. The Manchurian authorities realised that, as before, their power derived much more from their armies than from Nanking.

This fact explains the maintenance of large standing armies numbering about 250,000 men, and of the huge arsenal on which more than \$200,000,000 (silver) are reported to have been spent. Military expenses are estimated to have amounted to 80 per cent of the total expenditure. The remainder was not sufficient to provide for the costs of administration, police, justice and education. The treasury was not capable of paying adequate salaries to the officials. As all power rested in the hands of a few military men ; office could be owned only through them. Nepotism, corruption, and maladministration continued to be unavoidable consequences of this state of affairs. The Commission found grave complaints concerning this maladministration to be widely current. This state of affairs, however, was not peculiar to Manchuria, as similar or even worse conditions existed in other parts of China.

Heavy taxation was needed for the upkeep of the army. As ordinary revenues were still insufficient, the authorities further taxed the people by steadily depreciating the irredeemable provincial currencies¹. This was often done, particularly of late, in connection with "official bean-buying" operations, which by 1930 had already assumed monopolistic proportions. By gaining control over Manchuria's staple products, the authorities had hoped to enhance their gains by compelling the foreign bean-buyers, particularly the Japanese, to pay higher prices. Such transactions show the extent to which the authorities controlled banks and commerce. Officials likewise engaged freely in all sorts of private enterprise, and used their power to gather wealth for themselves and their favourites.

Whatever the shortcomings of the administration in Manchuria may have been in the period preceding the events of September 1931, efforts

**Effect on
domestic
affairs.**

**The Political
Committee of
the
North - Eastern
Provinces.**

**The Army —
Military
expenditure
80 per cent
of total
expenditure.**

**Constructive
efforts of the**

¹ See special studies No. 4 and No. 5, annexed to this Report.

**Chinese
administration
in Manchuria.**

were made in some parts of the country to improve the administration, and certain achievements must be noted, particularly in the field of education, progress, of municipal administration, and of public utility work. It is necessary, in particular, to emphasise that, during this period, under the administration of Marshal Chang Tso-lin and Marshal Chang Hsueh-liang, the Chinese population and Chinese interests played a much greater part than formerly in the development and organisation of the economic resources of Manchuria¹.

The extensive settlement of Chinese immigrants, already mentioned, helped to develop the economic and social relations between Manchuria and the rest of China. But apart from this colonisation, it was during this period that Chinese railways, independent of Japanese capital, notably the Mukden-Hailung, the Tahushan-Tungliao (a branch of the Peiping-Mukden system), the Tsitsihar-Koshan, and the Hulun-Hailun railways, were built, and that the Hulutao Harbour project, the Liao River Conservancy work, and some navigation enterprises on various rivers were started. Official and private Chinese interests participated in many enterprises. In mining, they had an interest in the Penhsihu, Muling, Chalainoerh and Laotoukou coal-mines, and sole responsibility for the development of other mines, many of them under the direction of the official North-Eastern Mining Administration; they were also interested in gold-mining in Heilungkiang province. In forestry, they had a joint interest with Japanese in the Yalu Timber Company and were engaged in the timber industry in Heilungkiang and Kirin Provinces. Agricultural experimental stations were started in various places in Manchuria, and agricultural associations and irrigation projects were encouraged. Finally, Chinese interests were engaged in milling and textile industries, bean, oil and flour mills in Harbin, spinning and weaving mills for Pongee or Tussah silk, cotton and wool.

**Commercial
relations with
the rest of
China.**

Commerce between Manchuria and the rest of China also increased². This trade was partly financed by Chinese banks, notably the Bank of China, which had established branches in the leading towns in Manchuria. Chinese steamships and native junks plied between China Proper and Dairen, Yingkow (New-chwang) and Antung. They carried increasing amounts of cargo and occupied second place in Manchuria's shipping, being exceeded only by Japanese tonnage. Chinese insurance business was also on the increase, and the Chinese Maritime Customs derived an ever-increasing revenue from the trade of Manchuria.

Thus, during the period preceding the conflict between China and Japan, both the political and economic ties between Manchuria and the rest of China were gradually strengthened. This growing interdependence contributed to induce Chinese leaders, both in Manchuria and in Nanking, to pursue an increasingly nationalist policy directed against the interests and rights acquired by Russia or Japan. J

3. RELATIONS WITH RUSSIA.

**Russo-Chinese
Relations.**

The Sino-Japanese war of 1894-95 had given Russia an opportunity to intervene, ostensibly on behalf of China, but in fact in her own interest, as subsequent events proved. Japan was forced by diplomatic pressure to return to China the Liaotung Peninsula in South Manchuria, which had been ceded to Japan by the Treaty of Shimonoseki in 1895, and Russia assisted China to pay off the war indemnities which had been imposed by Japan. In 1896, a secret defensive alliance was concluded between the two countries and, in the same year, in consideration of the services above

¹ See also Chapter VIII and special study No. 3, annexed to this Report.

² See also Chapter VIII and special study No. 6, annexed to this Report.

referred to, Russia was authorised by China to carry a branch of the Trans-Siberian Railway across Manchuria in a direct line from Chita to Vladivostok. This line was said to be needed for the transportation of Russian forces to be sent to the East in case Japan should again attack China. The Russo-Chinese Bank (later the Russo-Asiatic Bank) was established to mask somewhat the official character of the enterprise. The Bank formed in its turn the Chinese Eastern Railway Company for the construction and operation of the railway. By the terms of the contract of September 8th, 1896, between the Bank and the Chinese Government, the Company was to build the railway and operate it for eighty years, at the end of which it was to become the property of China free of charge, but China had the right of purchasing it at a price to be agreed upon at the end of thirty-six years. During the period of the contract, the company was to have the absolute and exclusive right of administration of its lands. This clause was interpreted by Russia in a much broader way than various other stipulations in the contract seem to warrant. China protested against the continuous Russian attempts to enlarge the scope of the contract, but was not able to prevent it. Russia gradually succeeded in exercising in the Chinese Eastern Railway area, with its rapidly developing railway towns, rights equivalent to rights of sovereignty. China had also consented to hand over free of charge all Government lands needed by the railway, while private lands might be expropriated at current prices. The Company had, furthermore, been permitted to construct and operate the telegraph lines necessary for its own use.

In 1898, Russia secured a lease for twenty-five years of the southern part of the Liaotung Peninsula, which Japan had been forced to give up in 1895, and also secured the right to connect the Chinese Eastern Railway at Harbin with Port Arthur and Dalny (now Dairen) in the leased territory. Authority was given for the construction of a naval port at Port Arthur. In the area traversed by this branch line, the Company was granted the right to cut timber and to mine coal for the use of the railway. All the stipulations of the contract of September 8th, 1896, were extended to the supplementary branches. Russia was authorised to make her own tariff arrangements inside the leased territory. In 1899, Dalny (now Dairen) was declared a free port and opened to foreign shipping and commerce. No railway privileges were to be given to the subjects of other Powers in the area traversed by the branch line. In the neutral ground north of the leased territory, no ports were to be opened to foreign trade and no concessions or privileges were to be granted without the consent of Russia.

In 1900, Russia occupied Manchuria on the ground that the Boxer rising had endangered her nationals. Other Powers protested and demanded the withdrawal of her forces, but Russia delayed taking action in this sense. In February 1901, the draft of a secret Sino-Russian treaty was discussed in St. Petersburg, by the terms of which China, in return for the restoration of her civil authority in Manchuria, was to sanction the maintenance of the railway guards which Russia had established under Clause 6 of the Fundamental Contract of 1896, and to engage not to transfer to other nations or their subjects, without the consent of Russia, mines or other interests in Manchuria, Mongolia, and Sinkiang. These and some other clauses in the draft treaty, when they became known, aroused opposition from public opinion in China and other countries and, on April 3rd, 1901, the Russian Government issued a circular note to the effect that the project had been withdrawn.

Japan followed these manœuvres with particular attention. On January 30th, 1902, she had concluded the Anglo-Japanese Treaty of Alliance and accordingly felt herself more secure. However, she was still concerned at the prospect of Russian encroachments into Korea and Manchuria. She therefore pressed with the other Powers for the evacuation

**The Chinese
Eastern
Railway.**

**Contract of
September 8th,
1896.**

**Lease of the
Liaotung
Peninsula
to Russia,
1898.**

**Russian
occupation of
Manchuria,
1900.**

**Japan
resorted to
war against
Russia,
February 10th,
1904.**

of the Russian forces in Manchuria. Russia declared her willingness to withdraw on conditions which would have virtually closed Manchuria and Mongolia to other than Russian enterprise. In Korea, Russian pressure increased also. In July 1902, Russian troops appeared at the mouth of the Yalu River. Several other acts convinced Japan that Russia had decided upon a policy which was a menace to her interests, if not to her very existence. In July 1903, she began negotiations with Russia concerning the maintenance of the policy of the Open Door and the territorial integrity of China, but, having met with no success whatever, she resorted to war on February 10th, 1904. China remained neutral.

**Treaty of
Portsmouth**

Russia was defeated. On September 5th, 1905, she concluded the Treaty of Portsmouth, whereby she relinquished her exceptional rights in South Manchuria in favour of Japan. The leased territory and all rights connected with the lease were transferred to Japan, and also the railway between Port Arthur and Changchun, with its branches, as well as all coal-mines in that region belonging to or worked for the benefit of the railway. Both parties agreed to restore to the exclusive administration of China all portions of Manchuria occupied or under the control of their respective troops, with the exception of the leased territory. Both reserved the right to maintain (under certain specified conditions) guards to protect their respective railway lines in Manchuria, the number of such guards not to exceed fifteen per kilometre. ✓

**Russian
influence
restricted to
North
Manchuria.**

Russia had lost half of her sphere of influence, which was henceforth to be restricted to North Manchuria. She retained her position there and increased her influence in the following years, but, when the Russian Revolution broke out in 1917, China decided to reassert her sovereignty in this area.

**Siberian
expedition.**

At first, her action was restricted to participation in the Allied intervention (1918-1920) which, in connection with the chaotic conditions rapidly developing, after the Russian Revolution, in Siberia and North Manchuria, had been proposed by the United States of America for the double purpose of protecting the vast stores of war material and supplies accumulated at Vladivostok and of assisting the evacuation of some 50,000 Czechoslovak troops, who were retreating from the eastern front across Siberia. This proposal was accepted and it was arranged that each country should send an expeditionary force of 7,000 men to be assigned to its own special section of the Trans-Siberian line, the Chinese Eastern Railway being confided to the sole charge of the Chinese. To ensure the working of the railways in co-operation with the Allied forces, a special Inter-Allied Railway Committee was formed in 1919 with technical and transportation boards under it. In 1920, the intervention came to an end and the Allied forces were withdrawn from Siberia except the Japanese, who had become involved in open hostilities with the Bolsheviks. The fighting dragged on for nearly two years. In 1922, after the Washington Conference, the Japanese troops were also withdrawn and, simultaneously, the Inter-Allied Committee, with its technical board, ceased to exist.

**After outbreak
of Russian
Revolution in
1917, China
revokes
privileges
granted to
Russia in 1896.**

Meanwhile, China, after an abortive attempt of General Horvath, the head of the Chinese Eastern Railway, to set up an independent regime in the railway area, assumed responsibility for the preservation of order in that area (1920). In the same year, she concluded an agreement with the re-organised Russo-Asiatic Bank and announced her intention of assuming temporarily supreme control of an agreement with a new Russian Government. China also announced her intention of resuming the advantages conferred on her by the contract of 1896 and the original statutes of the Company. Thenceforth, the President and four members of the Board of Directors of the Company and two members of the Audit Committee were to be nominated by the Chinese Government. Russian predominance was also weakened by other measures which followed. The Russian armed

forces in the railway area were disarmed and replaced by Chinese soldiers. The extra-territorial status of Russians was abolished. The courts were forcibly entered and closed. Russians were made amenable to Chinese law, justice and taxation. They could be arrested by the Chinese police and held by them indefinitely, as the police had large powers and were insufficiently controlled.

In 1922, the railway area which so far had been under the administration of the Company was transformed into a Special District of the Three Eastern Provinces under a Chief Administrator directly responsible to Mukden. The administration of the lands belonging to the railway was also interfered with. Marshal Chang Tso-lin had practically liquidated the Russian sphere before Russia's new Government had been recognised, and private interests had suffered heavily in the process. When the Soviet Government succeeded to the Manchurian inheritance of its predecessor, the railway had been shorn of most of its privileges.

The declarations of policy made in 1919 and 1920 by the Soviet Government with regard to China implied a complete relinquishment of the special rights which the Imperial Government had acquired in China, notably those acquired in North Manchuria.

In accordance with this policy, the Soviet Government agreed to the regularisation of the *fait accompli* by a new agreement. By the Sino-Russian Agreement of May 31st, 1924, the Chinese Eastern Railway became a purely commercial concern under joint management, in which China also acquired a financial interest. The Government of the U.S.S.R. had, however, the right of appointing the General Manager (who exercises extensive and ill-defined powers) and, under the Agreement, the Government of the U.S.S.R. exercised a preponderant influence in the affairs of the railway and was able to retain the essential parts of its economic interests in North Manchuria. As mentioned above, the Agreement of May 1924, concluded with the Chinese Government at Peking, was not accepted by Marshal Chang Tso-lin, who insisted on a separate Agreement being concluded with himself. This Agreement, signed in September 1924, was almost identical in its terms, but by it the lease of the railway was shortened from eighty to sixty years.

This Agreement did not inaugurate a period of friendly relations between the U.S.S.R. and the administration of Marshal Chang Tso-lin in Manchuria.

The convening of the conference which was to deal with the many questions left unsettled in the two Agreements of 1924 was postponed on various pretexts. On two occasions, in 1925 and 1926, the General Manager of the Chinese Eastern Railway refused to transport troops of the Marshal on the railway. The second incident led to the arrest of the General Manager and to an ultimatum from the U.S.S.R. (January 23rd, 1926). Nor were these isolated incidents. Nevertheless, the Chinese authorities persisted in a policy which was directed against Russian interests and which was resented both by the Government of the U.S.S.R. and by the White Russians.

After the adherence of Manchuria to the Nanking Government, nationalist spirit increased in strength, and the efforts of the U.S.S.R. to maintain predominating control over the railway were, more than ever before, resented. In May 1929, an attempt was made to liquidate the last remnants of the Russian sphere of interest. The attack started with a raid on the Soviet consulates at various places by the Chinese police, who made many arrests and claimed to have found evidence proving that a Communist revolution was being plotted by employees of the Soviet Government and of the Chinese Eastern Railway. In July, the telegraph and telephone systems of the railway were seized, and many important Soviet organisations and enterprises were forcibly closed down. Finally, the Soviet Manager of the railway was requested to hand over the management to a Chinese

**Special
Administrative
Districts
joined.**

**Sino-Soviet
agreement.**

**Agreement
of 1924.**

**Chang Tso-lin's
aggressive
policy against
the interests
of the
U.S.S.R.**

**Final efforts
of China to
liquidate Soviet
influence in
Manchuria,
1929.**

appointee. He refused to do so and was thereupon forbidden to carry on his duties. The Chinese authorities replaced freely members of the Soviet staff by their own nominees, many Soviet citizens were arrested, and some were deported. The Chinese justified the violent action taken on the ground that the Soviet Government had broken its pledge not to engage in propaganda directed against the political and social systems of China. The Soviet Government, in its note of May 30th, denied the charge.

**Action of the
U.S.S.R.**

In consequence of the forcible liquidation of the remaining Russian rights and interests, the Soviet Government decided to take action. After the exchange of several notes, it recalled from China its diplomatic and commercial representatives, and all its nominees to posts in the Chinese Eastern Railway, and severed all railway communications between its territory and China. China, likewise, broke off relations with the U.S.S.R. and withdrew all Chinese diplomatic officers from Soviet territory. Raids by Soviet troops across the Manchurian border began and developed into a military invasion in November 1929. After having suffered defeat and severe loss of prestige, the Manchurian authorities, to whom the Nanking Government entrusted the settlement of the dispute, were forced to accept the demands of the U.S.S.R. On December 22nd, 1929, a Protocol was signed at Habarovsk whereby the *statu quo* was re-established. During the dispute, the Soviet Government had always taken the position, in answer to various memoranda from third-Power signatories to the Pact of Paris, that her action had been taken in legitimate self-defence and could in no way be interpreted as a breach of that agreement.

**Protocol of
Habarovsk,
December
22nd, 1929.**

**Russo-J
Japanese
relations
regarding
Manchuria
since 1905.**

**Policy of
co-operation,
1907-1917.**

Before describing the interests of Japan in Manchuria, which are dealt with at length in the next chapter, a brief reference must be made, in this account of the position of Russia in Manchuria, to the relations between that country and Japan since 1905.

It is an interesting fact that the war between Russia and Japan was followed almost immediately by a policy of close co-operation, and when peace was concluded they were able to strike a satisfactory balance between their respective spheres of interest in North and South Manchuria. Such traces of the conflict as might have remained behind were rapidly effaced by controversies with other Powers which wanted to engage actively in the development of Manchuria. The fear of other rivals hastened the process which was reconciling the two countries. The Treaties of 1907, 1910, 1912 and 1916 brought the two countries progressively closer together.

**Effect of
the Russian
Revolution
on Japan.**

The Russian Revolution of 1917, followed by the declarations of the Soviet Government of July 25th, 1919, and of October 27th, 1920, regarding its policy towards the Chinese people and, later, by the Sino-Soviet Agreements of May 31st, 1924, and September 20th, 1924, shattered the basis of Russo-Japanese understanding and co-operation in Manchuria. This fundamental reversal of policy radically changed the relations of the three Powers in the Far East. Moreover, the Allied intervention (1918-1920), with its aftermath of friction between the Japanese and Soviet forces in Siberia (1920-1922), had accentuated the change in the relations between Japan and Russia. The attitude of the Soviet Government gave a strong impetus to China's nationalistic aspirations. As the Soviet Government and the Third International had adopted a policy opposed to all imperialist Powers which maintained relations with China on the basis of the existing treaties, it seemed probable that they would support China in the struggle for the recovery of sovereign rights. This development revived all the old anxieties and suspicions of Japan towards her Russian neighbour. This country, with which she had once been at war, had, during the years which followed that war, become a friend and ally. Now this relationship was changed, and the possibility of a danger from across the North-Manchurian border again became a matter of concern to Japan. The likelihood of an alliance between the Communist doctrines in the

North and the anti-Japanese propaganda of the Kuomintang in the South made the desire to impose between the two a Manchuria which should be free from both increasingly felt in Japan. Japanese misgivings have been still further increased in the last few years by the predominant influence acquired by the U.S.S.R. in Outer Mongolia and the growth of Communism in China.

The Convention concluded between Japan and the U.S.S.R. in January 1925 served to establish regular relations, but did not revive the close co-operation of the pre-revolution period. ✓

Chapter III.

MANCHURIAN ISSUES BETWEEN JAPAN AND CHINA. (Before September 18th, 1931)

1. JAPAN'S INTEREST IN CHINA.

During the quarter of a century before September 1931, the ties which bound Manchuria to the rest of China were growing stronger and, at the same time, the interests of Japan in Manchuria were increasing. Manchuria was admittedly a part of China, but it was a part in which Japan had acquired or claimed such exceptional rights, so restricting the exercise of China's sovereign rights, that a conflict between the two countries was a natural result.

By the Treaty of Peking of December 1905, China gave her consent to the transfer to Japan of the Kwantung Leased Territory, which was formerly leased to Russia, and of the southern branch of the Russian-controlled Chinese Eastern Railway as far north as Changchun. In an additional agreement, China granted to Japan a concession to improve the military railway line between Antung and Mukden and to operate it for fifteen years.

**Japan's Treaty
Rights of 1905.**

In August 1906, the South Manchuria Railway Company was organised by Imperial Decree to take over and administer the former Russian Railway, as well as the Antung-Mukden Railway. The Japanese Government acquired control of the company by taking half of the shares in exchange for the railway, its properties, and the valuable coal-mines at Fushun and Yentai. The company was entrusted, in the railway area, with the functions of administration and was allowed to levy taxes; it was also authorised to engage in mining, electrical enterprises, warehousing, and many other branches of business.

**South
Manchuria
Railway
Company
was organised
in August 1906.**

In 1910, Japan annexed Korea. This annexation indirectly increased Japanese rights in Manchuria, since Korean settlers became Japanese subjects over whom Japanese officials exercised jurisdiction.

**Annexation
of Korea.**

In 1915, as a result of the group of exceptional demands made by the Japanese and generally known as the "Twenty-one Demands", Japan and China signed a Treaty and exchanged Notes on May 25th regarding South Manchuria and Eastern Inner Mongolia. By those agreements, the lease of the Kwantung Territory, including Port Arthur and Dalny (now Dairen), which was originally for a period of twenty-five years, and the concessions for the South Manchuria and the Antung-Mukden Railways, were all extended to ninety-nine years. Furthermore, Japanese subjects in South Manchuria acquired the right to travel and reside, to engage in business of any kind, and to lease land necessary for trade, industry and agriculture. Japan also obtained rights of priority for railway and certain other loans in

**The Treaty
and Notes
of 1915.**

South Manchuria and Eastern Inner Mongolia, and preferential rights regarding the appointment of advisers in South Manchuria. At the Washington Conference, 1921-22, however, Japan relinquished her rights regarding the loans and the advisers.

These treaties and other agreements gave to Japan an important and unusual position in Manchuria. She governed the leased territory with practically full rights of sovereignty. Through the South Manchuria Railway, she administered the railway areas, including several towns and large sections of such populous cities as Mukden and Changchun ; and in these areas she controlled the police, taxation, education and public utilities. She maintained armed forces in many parts of the country : the Kwantung Army in the Leased Territory, Railway Guards in the railway areas, and Consular Police throughout the various districts.

Exceptional character of the political, economic and legal relations between Japan and China in Manchuria.

This summary of the long list of Japan's rights in Manchuria shows clearly the exceptional character of the political, economic and legal relations created between that country and China in Manchuria. There is probably nowhere in the world an exact parallel to this situation, no example of a country enjoying in the territory of a neighbouring State such extensive economic and administrative privileges. A situation of this kind could possibly be maintained without leading to incessant complications and disputes if it were freely desired or accepted on both sides, and if it were the sign and embodiment of a well-considered policy of close collaboration in the economic and in the political sphere. But, in the absence of those conditions, it could only lead to friction and conflict.

II. CONFLICT BETWEEN THE FUNDAMENTAL INTERESTS OF JAPAN AND CHINA IN MANCHURIA.

Chinese attitude towards Manchuria.

The Chinese people regard Manchuria as an integral part of China and deeply resent any attempt to separate it from the rest of their country. Hitherto, these Three Eastern Provinces have always been considered both by China and by foreign Powers as a part of China, and the *de jure* authority of the Chinese Government there has been unquestioned. This is evidenced in many Sino-Japanese treaties and agreements, as well as in other international conventions, and has been reiterated in numerous statements issued officially by Foreign Offices, including that of Japan.

Manchuria, China's first line of defence.

The Chinese regard Manchuria as their " first line of defence ". As Chinese territory, it is looked upon as a sort of buffer against the adjoining territories of Japan and Russia, a region which constitutes an outpost against the penetration of Japanese and Russian influences from those regions into the other parts of China. The facility with which China, south of the Great Wall, including the city of Peiping, can be invaded from Manchuria has been demonstrated to the Chinese from historical experience. This fear of foreign invasion from the north-east has been increased in recent years by the development of railway communication, and has been intensified during the events of the past year.

China's economic interest in Manchuria.

Manchuria is also regarded by the Chinese as important to them for economic reasons. For decades they have called it the " granary of China ", and more recently have regarded it as a region which furnishes seasonal employment to Chinese farmers and labourers from neighbouring Chinese provinces.

Whether China as a whole can be said to be over-populated may be open to question, but that certain regions and provinces — as, for example, Shantung. — are now peopled in such numbers as to require emigration is generally accepted by the most competent authorities on this subject ¹. The Chinese, therefore, regard Manchuria as a frontier region, capable

¹ See also special study No. 3, annexed to this Report.

of affording relief for the present and future population problems of other parts of China. They deny the statement that the Japanese are principally responsible for the economic development of Manchuria, and point to their own colonisation enterprises, especially since 1925, to their railway development, and other enterprises, in refutation of these claims.

Japanese interests in Manchuria differ both in character and degree from those of any other foreign country. Deep in the mind of every Japanese is the memory of their country's great struggle with Russia in 1904-05, fought on the plains of Manchuria, at Mukden and Liaoyang, along the line of the South Manchuria Railway, at the Yalu River, and in the Liaotung Peninsula. To the Japanese the war with Russia will ever be remembered as a life-and-death struggle fought in self-defence against the menace of Russian encroachments. The facts that a hundred thousand Japanese soldiers died in this war and that two billion gold yen were expended have created in Japanese minds a determination that these sacrifices shall not have been made in vain.

Japanese interest in Manchuria, however, began ten years before that war. The war with China, in 1894-95, principally over Korea, was largely fought at Port Arthur and on the plains of Manchuria; and the Treaty of Peace signed at Shimonoseki ceded to Japan in full sovereignty the Liaotung Peninsula. To the Japanese, the fact that Russia, France and Germany forced them to renounce this cession does not affect their conviction that Japan obtained this part of Manchuria as the result of a successful war and thereby acquired a moral right to it which still exists.

Manchuria has been frequently referred to as the "life-line" of Japan. Manchuria adjoins Korea, now Japanese territory. The vision of a China, unified, strong and hostile, a nation of four hundred millions, dominant in Manchuria and in Eastern Asia, is disturbing to many Japanese. But to the greater number, when they speak of menace to their national existence and of the necessity for self-defence, they have in mind Russia rather than China. Fundamental, therefore, among the interests of Japan in Manchuria is the strategic importance of this territory.

There are those in Japan who think that she should entrench herself firmly in Manchuria against the possibility of attack from the U.S.S.R. They have an ever-present anxiety lest Korean malcontents in league with Russian Communists in the nearby Maritime Province might in future invite, or co-operate with, some new military advance from the North. They regard Manchuria as a buffer region against both the U.S.S.R. and the rest of China. Especially in the minds of Japanese military men, the right claimed, under agreements with Russia and China, to station a few thousand railway guards along the South Manchuria Railway is small recompense for the enormous sacrifices of their country in the Russo-Japanese War, and a meagre security against the possibility of attack from that direction.

Patriotic sentiment, the paramount need for military defence, and the exceptional treaty rights all combine to create the claim to a "special position" in Manchuria. The Japanese conception of this "special position" is not limited to what is legally defined in treaties and agreements either with China or with other States. Feelings and historical association, which are the heritage of the Russo-Japanese War, and pride in the achievements of Japanese enterprise in Manchuria for the last quarter-century, are an indefinable but real part of the Japanese claim to a "special position". It is only natural, therefore, that the Japanese use of this expression in diplomatic language should be obscure, and that other States should have found it difficult, if not impossible, to recognise it by international instruments.

The Japanese Government, since the Russo-Japanese War, has at various times sought to obtain from Russia, France, the United Kingdom

Japanese interests in Manchuria : sentiment resulting from the Russo-Japanese War.

Japan's strategic interest in Manchuria.

Japan's "special position" in Manchuria.

and the United States of America recognition of their country's "special position", "special influence and interest", or "paramount interest" in Manchuria. These efforts have only met with partial success, and, where recognition of such claims has been accorded, in more or less definite terms, the international agreements or understandings containing them have largely disappeared with the passage of time, either by formal abrogation or otherwise — as, for example: the Russo-Japanese secret Conventions of 1907, 1910, 1912 and 1916, made with the former Tsarist Government of Russia; the Anglo-Japanese Conventions of Alliance, Guarantee and Declaration of Policies; and the Lansing-Ishii Exchange of Notes of 1917. The signatories of the Nine-Power Treaty of the Washington Conference of February 6th, 1922¹, by agreeing "to respect the sovereignty, the independence, and the territorial and administrative integrity" of China, to maintain "equality of opportunity in China for the trade and industry of all nations", by refraining from taking advantage of conditions in China "in order to seek special rights or privileges" there, and by providing "the fullest and most unembarrassed opportunity to China to develop and maintain for herself an effective and stable government", challenged to a large extent the claims of any signatory State to a "special position" or to "special rights and interests" in any part of China, including Manchuria.

But the provisions of the Nine-Power Treaty and the abandonment, by abrogation or otherwise, of such agreements as those mentioned above have led to no change in the attitude of the Japanese. Viscount Ishii doubtless well expressed the general view of his countrymen in his recent *Memoirs* (Gaiko Yoroku), when he said:

"Even if the Lansing-Ishii agreement is abolished, Japan's special interests unshakenly exist there. The special interests which Japan possesses in China neither were created by an international agreement, nor can they become the objects of abolition."

This Japanese claim with respect to Manchuria conflicts with the sovereign rights of China and is irreconcilable with the aspirations of the National Government, which seeks to curtail existing exceptional rights and privileges of foreign States throughout China and to prevent their further extension in the future. The development of this conflict will be clearer from a consideration of the respective policies pursued by Japan and China in Manchuria.

Until the events of September 1931, the various Japanese Cabinets, since 1905, appeared to have the same general aims in Manchuria, but they differed as to the policies best suited to achieve these aims. They also differed somewhat as to the extent of the responsibility which Japan should assume for the maintenance of peace and order.

The general aims for which they worked in Manchuria were to maintain and develop Japan's vested interests, to foster the expansion of Japanese enterprise, and to obtain adequate protection for Japanese lives and property. In the policies adopted for realising these aims there was one cardinal feature which may be said to have been common to them all. This feature has been the tendency to regard Manchuria and Eastern Inner Mongolia as distinct from the rest of China. It resulted naturally from the Japanese conception of their country's "special position" in Manchuria. Whatever differences may have been observable between the specific policies advocated by the various Cabinets in Japan — as, for example, between the so-called "friendship policy" of Baron Shidehara and the so-called "positive policy" of the late General Baron Tanaka — they have always had this feature in common.

¹ The nine Powers were: the United States of America, Belgium, the British Empire, China, France, Italy, Japan, the Netherlands, Portugal.

Japan's claims to a "special position" in Manchuria in conflict with China's sovereign rights and policies.

Japan's general policy towards Manchuria.

The "friendship policy" developed from about the time of the Washington Conference and was maintained until April 1927; it was then supplanted by the "positive policy", which was followed until July 1929; finally, the "friendship policy" was again adopted and continued the official policy of the Foreign Office until September 1931. In the spirit which actuated the two policies there was a marked difference: the "friendship policy" rested, in Baron Shidehara's words, "on the basis of good will and neighbourliness"; the "positive policy" rested upon military force. But, in regard to the concrete measures which should be adopted in Manchuria, these two policies differed largely on the question as to the lengths to which Japan should go to maintain peace and order in Manchuria and to protect Japanese interests.

The "positive policy" of the Tanaka Ministry placed greater emphasis upon the necessity for regarding Manchuria as distinct from the rest of China; its positive character was made clear by the frank declaration that, "if disturbances spread to Manchuria and Mongolia, and, as a result, peace and order are disrupted, thereby menacing our special position and rights and interests in these regions", Japan would "defend them, no matter whence the menace comes". The Tanaka policy definitely asserted that Japan would take upon herself the task of preserving "peace and order" in Manchuria — in contrast to previous policies which limited their objectives to protecting Japanese interests there.

The Japanese Government has generally pursued a firmer policy in Manchuria than elsewhere in China, in order to preserve and develop those vested interests which are peculiar to that region. Certain of the Cabinets have tended to place great reliance on the use of interventionist methods, accompanied by a threat of force. This was true especially at the time of the presentation of the "Twenty-one Demands" on China in 1915, but as to the wisdom of the "Twenty-one Demands", as well as to other methods of intervention and force, there has always been a marked difference of opinion in Japan.

The Washington Conference, although it had a marked effect upon the situation in the rest of China, made little actual change in Manchuria. The Nine-Power Treaty of February 6th, 1922, in spite of its provisions with respect to the integrity of China and the policy of the "Open Door", has had but qualified application to Manchuria in view of the character and extent of Japan's vested interests there, although textually the Treaty is applicable to that region. The Nine-Power Treaty did not materially diminish the claims based on these vested interests, although, as already stated, Japan formally relinquished her special rights regarding loans and advisers which had been granted in the Treaty of 1915.

During the period from the Washington Conference until the death of Marshal Chang Tso-lin in 1928, the policy of Japan in Manchuria was chiefly concerned with its relations with the *de facto* ruler of the Three Eastern Provinces. Japan gave him a measure of support, notably during the Kuo Sung-lin mutiny mentioned in the last chapter. Marshal Chang Tso-lin, in return, although opposed to many of the Japanese demands, felt it necessary to give due recognition to Japan's desires, since these might at any time be enforced by superior military power. He also wished to be able, upon occasion, to obtain Japanese support against Russian opposition in the North. Upon the whole, Japanese relations with Marshal Chang Tso-lin were reasonably satisfactory from her point of view, although they became increasingly disturbed towards the end of his life in consequence of his failure to fulfil some of his alleged promises and agreements. Some evidence even of a revulsion of Japanese feeling against him became apparent in the months preceding his defeat and final retreat to Mukden in June 1928.

In the spring of 1928, when the Nationalist armies of China were marching on Peking in an effort to drive out the forces of Chang Tso-lin,

**The effect of
the
Washington
Conference
upon Japan's
position
and policy in
Manchuria.**

**Japan's
relations with
Chang Tso-lin.**

**Japan's claim
to maintain**

peace and
order in
Manchuria.

the Japanese Government, under the premiership of Baron Tanaka, issued a declaration that, on account of her "special position" in Manchuria, Japan would maintain peace and order in that region. When it seemed possible that the Nationalist armies might carry the civil war north of the Great Wall, the Japanese Government, on May 28th, sent to the leading Chinese generals a communication which said :

"The Japanese Government attaches the utmost importance to the maintenance of peace and order in Manchuria, and is prepared to do all it can to prevent the occurrence of any such state of affairs as may disturb that peace and order, or constitute the probable cause of such a disturbance.

"In these circumstances, should disturbances develop further in the direction of Peking and Tientsin, and the situation become so menacing as to threaten the peace and order of Manchuria, Japan may possibly be constrained to take appropriate effective steps for the maintenance of peace and order in Manchuria."

At the same time, Baron Tanaka issued a more definite statement, that the Japanese Government would prevent "defeated troops or those in pursuit of them" from entering Manchuria.

The announcement of this far-reaching policy brought protests from both the Peking and the Nanking Governments, the Nanking note stating that such measures as Japan proposed would be not only "an interference with Chinese domestic affairs, but also a flagrant violation of the principle of mutual respect for territorial sovereignty".

In Japan itself, this "positive policy" of the Tanaka Government, while it received strong support from one party, was vigorously criticised by another, especially by the Shidehara group, on the ground that the preservation of peace and order over all Manchuria was not the responsibility of Japan.

Strained
relations
between Japan
and Chang
Hsueh-liang.

Japan's relations with Marshal Chang Hsueh-liang, who succeeded his father in 1928, were increasingly strained from the outset. Japan wished Manchuria to remain separate from the newly established National Government at Nanking, while Marshal Chang Hsueh-liang was in favour of recognising the authority of that Government. Reference has already been made to the urgent advice given by Japanese officials that allegiance should not be pledged to the Central Government. When, however, the Mukden Government raised the Nationalist flag over Government buildings in Mukden in December 1928, the Japanese Government made no attempt to interfere.

Japanese relations with Marshal Chang Hsueh-liang continued to be strained and acute friction developed in the months immediately preceding September 1931.

III. SINO-JAPANESE RAILWAY ISSUES IN MANCHURIA.

Manchurian
international
politics largely
railway
politics.

The international politics of Manchuria for a quarter of a century have been largely railway politics. Considerations of a purely economic and railway-operating character have been overshadowed by the dictates of State policies, with the result that Manchurian railways cannot be said to have contributed their maximum to the economic development of the region. Our study of Manchurian railway questions has revealed that in Manchuria there has been little or no co-operation between the Chinese and Japanese railway builders and authorities directed to achieving a comprehensive and mutually beneficial railway plan. In contrast with railway development in such regions as Western Canada and Argentina, where economic considerations have in large measure determined railway expansion, railway development in Manchuria has been largely a matter

of rivalry between China and Japan. No railway of any importance has ever been constructed in Manchuria without causing an interchange of notes between China and Japan or other interested foreign States.

Manchurian railway construction began with the Russian-financed-and-directed Chinese Eastern Railway which, after the Russo-Japanese War, was replaced in the South by a Japanese-controlled system, the South Manchuria Railway, thus making inevitable future rivalry between China and Japan. The South Manchuria Railway Company, although nominally a private corporation, is, in fact, a Japanese Government enterprise. Its functions include, not only the management of its railway lines, but also exceptional rights of political administration. From the time of its incorporation, the Japanese have never regarded it as a purely economic enterprise. The late Viscount Goto, first President of the Company, laid down a fundamental principle that the South Manchuria Railway should serve Japan's "special mission" in Manchuria.

The South Manchuria Railway system has developed into an efficient and well-managed railway enterprise and has contributed much to the economic development of Manchuria, serving at the same time as an example for the Chinese in its numerous services of a non-railway character, such as its schools, laboratories, libraries and agricultural experiment stations. But this has been accompanied by limitations and positive hindrances arising out of the political character of the Company, its connection with party politics in Japan, and certain large expenditures from which no commensurate financial returns can have been expected. Since its formation, the policy of the Railway Company has been to finance the construction of only such Chinese lines as would be connected with its own system; thus, by means of through-traffic agreements, to divert the major part of the freight to the South Manchuria Railway for seaboard export at Dairen in the Japanese leased territory. Very large sums have been expended in financing these lines and it is doubtful if their construction, in certain cases, was justified on purely economic grounds, especially in view of the large capital advances made and the loan considerations involved.

The very existence of such a foreign-controlled institution as the South Manchuria Railway on Chinese soil was naturally looked upon with disfavour by the Chinese authorities, and questions concerning its rights and privileges under treaties and agreements have constantly arisen since the Russo-Japanese War. More particularly, after 1924, when the Chinese authorities in Manchuria, having come to recognise the importance of railway development, sought to develop their own railways independent of Japanese capital, did these problems become more critical. Both economic and strategic considerations were involved. The Tahushan-Tungliiao line, for example, was projected to develop new territory and to increase the revenues of the Peking-Mukden Railway, while, on the other hand, the Kuo Sung-lin mutiny in December 1925 demonstrated the possible strategic and political value of independently owned and operated Chinese lines. The Chinese attempt to overcome the Japanese monopoly, and to place obstacles in the way of its future development, anteceded the period of political influence of the Nationalist Government in Manchuria, the Tahushan-Tungliiao, Mukden-Hailungcheng and Hulan-Hailun Railways, for example, having been constructed while Marshal Chang Tso-lin was in power. The policy of Marshal Chang Hsueh-liang, after his assumption of authority in 1928, re-enforced by the widespread movement for "rights recovery" sponsored by the Central Government and the Kuomintang, came into collision with Japan's monopolistic and expansionist policies, centred, as they were, around the South Manchuria Railway Company.

In the Japanese justification of their resort to forceful means in Manchuria, on and after September 18th, 1931, they have alleged violation of Japan's "treaty rights" and have emphasised China's failure to carry out an

The South Manchuria Railway served Japan's "Special Mission" in Manchuria.

Chinese efforts to build their own railways anteceded Manchuria's declaration of allegiance to Nanking.

The conflict over "parallel lines".

engagement made by the Chinese Government during the Sino-Japanese Conference held at Peking in November-December 1905, which was to the following effect :

“ The Chinese Government engages, for the purpose of protecting the interests of the South Manchuria Railway, not to construct, prior to the recovery by it of the said railway, any main line in the neighbourhood of and parallel to that railway, or any branch line which might be prejudicial to the interests of the above-mentioned railway. ”

This dispute over the question of so-called “ parallel railways ” in Manchuria is of long-standing importance. The issue first arose in 1907-08, when the Japanese Government, asserting this claim of right, prevented the Chinese from constructing, under contract with a British firm, the Hsinmintun-Fakumen Railway. Since 1924, when the Chinese in Manchuria undertook with renewed vigour to develop their own railways independent of Japanese financial interest, the Japanese Government has protested against the construction by the Chinese of the Tahushan-Tungliao and the Kirin-Hailungcheng lines, although both these lines were completed and opened to traffic in spite of Japanese protests.

The question as to the existence of a “ treaty right ” or a “ secret protocol ”.

Prior to the arrival of the Commission in the Far East, there had been much doubt as to the actual existence of any such engagement as was claimed by Japan. In view of the longstanding importance of this dispute, the Commission took special pains to obtain information on the essential facts. In Tokyo, Nanking and Peiping, all the relevant documents were examined, and we are now able to state that the alleged engagement of the Chinese plenipotentiaries of the Peking Conference of November-December 1905 regarding so-called “ parallel railways ” is not contained in any formal treaty ; that the alleged engagement in question is to be found in the minutes of the eleventh day of the Peking Conference, December 4th, 1905. We have obtained agreement from the Japanese and Chinese Assessors that no other document containing such alleged engagement exists beyond this entry in the minutes of the Peking Conference.

The real question at issue.

The real question at issue, therefore, is not whether there exists a “ treaty right ” whereby Japan is entitled to claim that certain railways in Manchuria have been constructed by the Chinese in violation of such an engagement, but whether this entry in the minutes of the Peking Conference of 1905, whether called a “ protocol ” or not, is a binding commitment on the part of China, having the force of a formal agreement and without limitations as to the period of circumstances of its application.

The determination of the question whether this entry into the minutes of the Peking Conference constituted, from an international legal point of view, a binding agreement, and whether, if so, there is but one interpretation which may reasonably be placed upon it, was properly a matter for judgment by an impartial judicial tribunal.

The Chinese and Japanese official translations of this entry into the minutes of the Conference leave no doubt that the disputed passage concerning “ parallel railways ” is a declaration or statement of intention on the part of the Chinese plenipotentiaries.

That there was a statement of intention has not been disputed by the Chinese, but there has, throughout the controversy, been a difference of opinion between the two parties as to the nature of the intention expressed. Japan has claimed that the words employed preclude China from building or allowing to be built any railway which, in the opinion of the South Manchuria Railway Company, was in competition with its system. The Chinese, on the other hand, contend that the only commitment involved in the disputed passage was a statement of intention not to build lines with the deliberate object of unduly impairing the commercial usefulness and value of the South Manchuria Railway. During the exchange of notes of 1907

concerning the Hsinmintun-Fakumen-Railway project, Prince Ching, representing the Chinese Government, stated to Baron Hayashi, the Japanese Minister, in a communication dated April 7th, 1907, that the Japanese plenipotentiaries in the Peking Conference, while refusing to agree to a definition of the term "parallel line" in terms of specific mileage from the South Manchuria Railway, declared that Japan "would do nothing to prevent China from any steps she might take in the future for the development of Manchuria". It would seem, therefore, that the Chinese Government during this period admitted in practice that there was, on their part, an obligation not to construct railways patently and unreasonably prejudicial to the interests of the South Manchuria Railway, though they have always denied that Japan had any valid claim to a right to monopolise railway construction in Southern Manchuria.

There has never been a definition as to what would constitute a parallel railway, although the Chinese desired one. When the Japanese Government opposed the construction of the Hsinmintun-Fakumen Railway in 1906-1908, the impression was created that Japan considered a "parallel" railway one within approximately thirty-five miles of the South Manchuria Railway, but, in 1926, the Japanese Government protested against the construction of the Tahushan-Tungliao Railway as a "competitive parallel line", noting that the distance between the proposed railway and the South Manchuria Railway would be "no more than seventy miles on the average". It would be difficult to make a thoroughly satisfactory definition.

From a railway-operating point of view, a "parallel" line can be considered a "competing line": one which deprives another railway of some part of the traffic which naturally would have gravitated to it. Competitive traffic includes both local and through traffic and, especially when the latter is considered, it is not difficult to see how a stipulation against the construction of "parallel" lines is capable of very broad interpretation. Nor is there any agreement between China and Japan as to what constitutes a "main line" or a "branch line". These terms, from a railway-operating point of view, are subject to change. The Peiping-Mukden Railway line from Tahushan extending north was originally considered by that administration as a "branch line", but, after the line had been completed from Tahushan to Tungliao, it was possible to regard this as a "main line".

It was only natural that the interpretation of the undertaking in regard to parallel railways should lead to bitter controversy between China and Japan. The Chinese attempted to build their own railways in South Manchuria, but in almost every case met with a protest from Japan.

A second group of railway issues which increased the tension between China and Japan before the events of September last were those which arose from the agreement under which the Japanese advanced money for the construction of various Chinese Government Railways in Manchuria. Japanese capital to the present value, including arrears and interests, of 150,000,000 yen had been expended in the building of the following Chinese lines: the Kirin-Changchun, the Kirin-Tunhua, the Ssupingkai-Taonan, and the Taonan-Angangchi Railways, and certain narrow-gauge lines.

The Japanese complained that the Chinese would not pay these loans, nor make adequate provision for them, nor carry out various stipulations in the agreements, such as those respecting the appointment of Japanese railway advisers. They made repeated demands that the Chinese should fulfil the alleged promises made by their Government that Japanese interests should be permitted to participate in the construction of the Kirin-Kwainei Railway. This projected line would extend the Kirin-Tunhua Railway to the Korean border, and would make available for Japan a new short sea-and-rail route from her seaports to the centre of Manchuria, and, in conjunction with the other railways, shorten the communications with the interior.

Difficulties in interpretation of a clause phrased so broadly and non-technically

Issues caused by Japanese loans for construction of Chinese railways in Manchuria.

**The Chinese
defence.**

In defence of the failure to repay their loans, the Chinese pointed out that these were not normal financial transactions. They claimed that the loans were made largely by the South Manchuria Railway in order to monopolise railway construction in South Manchuria ; that the object was primarily strategic and political ; and that, in any case, the new lines had been so heavily over-capitalised that they were, at least for the time being, financially unable to earn the necessary money to repay the construction expenses and loans. They contended that in each instance of alleged failure to fulfil obligations, an impartial examination would show adequate justification for their conduct. As for the Kirin-Kwainei Railway, they denied the moral, and even the legal, validity of the alleged agreements.

**The South
Manchuria
Railway
desired a
system of
branch lines.**

There were certain conditions which existed in connection with those railway agreements which made it natural for the loan controversy to arise. The South Manchuria Railway had practically no branches and wished to develop a system of feeder lines in order to increase its freight and passenger traffic. The Company was therefore willing to advance money for the building of such new lines, even though there was little likelihood that the loans would be repaid in the near future ; it was also willing to continue to make further advances when earlier loans were still outstanding.

In these circumstances, and so long as the newly constructed Chinese lines functioned as feeders to the South Manchuria system and were operated in some measure under its influence, the South Manchuria Railway Company appeared to make no special effort to force payment of the loans, and the Chinese lines operated with ever-increasing debt obligations. But when certain of these lines were connected with a new Chinese railway system, and in 1930-31 started a serious competition with the South Manchuria Railway, the non-payment of the loans at once became a subject of complaint.

**The Nishihara
loans.**

Another complicating factor, in the case of certain of these loan agreements, was their political character. It was as a result of the " Twenty-one Demands " that the Kirin-Changchun Railway was placed under the direction of the South Manchuria Railway Company, and the outstanding indebtedness of the line converted into a long-term loan, maturing in 1947. The advance of 20,000,000 yen made in 1918 in consequence of the so-called " Four Manchuria-Mongolia Railways Agreement " was one of the so-called " Nishihara loans ", made to the military Government of the " Anfu clique ", without any restriction as to the purpose for which it might be used. Similarly, it was from a Nishihara loan that an advance was made of 10,000,000 yen to this clique in connection with the preliminary loan contract agreement of 1918 for the construction of the Kirin-Kwainei Railway. Chinese national sentiment has been greatly aroused over the subject of the " Nishihara loans " ever since their negotiation ; but, in spite of this, the Chinese Government has never repudiated them. In these circumstances, the Chinese felt little moral obligation to fulfil the conditions of the loan contracts.

**The
Kirin-Kwainei
Railway
project.**

Especially important in Sino-Japanese relations were the issues over the Kirin-Kwainei Railway project. The first act of issues related to the section of the line from Kirin to Tunhua, the construction of which was completed in 1928. From that time on, the Japanese complained because the Chinese would not convert the Japanese advances for construction purposes into a formal loan secured by the earnings of the railway, and maintained that the Chinese were violating the contract by their refusal to appoint a Japanese accountant for the line.

The Chinese in turn claimed that the construction costs submitted were not only much higher than the estimates of the Japanese engineers, but were greatly in excess of the amount for which vouchers were presented. They refused to take over the line formally until the construction costs should be settled ; and contended that, until they should do so, they were under no obligation to appoint a Japanese accountant.

These issues, definite and technical, involving no problems of principle or policy, were obviously suited for arbitration or judicial discrimination, but they remained unsettled and served to intensify the mutual resentment of Chinese and Japanese.

Of much greater importance, and far more complicated, was the issue over the construction of the railway from Tunhua to Kwainei. This section would complete the railway from Changchun to the Korean border, where it would connect with a Japanese railway running to a nearby Korean port. Such a line, giving direct entrance to Central Manchuria and opening a region rich in timber and mineral resources, would be of economic value as well as of great strategic importance to Japan.

**The projected
Tunhua-
Kwainei
line.**

The Japanese were insistent that this line should be built and that they should participate in its financing. They claimed that China had given treaty assurances to this effect. The Chinese Government had promised, they pointed out, in the Chientao Agreement of September 4th, 1909, to build the line "upon consultation with the Government of Japan", the promise being given in part as a consideration for Japan's relinquishing the old claims of Korea to the Chientao region in Manchuria. Later, in 1918, the Chinese Government and the Japanese banks signed a preliminary agreement for a loan for the construction of this line and, in accordance with the agreement, the banks advanced to the Chinese Government the sum of 10,000,000 yen. This, however, was one of the Nishihara loans, a fact which, in the view of the Chinese, affected the validity of the engagement.

Neither of them, however, was a definitive loan contract agreement, obliging China, without condition and before a specific date, to permit Japanese financiers to participate in the construction of such a line.

It was alleged that formal, definitive contracts for the construction of this line were signed in Peking in May 1928, but there was much uncertainty regarding their validity. Such contracts were doubtless signed, under very irregular circumstances, on May 13th-15th by a representative of the Ministry of Communications of the Government at Peking, then under Marshal Chang Tso-lin. But the Chinese contend that the Marshal, who was then hard-pressed by the Nationalist Armies and was about to evacuate Peking, gave his consent that this official should sign, under "a duress of compulsion", due to threats of the Japanese that, if he should not sanction the contracts, his retreat to Mukden would be endangered. Whether Marshal Chang Tso-lin himself also signed the contracts has been a matter of dispute. After the death of the Marshal, the North-Eastern Political Council at Mukden and Marshal Chang Hsueh-liang both refused to approve the contracts on the ground that they were faulty in form and negotiated under duress and had never been ratified by the Peking Cabinet or the North-Eastern Political Council.

**The contracts
of May 1928.**

The underlying reason for the opposition of the Chinese to the construction of the Tunhua-Kwainei line was their fear of Japan's military and strategic purposes and their belief that their sovereign rights and interests would be threatened by this new Japanese approach to Manchuria from the Japan Sea.

This particular railway issue was not primarily a financial or commercial problem, but involved a conflict between the State policies of Japan and China.

There were additional issues over through-traffic arrangements between the Chinese and Japanese lines, rate questions and rivalries between the seaport of Dairen and such Chinese ports as Yingkow (Newchwang).

**Through-
traffic
controversies.**

By September 1931, the Chinese had built unaided and were owning and operating railways with a total length of nearly a thousand kilometres, of which the most important were: the Mukden-Hailung, the Hailung-Kirin, the Tsitsihar-Koshan, the Hulan-Hailun and the Tahushan-Tungliao

(a branch of the Peiping-Mukden system) lines ; and they owned the Peiping-Mukden Railway and the following Japanese-financed lines : the Kirin-Changchun, the Kirin-Tunhua, Ssuping kai-Taonan and Taonan-Angangchi lines. During the two years preceding the outbreak of the present conflict, the Chinese attempted to operate these various lines as a great Chinese railway system and made efforts to route all freight, if possible, exclusively over the Chinese-operated lines, with a seaboard exit at the Chinese port of Yingkow (Newchwang) — potentially at Hulutao. As a result, the Chinese made through-traffic arrangements for all ports of their railway system and refused in important sections to make similar traffic agreements between their lines and the South Manchuria system. The Japanese claimed that this discrimination deprived the South Manchuria Railway of much freight from North Manchuria which would normally pass over at least a part of its line and would find an outlet at Dairen.

A war of railway rates.

Associated with these through-traffic controversies, a bitter rate war sprang up between the Japanese and Chinese lines, which began in 1929-30, when the Chinese reduced their rates after the opening of the Tahushan-Tungliao and the Kirin-Hailung lines. The Chinese lines appeared to have a natural advantage at that time due to the fall in the value of the Chinese silver currency, which made the silver rates on these lines cheaper than the gold-yen rates on the South Manchuria Railway. The Japanese claimed that the Chinese rates were so low that they constituted unfair competition, but the Chinese replied that their aim was not primarily to make profits, as was the case with the South Manchuria, but to develop the country and to enable the rural population to reach the markets as cheaply as possible.

Allegations of national discrimination in favour of native-manufactured goods.

Incidental to this rivalry in rate-cutting, allegations were made by each side that the other indulged in rate discrimination or secret rebates in favour of its own nationals. The Japanese complained that the Chinese made railway classifications which enabled Chinese products to be carried over Chinese lines more cheaply than foreign goods, and that they gave lower rates than normal for native goods and for freight shipped over Chinese lines to a Chinese-controlled seaport. The Chinese, on their side, charged the South Manchuria Railway with granting secret rebates, pointing out particularly that a Japanese forwarding agency was quoting rates for freight consigned through them which were lower than the regular scheduled rates of the South Manchuria line.

These issues were highly technical and involved, and it was difficult to determine the justice of the charges which each side was making against the other. It is obvious that such questions as these should normally be settled by a Railroad Commission or by regular judicial determination¹.

Port controversies.

The railway policies of the Chinese authorities in Manchuria were focussed upon the new port development at Hulutao. Yingkow was to be the secondary port and, pending the completion of Hulutao, the principal one. Many new railways were projected which would serve practically all parts of Manchuria. The Japanese claimed that the through-traffic arrangements and the low rates put into effect by the Chinese deprived the port of Dairen of much cargo that would normally have moved to it and that this situation was particularly evident in 1930. They stated that the export freight carried to Dairen by the South Manchuria Railway fell off over a million metric tons in 1930, while the port of Yingkow actually showed an increase over the previous year. The Chinese, however, pointed out that the falling-off in freight at Dairen was due principally to the general depression and to the especially severe slump in soya beans, which constituted a large part of the freight normally carried over the South Manchuria line. They claimed also that the increase at Yingkow was the result of traffic from regions recently opened by the new Chinese railway lines.

¹ See special study No. 1, annexed to this Report.

The Japanese appeared to be especially concerned over the potential competition of the Chinese lines and the port of Hulutao, and complained that the purpose of the Chinese in planning to construct many new railways and in developing Hulutao Harbour was to make "the port of Dairen as well as the South Manchuria Railway itself as good as valueless".

Viewing these many railroad issues as a whole, it is evident that a number of them were technical in character and were quite capable of settlement by ordinary arbitral or judicial process, but that others of them were due to intense rivalry between China and Japan which resulted from a deep-seated conflict in national policies.

Practically all these railway questions were still outstanding at the opening of the year 1931. Beginning in January and continuing sporadically into the summer, a final but futile effort was made by both Japan and China to hold a conference in order to reconcile their policies with respect to these outstanding railway questions. These Kimura-Kao negotiations, as they were called, achieved no result. There was evidence of sincerity on both sides when the negotiations began in January, but various delays occurred for which both Chinese and Japanese were responsible, with the result that the formal conference, for which extended preparations had been made, had not yet met when the present conflict started.

**The
Sino-Japanese
railway
negotiations
of 1931.**

IV. THE SINO-JAPANESE TREATY AND NOTES OF 1915 AND RELATED ISSUES.

With the exception of their railway controversies, the Sino-Japanese issues of greatest importance which were outstanding in September 1931 were those which arose from the Sino-Japanese Treaties and Notes of 1915, which in turn were a result of the so-called "Twenty-one Demands". These issues mainly concerned South Manchuria and Eastern Inner Mongolia, since, with the exception of the question of the Hanyehping Mine (near Hankow), the other agreements negotiated in 1915 had either been replaced by new ones or had been voluntarily given up by Japan. The controversies in Manchuria were over the following provisions:

**The
Twenty-one
Demands and
the Treaty and
Notes of 1915.**

(1) The extension of the term of Japanese possession of the Kwantung Leased Territory to ninety-nine years (1997);

(2) The prolongation of the period of Japanese possession of the South Manchuria Railway and the Antung-Mukden Railway to ninety-nine years (2002 and 2007 respectively);

(3) The grant to Japanese subjects of the right to lease land in the interior of "South Manchuria" — i.e., outside those areas opened by treaty or otherwise to foreign residence and trade;

(4) The grant to Japanese subjects of the right to travel, reside and conduct business in the interior of South Manchuria and to participate in joint Sino-Japanese agricultural enterprises in Eastern Inner Mongolia.

The legal right of the Japanese to enjoy these grants and concessions depended entirely upon the validity of the Treaty and Notes of 1915, and the Chinese continuously denied that these were binding upon them. No amount of technical explanation or argument could divest the minds of the Chinese people, officials or laymen, of their conviction that the term "Twenty-one Demands" was practically synonymous with the "Treaties and Notes of 1915" and that China's aim should be to free herself from them. At the Paris Conference, 1919, China demanded their abrogation on the ground that they had been concluded "under coercion of a Japanese ultimatum threatening war". At the Washington Conference, 1921-22, the Chinese delegation raised the question "as to the equity and justice of these agreements and therefore as to their fundamental validity", and,

in March 1923, shortly before the expiration of the original twenty-five-year lease of the Liaotung (Kwantung) Territory which China granted in 1898 to Russia, the Chinese Government communicated to Japan a further request for the abrogation of the provisions of 1915, and stated that “ the Treaties and Notes of 1915 have been consistently condemned by public opinion in China ”. Since the Chinese maintained that the agreements of 1915 lacked “ fundamental validity ”, they declined to carry out the provisions relating to Manchuria except in so far as circumstances made it expedient to do so.

The Japanese complained bitterly of the consequent violations of their treaty rights by the Chinese. They contended that the Treaties and Notes of 1915 were duly signed and ratified and were in full force. To be sure, there was a considerable body of public opinion in Japan which from the first did not agree with the “ Twenty-one Demands ” ; and, more recently, it has been common for Japanese speakers and publicists to criticise this policy. But the Japanese Government and people appeared unanimous in insisting upon the validity of those provisions which related to Manchuria.

**The extension
of the lease
of the Liaotung
Territory and
of the
concessions
for the South
Manchuria and
Antung-
Mukden
Railway.**

Two important provisions in the Treaty and Notes of 1915 were those for the extension of the lease of the Kwantung Territory from twenty-five to ninety-nine years, and of the concessions of the South Manchuria and the Antung-Mukden Railways to a similar period of ninety-nine years. For the dual reasons that these extensions were a result of the 1915 agreements and that recovery of the territories originally leased by former Governments was included in the Nationalist “ Rights Recovery ” movement directed against foreign interests in China, the Kwantung Leased Territory and the South Manchuria Railway were made objects, at various times, of agitation and even diplomatic representation on the part of the Chinese. The policy of Marshal Chang Hsueh-liang of declaring Manchuria’s allegiance to the Central Government and of permitting the spread of Kuomintang influence in Manchuria made these issues acute after 1928, although they remained in the background of practical politics.

Associated also with the Treaty and Notes of 1915 was the agitation for the recovery of the South Manchuria Railway, or for stripping that institution of its political character in order to reduce it to a purely economic enterprise. As the earliest date fixed for the recovery of this railway on repayment of the capital and interest outlay was 1939, the mere abrogation of the 1915 Treaties would not in itself have recovered the South Manchuria Railway for China. It was extremely doubtful whether China, in any case, would have been able to obtain the capital for this purpose. The occasional utterances of Chinese Nationalist spokesmen, urging recovery of the South Manchuria Railway, served as an irritant to the Japanese, whose legitimate rights and interests were thereby threatened.

The disagreement between the Japanese and Chinese as to the proper functions of the South Manchuria Railway continued from the time of the railway company’s organisation in 1906. Technically, of course, the railway company is organised under Japanese law as a private joint-stock enterprise and is quite beyond the pale of Chinese jurisdiction in practice. Particularly since 1927, there had been an agitation among Chinese groups in Manchuria for divesting the South Manchuria Railway of its political and administrative functions and converting it into a “ purely commercial enterprise ”. No concrete plan for achieving this end seems to have been proposed by the Chinese. The railway company was in fact a political enterprise. It was a Japanese Government agency, the Government controlling a majority of its shares ; its administrative policy was so closely controlled by the Government that the company’s higher officials were almost invariably changed when a new Cabinet came into power in Japan. Moreover, the company had always been charged, under Japanese

law, with broad political administrative functions, including police, taxation and education. To have divested the company of these functions would have been to abandon the entire "special mission" of the South Manchuria Railway, as originally conceived and subsequently developed.

Numerous issues arose in regard to the administrative rights of the Japanese within the South Manchuria Railway area, especially as to the acquisition of land, the levying of taxes, and the maintenance of railway guards.

The railway area.

The railway area includes, in addition to a few yards on each side of the railway tracks, fifteen municipalities, termed Japanese "railway towns", situated along the entire system of the South Manchuria Railway from Dairen to Changchun and from Antung to Mukden. Some of these railway towns, such as those at Mukden, Changchun and Antung, comprise large sections of populous Chinese cities.

The right of the South Manchuria Railway to maintain practically complete municipal governments in the railway area rested legally upon a clause in the original Russo-Chinese Railway Agreement of 1896, which gave the railway company "absolute and exclusive administration of its lands". The Russian Government, until the Sino-Soviet Agreement of 1924, and later the Japanese Government, which acquired the original rights of the Chinese Eastern Railway so far as concerned the South Manchuria Railway, interpreted this provision as granting political control of the railway area. The Chinese always denied this interpretation, insisting that other provisions in the Treaty of 1896 made it clear that this clause was not intended to grant such broad administrative rights as control of police, taxation, education, and public utilities.

Disputes regarding the acquisition of land by the railway company were common. By virtue of one of the clauses of the original Agreement of 1896, the railway company had the right to acquire by purchase or lease private lands "actually necessary for the construction, operation and protection of the line". But the Chinese contended that the Japanese attempted to make improper use of this right, in order to obtain additional territory. The result was almost continuous controversy between the South Manchuria Railway Company and the Chinese local authorities.

Land disputes.

Conflicting claims as to the right to levy taxes within the railway area led to frequent controversy. The Japanese based their claim upon the original grant to the railway company of the "absolute and exclusive administration of its lands"; the Chinese, upon the rights of the sovereign State. Speaking generally, the *de facto* situation was that the railway company levied and collected taxes from Japanese, Chinese and foreigners residing in the railway areas, and that the Chinese authorities did not exercise such authority, although they claimed the legal right to do so.

Controversies over the right of taxation in the railway areas.

A type of controversy which was frequently arising was where the Chinese attempted to tax produce (such as soya-bean shipments) which was being carted to the South Manchuria Railway towns for transport by rail to Dairen over the Japanese line. This was described by the Chinese as a uniform tax, necessarily to be collected at the boundaries of the Japanese "railway towns", since to refrain from doing so would have been to discriminate in favour of produce carried by the South Manchuria Railway.

The issues as to Japanese railway guards led to almost continuous difficulty. They were also indicative of a fundamental conflict of State policies in Manchuria already referred to and were the cause of a series of incidents, resulting in considerable loss of life. The legal basis of Japan's alleged right to maintain these guards was the oft-quoted clause in the original Agreement of 1896 which granted to the Chinese Eastern Railway "the absolute and exclusive right of administration of its lands". Russia maintained, and China denied, that this gave the right to guard the railway line by Russian troops. In the Portsmouth Treaty, 1905, Russia and Japan,

The question of Japan's right to maintain "railway guards" along the South Manchuria Railway.

as between themselves, reserved the right to maintain railway guards "not to exceed 15 men per kilometre". But in the subsequent Treaty of Peking, signed by China and Japan later in the same year, the Chinese Government did not give its assent to this particular provision of the agreement between Japan and Russia. China and Japan, however, did include the following provision in Article II of the Additional Agreement of December 22nd, 1905, which is an annex to the Sino-Japanese Treaty of Peking of that date :

" In view of the earnest desire expressed by the Imperial Chinese Government to have the Japanese and Russian troops and railway guards in Manchuria withdrawn as soon as possible, and in order to meet this desire, the Imperial Japanese Government, in the event of Russia's agreeing to the withdrawal of her railway guards, or in case other proper measures are agreed to between China and Russia, consents to take similar steps accordingly. When tranquillity shall have been re-established in Manchuria and China shall have become herself capable of affording full protection to the lives and property of foreigners, Japan will withdraw her railway guards simultaneously with Russia. "

**Japanese
contention.**

It is this article upon which Japan based her treaty right. Russia, however, long since withdrew her guards and she relinquished her rights to keep them by the Sino-Soviet Agreements of 1924. But Japan contended that tranquillity had not been established in Manchuria and that China was not herself capable of affording full protection to foreigners ; therefore she claimed that she still retained a valid treaty right to maintain railway guards.

Japan has appeared increasingly inclined to defend her use of these guards less upon treaty right than upon the grounds of "absolute necessity under the existing state of affairs in Manchuria".

**Chinese
contention.**

The Chinese Government consistently controverted the contention of Japan. It insisted that the stationing of Japanese railway guards in Manchuria was not justified either in law or in fact and that it impaired the territorial and administrative integrity of China. As to the stipulation in the Sino-Japanese Treaty of Peking, already quoted, the Chinese Government contended that this was merely declaratory of a *de facto* situation of a provisional character and that it could not be said to confer a right, especially of a permanent character. Moreover, it claimed that Japan was legally obliged to withdraw her guards, since Russia had withdrawn hers, tranquillity had been re-established in Manchuria, and the Chinese authorities were able to give adequate protection to the South Manchuria Railway, as they were doing for other railway lines in Manchuria, provided the Japanese guards would permit them to do so.

**Activities of
the Japanese
railway guards
outside of the
railway area.**

The controversies which arose regarding the Japanese railway guards were not limited to their presence and activities within the railway area. These guards were regular Japanese soldiers and they frequently carried their police functions into adjoining districts or conducted manoeuvres outside the railway areas, with or without the permission of, and with or without notification to, the Chinese authorities. These acts were particularly obnoxious to the Chinese, officials and public alike, and were regarded as unjustifiable in law and provocative of unfortunate incidents.

Frequent misunderstandings and considerable damage to Chinese farm crops resulted from the manoeuvres, and material remuneration failed to alleviate the hostile feelings thus aroused.

**Japanese
Consular
Police.**

Closely associated with the question of the Japanese railway guards was that of the Japanese consular police. Such police were attached to the Japanese consulates and branch consulates in all the Japanese consular districts in Manchuria, not only along the South Manchuria Railway, but in such cities as Harbin, Tsitsihar and Manchouli, as well as in the so-called

“ Chientao District ”, the area in which lived a large number of the Koreans resident in Manchuria.

The Japanese claimed that the right to maintain consular police was a corollary to the right of extra-territoriality ; that it was merely an extension of the judicial functions of the consular courts, these police being necessary to protect and discipline Japanese subjects. In fact, Japanese consular police, in smaller numbers, have also been attached to Japanese consulates in other parts of China, contrary to the general practice of countries having extra-territorial treaties.

As a practical matter, the Japanese Government apparently believed that the stationing of consular police in Manchuria was a necessity under the conditions which prevailed there, especially in view of the importance of the Japanese interests involved and the large number of resident Japanese subjects, including Koreans.

The Chinese Government, however, always contested this position advanced by Japan as justification for stationing Japanese consular police in Manchuria and sent frequent protests to Japan on the subject. She claimed that there was no necessity to station Japanese police officers anywhere in Manchuria, that the question of police could not be associated with extra-territoriality, and that their presence was without treaty basis and a violation of China's sovereignty.

Whether justified or not, the presence of consular police led in a number of cases to serious conflicts between members of their force and those of the local Chinese authorities.

The Sino-Japanese Treaty of 1915 provided that “ Japanese subjects shall be free to reside and travel in South Manchuria and to engage in business and manufacture of any kind whatsoever ”. This was an important right, but one which was objectionable to the Chinese, since in no other part of China were foreigners as a class permitted to reside and to engage in business outside the Treaty Ports. It was the policy of the Chinese Government to withhold this privilege until extra-territoriality should be abolished and foreigners should be subject to Chinese laws and jurisdiction.

In South Manchuria, however, this right had certain limitations : the Japanese were required to carry passports and observe Chinese laws and regulations while in the interior of South Manchuria ; but the Chinese regulations applicable to Japanese were not to be enforced until the Chinese authorities had first “ come to an understanding with the Japanese Consul ”.

On many occasions, the action of the Chinese authorities was inconsistent with the terms of this agreement, the validity of which they always contested. The fact that restrictions were placed upon the residence, travel and business activities of Japanese subjects in the interior of South Manchuria, and that orders and regulations were issued by various Chinese officials prohibiting Japanese or other foreigners from residing outside the Treaty Ports or from renewing leases of buildings is not contested in the documents officially presented to the Commission by the Chinese Assessor. Official pressure, sometimes supported by severe police measures, was exerted upon the Japanese to force them to withdraw from many cities and towns in South Manchuria and Eastern Inner Mongolia, and upon Chinese property owners to prevent them from renting houses to Japanese. It was stated by the Japanese that the Chinese authorities also refused to issue passports to Japanese, harassed them by illegal taxes, and, for some years before September 1931, failed to carry out the stipulation in the agreement by which they had undertaken to submit to the Japanese Consul the regulations which were to be binding upon the Japanese.

The object of the Chinese was the execution of their national policy of restricting the exceptional privileges of Japanese in Manchuria and thus strengthening the control of China over these Three Eastern Provinces. They justified their actions on the ground that they regarded the Treaty

The Japanese justification for stationing Consular Police in Manchuria.

The Chinese denied the Japanese claims.

The right of the Japanese to travel, reside and conduct commercial enterprises in interior places in South Manchuria.

The defence and the explanation of the Chinese.

This controversy was a constant irritant until the events of September 1931.

The land lease issue.

of 1915 as without "fundamental validity". They pointed out, moreover, that the Japanese attempted to reside and conduct business in all parts of Manchuria, although the treaty provision was limited to South Manchuria.

In view of the conflicting national policies and aims of China and Japan, it was almost inevitable that continuous and bitter controversies should arise over this treaty provision. Both countries admit that the situation was a growing irritant in their mutual relations up to the events of September 1931.

Closely associated with the right to reside and to do business in the interior of South Manchuria was the right to lease land, which was granted to Japanese by the Treaty of 1915 in the following terms: "Japanese subjects in South Manchuria may, by negotiation, lease land necessary for erecting suitable buildings for trade and manufacture or for prosecuting agricultural enterprises". An exchange of notes between the two Governments at the time of the treaty defined the expression "lease by negotiation" to imply, according to the Chinese version, "a long-term lease of not more than thirty years and also the possibility of its unconditional renewal"; the Japanese version simply provided for "leases for a long term up to thirty years and unconditionally renewable". Disputes naturally arose over the question whether the Japanese land leases were, at the sole option of the Japanese, "unconditionally renewable".

The Chinese interpreted the desire of the Japanese to obtain lands in Manchuria, whether by lease, purchase, or mortgage, as evidence of a Japanese national policy to "buy Manchuria". Their authorities therefore very generally attempted to obstruct efforts of the Japanese to this end, and became increasingly active in the three or four years preceding September 1931, a period during which the Chinese "Rights-Recovery Movement" was at its height.

In making strict regulations against the purchase of land by the Japanese, their ownership of it in freehold, or their acquisition of a lien through mortgage, the Chinese authorities appeared to be within their legal rights, since the treaty granted only the privilege of leasing land. The Japanese, however, complained that it was not in conformity with the spirit of the treaty to forbid mortgages upon land.

Chinese officials, however, did not accept the validity of the treaty and consequently put every obstacle in the way of Japanese leasing land, by orders, provincial and local, calculated to make the leasing of lands to Japanese punishable under the criminal laws; by imposition of special fees and taxes payable in advance on such leases; and by instructions to local officials prohibiting them, under threat of punishment, from approving such transfers to Japanese.

The Japanese have acquired land by lease, mortgage and purchase in "North Manchuria" as well as in "South Manchuria".

In spite of these obstacles, great tracts of land have, as a matter of fact, not only been leased by the Japanese, but actually obtained in freehold — although the titles might not be recognised in a Chinese court — through outright purchase, or by the more usual means of foreclosing a mortgage. These mortgages on land have been obtained by Japanese loan operators, especially large loan associations, certain of which have been organised especially for the purpose of acquiring land tracts. The total area of lands leased to Japanese in the whole of Manchuria, and in Jehol, according to Japanese official sources, increased from about 80,000 acres in 1922-23 to over 500,000 acres in 1931. A small proportion of this total was in North Manchuria, where the Japanese had no legal right under Chinese law and international treaty to acquire land leases.

Sino-Japanese negotiations on the issue of land lease.

Due to the importance of this land lease issue, there were at least three attempts during the decade preceding 1931 to reach some agreement by direct Sino-Japanese negotiation. A possible solution, which there is reason to believe was under consideration, would have treated together the two subjects of land leasing and the abolition of extra-territoriality: in

Manchuria, the Japanese were to surrender extra-territoriality and the Chinese were to permit the Japanese to lease land freely. But the negotiations were unsuccessful.

This long-standing Sino-Japanese controversy over the right of Japanese to lease land arose, like the other issues already mentioned, out of the fundamental conflict between rival State policies, the allegations and counter-statements concerning violation of international agreements being less consequential in themselves than the underlying objectives of each policy.

5. THE KOREAN PROBLEM IN MANCHURIA.

The presence of about 800,000 Koreans in Manchuria, who possess Japanese nationality under the Japanese law, served to accentuate the conflict of policies of China and of Japan. Out of this situation there arose various controversies, in consequence of which the Koreans themselves were victimised, being subjected to suffering and brutalities¹.

Chinese opposition to Korean acquisition, by purchase or lease, of land in Manchuria was resented by the Japanese, who claimed that the Koreans were entitled, as Japanese subjects, to the privileges of land-leasing acquired by Japan in the Treaty and Notes of 1915. The problem of dual nationality also arose, as the Japanese refused to recognise the naturalisation of Koreans as Chinese subjects. The use of Japanese consular police to invigilate and protect the Koreans was resented by the Chinese and resulted in innumerable clashes between Chinese and Japanese police. Special problems arose in the Chientao District, just north of the Korean border, where the 400,000 Korean residents outnumber the Chinese by three to one. By 1927, these questions led the Chinese to pursue a policy of restricting the free residence of Koreans in Manchuria — a policy which the Japanese characterised as one of unjustifiable oppression.

The status and rights of Koreans in Manchuria are determined largely in three Sino-Japanese agreements — viz., the Agreement relating to the Chientao Region, September 4th, 1909; the Treaty and Notes of May 25th, 1915, concerning South Manchuria and Eastern Inner Mongolia; and the so-called “Mitsuya Agreement” of July 8th, 1925. The delicate question of dual nationality in the case of the Koreans has never been regularised by Sino-Japanese agreement.

**Sino-Japanese
agreements
governing the
status of
Koreans in
Manchuria.**

By 1927, the Chinese authorities in Manchuria generally came to believe that the Koreans had become, in fact, “a vanguard of Japanese penetration and absorption” of Manchuria. In this view, so long as the Japanese refused to recognise the naturalisation of Koreans as Chinese subjects, and especially since the Japanese consular police constantly exercised surveillance over Koreans, the acquisition of land by Koreans, whether by purchase or lease, was an economic and political danger “which threatened the very existence of Chinese people in Manchuria”.

The view was prevalent among the Chinese that the Koreans were being compelled to migrate from their homeland in consequence of the studied policy of the Japanese Government to displace Koreans with Japanese immigrants from Japan, or to make life so miserable for them, politically and economically, especially by forcing them to dispose of their land holdings, that emigration to Manchuria would naturally follow. According to the Chinese view, the Koreans, being an “oppressed race” ruled by an alien Government in their own land, where the Japanese monopolised all the important official posts, were forced to migrate to Manchuria to seek political freedom and an economic livelihood. The Korean immigrants, 90 per cent of whom are farmers, and almost all of whom cultivators of ricefields, were thus at first welcomed by the Chinese as an economic asset

**Chinese
contentions.**

¹ See special study No. 9, annexed to this Report.

and favoured out of a natural sympathy for their supposed oppression. They contended that, but for the Japanese refusal to permit Koreans to become naturalised Chinese subjects and the Japanese policy of pursuing them into Manchuria on the pretext of offering them necessary police protection, this Korean colonisation in Manchuria would have created no major political and economic problems. The Chinese deny that the efforts admittedly made by their officials in Manchuria, especially after 1927, to restrict the free settlement of Koreans on the land in Manchuria, except as mere tenants or labourers, can be regarded as instances of "oppression".

Japanese denial of these Chinese accusations.

The Japanese admit that the Chinese suspicion was the principal cause of Chinese "oppression" of the Koreans, but vigorously deny the allegation that they pursued any definite policy of encouraging Korean migration to Manchuria, stating that "Japan having neither encouraged nor restricted it, the Korean emigration to Manchuria must be regarded as the outcome of a natural tendency", a phenomenon uninfluenced by any political or diplomatic motives. They therefore declare that "the fear on the part of China that Japan is plotting the absorption of the two regions by making use of Korean immigrants is entirely groundless".

The Korean problem intensified the Sino-Japanese hostilities, victimising the Koreans themselves.

These irreconcilable views intensified such problems as those related to the leasing of land, questions of jurisdiction and the Japanese consular police, these having created a most unfortunate situation for the Koreans and embittered Sino-Japanese relations¹.

The Koreans and the land lease question.

There exist no Sino-Japanese agreements which specifically grant or deny the right of Koreans to settle, reside, and conduct occupations outside the Treaty Ports, or to lease or otherwise acquire land in Manchuria, except in the so-called Chientao District. Probably, however, over 400,000 Koreans do live in Manchuria outside Chientao. They are widely distributed, especially in the eastern half of Manchuria, and are numerous in the regions lying north of Korea, in Kirin Province, and have penetrated in large numbers into the region of the eastern section of the Chinese Eastern Railway, the lower Sungari valley and along the Sino-Russian border from North-Eastern Korea to the Ussuri and the Amur River valleys, their migration and settlement having overflowed into the adjoining territories of the U.S.S.R. Moreover, partly because a very considerable group of the Koreans are natives of Manchuria, their ancestors having immigrated generations ago, and partly because others have renounced their allegiance to Japan and have become naturalised Chinese subjects, a great many Koreans to-day actually possess agricultural lands in Manchuria, outside of Chientao, both by virtue of freehold title and leasehold. The vast majority, however, cultivate paddy fields simply as tenant farmers under rental contracts, on a crop-division basis, with the Chinese landlords, these contracts usually being limited to periods from one to three years, renewable at the discretion of the landlord.

Conflict over the Sino-Japanese agreements concerning the right of Koreans to lease land.

The Chinese deny that the Koreans have the right to purchase or lease agricultural lands in Manchuria outside the Chientao District, since the only Sino-Japanese agreement on the point is the Chientao Agreement of 1909, which is restricted in its application to that area. Only Koreans who are Chinese subjects, therefore, are entitled to purchase land, or, for that matter, to reside and lease land in the interior of Manchuria. In denying the claim of right of the Koreans to lease land freely in Manchuria, the Chinese Government has contended that the Chientao Agreement of 1909, which granted Koreans the right of residence with special land-holding privileges in the Chientao District alone and specified that the Koreans were to be subject to Chinese jurisdiction, is in itself a self-contained instrument "purporting to settle, by mutual concessions, local issues then pending between China and Japan in that area". The Chientao

¹ See special study No. 9, annexed to this Report.

Agreement contained a *quid pro quo*, Japan waiving the claim of jurisdiction over the Koreans, China granting them the special privilege of possessing agricultural lands.

Both countries continued to observe the agreement after the annexation of Korea by Japan in 1910, China contending that the Treaty and Notes of 1915 could not alter the stipulations of the Chientao Agreement, especially as the new Treaty contained a clause specifying that "all existing treaties between China and Japan relating to Manchuria shall, except as otherwise provided for by this Treaty, remain in force". No exception was made for the Chientao Agreement. The Chinese Government further contends that the Treaty and Notes of 1915 do not apply to the Chientao District, since the latter is not geographically a part of "South Manchuria" — a term which is ill-defined both geographically and politically.

The Chinese contention.

This Chinese contention has been contested by the Japanese since 1915, their position being that, inasmuch as the Koreans became Japanese subjects by virtue of the annexation of Korea in 1910, the provisions of the Sino-Japanese Treaty and Notes of 1915 concerning South Manchuria and Eastern Inner Mongolia, which grant Japanese subjects the right to reside and lease lands in South Manchuria and to participate in joint agricultural enterprises in Eastern Inner Mongolia, apply equally to the Koreans. The Japanese Government has contended that the Chientao Agreement was superseded by those provisions of the 1915 agreements in conflict therewith, that the Chinese contention that the Chientao Agreement is a self-contained instrument is untenable, since the right secured by the Koreans in Chientao was actually in consequence of Japan's agreement to recognise that region as a part of Chinese territory. It asserts that it would be discriminatory on its part to refrain from seeking for the Koreans in Manchuria rights and privileges granted to other Japanese subjects.

The Japanese contention.

The Japanese reason for favouring the acquisition of land by Koreans in Manchuria is partly due to their desire to obtain rice exports for Japan, a desire which, so far, has been but partly satisfied, since probably half the rice production of over seven million bushels in 1930 is consumed locally, and the export of the balance has been restricted. The Japanese assert that the Korean tenants, after having reclaimed waste lands and making them profitable for the Chinese owners, have been unjustly ejected. The Chinese, on the other hand, while equally desirous of having the cultivable lowlands producing rice, have generally employed the Koreans as tenants or labourers to prevent the land itself from falling into Japanese hands. Many Koreans have therefore become naturalised Chinese subjects in order to possess land, some of them, however, having acquired such titles, transferring them to Japanese land-mortgage associations. This suggests one reason why there has been a difference of opinion among the Japanese themselves as to whether naturalisation of Koreans as Chinese subjects should be recognised by the Japanese Government.

The effect of these rival contentions on the conditions of the Koreans.

Under a Chinese Nationality Law of 1914, only aliens who, under the law of their own country, were permitted to become naturalised in another were capable of being naturalised Chinese subjects. The Chinese revised Nationality Law of February 5th, 1929, however, contained no provision by which an alien was required to lose his original nationality in order to acquire Chinese nationality. Koreans were therefore naturalised as Chinese regardless of the Japanese insistence that such naturalisation could not be recognised under Japanese law. The Japanese nationality laws have never permitted Koreans to lose their Japanese nationality and, although a revised Nationality Law of 1924 contained an article to the effect that "a person who acquires foreign nationality voluntarily loses Japanese nationality", this general law has never been made applicable to the Koreans by special Imperial Ordinance. Nevertheless, many Koreans in Manchuria, varying from 5 to 20 per cent of the total Korean population in certain districts, especially where they are

The problem of dual nationality of Koreans in Manchuria.

relatively inaccessible by the Japanese consular officials, have become naturalised as Chinese. Others, incidentally, when migrating beyond the Manchurian borders into Soviet territory, have become citizens of the U.S.S.R.

Effect of dual nationality of the Koreans on Chinese policy.

This problem of dual nationality of the Koreans influenced the National Government of China and the provincial authorities in Manchuria generally to look with disfavour upon indiscriminate naturalisation of Koreans, fearing that they might, by temporarily acquiring Chinese nationality, become potential instruments of a Japanese policy of acquiring agricultural lands. In Regulations issued by the Kirin Provincial Government, September 1930, governing the purchase and sale of land throughout the province, it was provided that "when a naturalised Korean purchases land, investigation must be made in order to discover whether he wants to purchase it as a means of residing as a permanently naturalised citizen or on behalf of some Japanese". The local district officials, however, seem to have wavered in their attitude, at times enforcing the orders of the higher authorities, but frequently issuing temporary naturalisation certificates in lieu of formal certificates requiring the approval of the provincial government and the Ministry of the Interior at Nanking. These local officials, especially in areas far removed from Japanese consulates, often readily consented to the issuing of such certificates to the Koreans who applied for them and, on occasion, no doubt actually compelled the Koreans to become naturalised or to leave the country, their actions being influenced both by the policy of the Japanese and by the revenue derivable from the naturalisation fees. The Chinese have asserted, moreover, that some Japanese themselves actually connived at this business of naturalising Koreans in order to use them as dummy land-owners or to acquire lands by transfer from such naturalised Koreans. Generally speaking, however, the Japanese authorities discountenanced naturalisation of Koreans and assumed jurisdiction over them wherever possible.

Problems arising from conflicting claims to police jurisdiction peculiarly serious, involving the Koreans.

The Japanese claim of right to maintain consular police in Manchuria as a corollary of extra-territoriality became a source of constant conflict where the Koreans were involved. Whether the Koreans desired such Japanese interference, ostensibly in their behalf, or not, the Japanese consular police, especially in the Chientao District, undertook, not only protective functions, but also freely assumed the right to conduct searches and seizures of Korean premises, especially where the Koreans were suspected of being involved in the Independence Movement, or in Communist or anti-Japanese activities. The Chinese police, for their part, frequently came into collision with the Japanese police in their efforts to enforce Chinese laws, preserve the peace, or suppress the activities of "undesirable" Koreans. Although the Chinese and Japanese police did co-operate on many occasions, as provided for in the so-called "Mitsuya Agreement" of 1925, in which it was agreed that, in Eastern Fengtien Province, the Chinese would suppress "the Korean societies" and turn over "Koreans of bad character" to the Japanese on the latter's request, the actual state of affairs was really one of constant controversy and friction. Such a situation was bound to cause trouble.

The special problem of Chientao.

The Korean problems and the resulting Sino Japanese relations over the Chientao District had attained a peculiarly complicated and serious character. Chientao (called "Kanto" in Japanese and "Kando" in Korean) comprises the three districts of Yenchi, Holung and Wangching in Liaoning (Fengtien) Province, and, in practice, as evidenced by the attitude of the Japanese Government, includes also the district of Hunchun, which four districts adjoin the north-east corner of Korea just across the Tumen River.

The Japanese attitude and policy towards Chientao.

The Japanese, describing the traditional attitude of the Koreans towards the Chientao area, have been disinclined to admit that the Chientao Agreement of 1909 closed once and for all the issue whether this territory

should belong to China or to Korea, the idea being that, since the district is predominantly Korean, over half of the arable land being cultivated by them, "they have so firmly established themselves in the locality that it may practically be regarded as a Korean sphere". In Chientao, more than elsewhere in Manchuria, the Japanese Government has been insistent on exercising jurisdiction and surveillance over the Koreans, over 400 Japanese consular police having been maintained there for years. The Japanese Consular Service, in co-operation with Japanese functionaries assigned by the Government-General of Chosen, exercise broad powers of an administrative character in the region, their functions including maintenance of Japanese schools, hospitals and Government-subsidised financing media for the Koreans. The area is regarded as a natural outlet for Korean emigrants who cultivate rice-fields, while politically it has special importance, since Chientao has long been a refuge of Korean independence advocates, Communist groups and other disaffected anti-Japanese partisans, a region where, as evidenced by the Hunchun Rising of Koreans against the Japanese in 1920, after the Independence Outbreak in Korea, the Japanese have had serious political problems intimately associated with the general problem of governance of Korea. The military importance of this region is obvious from the fact that the lower reaches of the Tumen River form the boundary between Japanese, Chinese and Soviet territory.

The Chientao Agreement provided that "the residence of Korean subjects, as heretofore, on agricultural lands lying north of the River Tumen", should be permitted by China; that Korean subjects residing on such lands should henceforth "be amenable to the jurisdiction of the Chinese local officials"; that they should be given equal treatment with the Chinese; and that, although all civil and criminal cases involving such Koreans should be "heard and decided by the Chinese authorities", a Japanese consular official should be permitted to attend the court, especially in capital cases, with the right to "apply to the Chinese authorities for a new trial" under special Chinese judicial procedure.

The Japanese, however, have taken the position that the Sino-Japanese Treaty and Notes of 1915 override the Chientao Agreement in so far as jurisdictional questions are concerned, and that, since 1915, Koreans, as Japanese subjects, are entitled to all the rights and privileges of extra-territorial status under the Japanese treaties with China. This contention has never been admitted by the Chinese Government, the Chinese insisting that the Chientao Agreement, if applicable in so far as the right granted to Koreans to reside on agricultural lands is concerned, is also applicable in those articles where it is provided that the Koreans should submit to Chinese jurisdiction. The Japanese have interpreted the article permitting Korean residence on agricultural lands to mean the right to purchase and lease such lands in Chientao; the Chinese, contesting this interpretation, take up the position that the article must be interpreted literally and that only Koreans who have become naturalised Chinese subjects are entitled to purchase land there.

The actual situation is therefore anomalous, since, as a matter of fact, there are non-naturalised Koreans in Chientao who have acquired lands in freehold title, with the connivance of the local Chinese officials, although as a general rule the Koreans themselves recognise the acquisition of Chinese nationality as a necessary condition of obtaining the right to purchase land in Chientao. Japanese official figures represent over half the arable land of Chientao (including Hunchun) as "owned" by Koreans, their figures admitting that over 15 per cent of the Koreans there have become naturalised as Chinese subjects. Whether it is these naturalised Koreans who "own" those lands is impossible to say. Such a situation naturally gave rise to numerous irregularities and constant differences, often manifested by open clashes between the Chinese and Japanese police.

Conflicts of the Chinese and Japanese interpretations of the Chientao Agreement.

The actual situation as to Korean land ownership is anomalous.

**Japanese
allegations of
Chinese
oppression of
the Koreans.**

The Japanese assert that, about the end of 1927, a movement for persecuting Korean immigrants in Manchuria broke out, under Chinese official instigation, as an aftermath of a general anti-Japanese agitation, and state that this oppression was intensified after the Manchurian provinces declared their allegiance to the National Government at Nanking. Numerous translations of orders issued by the central and local Chinese authorities in Manchuria have been submitted as evidence to the Commission of a definite Chinese policy of oppressing the Koreans by forcing them to become naturalised as Chinese, driving them from their rice-fields, compelling them to re-migrate, subjecting them to arbitrary levies and exorbitant taxation, preventing them from entering into contracts of lease or rental for houses and lands, and inflicting upon them many brutalities. It is stated that this campaign of cruelty was particularly directed against the "pro-Japanese" Koreans, that Korean Residents' Associations, which are subsidised by the Japanese Government, were the objects of persecution, that non-Chinese schools maintained by or for the Koreans were closed, that "undesirable Koreans" were permitted to levy blackmail and perpetrate atrocities upon Korean farmers, and that Koreans were compelled to wear Chinese clothing and renounce any claim of reliance upon Japanese protection or assistance in their miserable plight.

The fact that the Manchurian authorities did issue orders discriminatory against non-naturalised Koreans is not denied by the Chinese, the number and character of these orders and instructions, especially since 1927, establishing beyond a doubt that the Chinese authorities in Manchuria generally regarded the Korean infiltration, in so far as it was accompanied by Japanese jurisdiction, as a menace which deserved to be opposed.

**Special
attention
given to the
Korean
problem by
the
Commission.**

Because of the seriousness of the Japanese allegations and the pitiable plight of the Korean population of Manchuria, the Commission gave special attention to this subject and, without accepting all these accusations as adequately descriptive of the facts, or concluding that certain of these restrictive measures applied to the Koreans were entirely unjustified, is in a position to confirm this general description of the Chinese actions towards the Koreans in certain parts of Manchuria. While in Manchuria, numerous delegations, who represented themselves as spokesmen of Korean communities, were received by the Commission.

It is obvious that the presence of this large minority of Koreans in Manchuria served to complicate the Sino-Japanese controversies over land leasing, jurisdiction and police, and the economic rivalries which formed a prelude to the events of September 1931. While the great majority of the Koreans only wanted to be left alone to earn their livelihood, there were among them groups which were branded by the Chinese or Japanese, or both, as "undesirable Koreans", including the advocates and partisans of the independence of Korea from Japanese rule, Communists, professional law breakers, including smugglers and drug traders, and those who, in league with Chinese bandits, levied blackmail or extorted money from those of their own blood. Even the Korean farmer himself frequently invited oppression by his ignorance, improvidence and willingness to incur indebtedness to his more agile-minded landlord.

**The Chinese
explanation of
their
treatment of
the Koreans.**

Aside from the involvement of the Koreans, however unwittingly, in the controversies which, in the Chinese view, were the inevitable results of the general Japanese policies with respect to Manchuria, the Chinese submit that much of what has been termed "oppression" of the Koreans should not properly be so called, and that certain of the measures taken against the Koreans by the Chinese were actually either approved or connived at by the Japanese authorities themselves. They assert that it should not be forgotten that the great majority of the Koreans are bitterly anti-Japanese and unreconciled to the Japanese annexation of their native land, and that the Korean emigrants, who would never have left their

homeland but for the political and economic difficulties under which they have suffered, generally desire to be free from Japanese surveillance in Manchuria.

The Chinese, while admitting a certain sympathy with the Koreans, draw attention to the existence of the "Mitsuya Agreement" of June-July 1925 as evidence both of a willingness on the part of the Chinese authorities to curb the activities of Koreans whom the Japanese consider "bad characters" and a menace to their position in Korea, and of official sanction on the part of the Japanese themselves for certain of those very acts which the Japanese would have others believe are instances of Chinese "oppression" of the Koreans. This agreement, which has never been widely known abroad, was negotiated by the Japanese Police Commissioner of the Government-General of Chosen and the Chinese Police Commissioner of Fengtien Province. It provided for co-operation between the Chinese and Japanese police in suppressing "Korean societies" (presumably of an anti-Japanese character) in Eastern Fengtien Province, stipulating that "the Chinese authorities shall immediately arrest and extradite those leaders of the Korean societies whose names had been designated by the authorities of Korea", and that Koreans of "bad character" should be arrested by the Chinese police and turned over to the Japanese for trial and punishment. The Chinese assert, therefore, that "it is largely for the purpose of giving practical effect to this agreement that certain restrictive measures have been put into force governing the treatment of Koreans. If they are taken as evidence proving the oppression of Koreans by Chinese authorities, then such measures of oppression, if indeed they are, have been resorted to principally in the interest of Japan". Furthermore, the Chinese submit that, "in view of the keen economic competition with native farmers, it is but natural that the Chinese authorities should exercise their inherent right to take measures to protect the interests of their own countrymen".

So-called
"Mitsuya
Agreement",
1925.

6. THE WANPAOSHAN AFFAIR AND THE ANTI-CHINESE RIOTS IN KOREA.

The Wanpaoshan affair, together with the case of Captain Nakamura, have been widely regarded as the causes immediately contributing to the Sino-Japanese crisis in Manchuria. The intrinsic importance of the former, however, was greatly exaggerated. The sensational accounts of what occurred at Wanpaoshan, where there were no casualties, led to a feeling of bitterness between Chinese and Japanese and, in Korea, to the serious attacks by Koreans upon Chinese residents. These anti-Chinese riots, in turn, revived the anti-Japanese boycott in China. Judged by itself, the Wanpaoshan affair was no more serious than several other incidents involving clashes between Chinese and Japanese troops or police which had occurred during the past few years in Manchuria.

Wanpaoshan is a small village located some 18 miles (30 kilometres) north of Changchun, adjoining a low marshy area alongside the Itung River. It was here that one Hao Yung-teh, a Chinese broker, leased on behalf of the Chang Nung Agricultural Company, from the Chinese owners, a large tract of land by a contract dated April 16th, 1931. It was stipulated in the contract that it should be null and void in case the District Magistrate refused to approve its terms.

Shortly after this, the lessee sub-leased this entire plot of land to a group of Koreans. This second contract contained no provision requiring official approval for enforcement and took for granted that the Koreans would construct an irrigation canal with tributary ditches. Hao Young-teh had sub-leased this land to the Korean farmers without first having obtained Chinese formal approval of the original lease contract with the Chinese owners.

The relations
of the
Wanpaoshan
affair to the
events of
September
1931.

A lease
contract for
rice-land
between the
Chinese
landowners
and the
Chinese broker
required the
official
approval of
the Chinese
authorities.

This land was
sub-leased by
the Chinese
broker to the
Korean
tenants.

The digging of an irrigation ditch by the Koreans across land owned by Chinese farmers was the principal cause of local Chinese opposition. The Chinese farmers demanded the cessation of work on the irrigation ditch and the evacuation of the Koreans.

The Chinese and Japanese authorities at Changchun agreed upon a joint investigation.

Inclusive investigation.

The incident of July 1st.

The anti-Chinese riots in Korea.

Heavy loss of life and property among the Chinese residents.

Alleged responsibility of the Japanese

Immediately after the conclusion of the second lease, the Koreans began digging an irrigation ditch or canal, several miles long, in order to divert the water of the Itung River and distribute it over this low marshy area for the purpose of making it suitable for paddy cultivation. This ditch traversed large areas of land cultivated by Chinese who were not parties to either lease transaction, since their lands lay between the river and that leased by the Koreans. In order to provide ample water supply to be deflected through this ditch to their holdings, the Koreans undertook to construct a dam across the Itung River.

After a considerable length of the irrigation ditch had been completed, the Chinese farmers whose lands were cut by the canal rose up *en masse* and protested to the Wanpaoshan authorities, begging them to intervene in their behalf. As a result, the Chinese local authorities despatched police to the spot and ordered the Koreans to stop excavation work at once and to vacate the area. At the same time, the Japanese Consul at Changchun sent consular police to protect the Koreans. Local negotiations between the Japanese and Chinese representatives failed to solve the problem. Somewhat later, both sides sent additional police, with resulting protests, counter-statements and attempted negotiations.

On June 8th, both sides agreed to withdraw their police forces and to conduct a joint investigation of the situation at Wanpaoshan. This investigation revealed the fact that the original lease contained a clause providing that the entire contract would be "null and void" if it should not be approved by the Chinese District Magistrate, and that this approval was never given.

The joint investigators, however, apparently failed to agree upon their findings, the Chinese maintaining that the digging of the irrigation ditch could not fail to violate the rights of the Chinese farmers whose lands were cut by it and the Japanese insisting that the Koreans should be permitted to continue their work, since it would be unfair to eject them on account of the error in the lease procedure for which they were in no way at fault. Shortly thereafter, the Koreans, assisted by Japanese consular police, continued to dig the ditch.

Out of this train of circumstances came the incident of July 1st, when a party of 400 Chinese farmers whose lands were cut by the irrigation ditch, armed with agricultural implements and pikes, drove the Koreans away and filled in much of the ditch. The Japanese consular police thereupon opened rifle fire to disperse the mob and to protect the Koreans, but there were no casualties. The Chinese farmers withdrew and the Japanese police remained on the spot until the Koreans completed the ditch and the dam across the Itung River.

After the incident of July 1st, the Chinese municipal authorities continued to protest to the Japanese Consul at Changchun against the action of the Japanese consular police and of the Koreans.

Far more serious than the Wanpaoshan affair was the reaction to this dispute in Chosen (Korea). In consequence of sensational accounts of the situation at Wanpaoshan, especially of the events of July 1st, which were printed in the Japanese and Korean Press, a series of anti-Chinese riots occurred throughout Korea. These riots began at Jinsen on July 3rd, and spread rapidly to other cities.

The Chinese state, on the basis of their official reports, that 127 Chinese were massacred and 393 wounded, and that Chinese property to the value of 2,500,000 Yen was destroyed. They claim, moreover, that the Japanese authorities in Korea were in large measure responsible for the results of these riots, since, it was alleged, they took no adequate steps to prevent them and did not suppress them until great loss of Chinese life and property had resulted. The Japanese and Korean newspapers were not prevented from publishing sensational and incorrect accounts of the Wanpaoshan incident

of July 1st, which were of a character to arouse the hatred of the Korean populace against the Chinese residents.

The Japanese claim, however, that these riots were due to the spontaneous outburst of racial feeling, and that the Japanese authorities suppressed them as soon as possible.

A result of importance was the fact that these outbreaks in Korea served directly to revive the anti-Japanese boycott throughout China.

Shortly after the anti-Chinese riots in Korea and while the Wanpaoshan affair was still unsettled, the Chinese Government made a protest to Japan, on account of the riots, charging Japan with full responsibility for failure to suppress them. The Japanese Government, in reply, on July 15th, expressed regret at the occurrence of these riots and offered compensation for the families of the dead.

From July 22nd until September 15th, there were negotiations and exchanges of notes between the Chinese and Japanese local and central authorities over the Wanpaoshan affair. The Chinese maintained that the difficulties at Wanpaoshan were due to the fact that the Koreans were living where they had no right to be, since their privileges of residing and leasing of land did not extend outside the Chientao District, in accordance with the Chientao Agreement of September 4th, 1909.

The Chinese Government protested against the stationing of Japanese consular police in China and asserted that the despatch of a large force of these police to Wanpaoshan was responsible for the incident of July 1st.

The Japanese, on the other hand, insisted that the Koreans had a treaty right to reside and lease land at Wanpaoshan, since their privileges were not limited to those specified in the Chientao Agreement, but included the rights, granted to Japanese subjects in general, of residing and leasing land throughout South Manchuria. The status of the Koreans, it was claimed, was identical with that of other Japanese subjects. The Japanese also urged that the Koreans had undertaken their rice cultivation project in good faith and that the Japanese authorities could not assume responsibility for the irregularities of the Chinese broker who arranged the lease. The Japanese Government consented to the withdrawal of the consular police from Wanpaoshan, but the Korean tenants remained and continued to cultivate their rice-lands.

A complete solution of the Wanpaoshan affair had not been reached by September 1931.

7. THE CASE OF CAPTAIN NAKAMURA.

The case of Captain Nakamura was viewed by the Japanese as the culminating incident of a long series of events which showed the utter disregard of the Chinese for Japanese rights and interests in Manchuria. Captain Nakamura was killed by Chinese soldiers in an out-of-the-way region in Manchuria during the mid-summer of 1931.

Captain Shintaro Nakamura was a Japanese military officer on active duty and, as was admitted by the Japanese Government, was on a mission under the orders of the Japanese Army. While passing through Harbin, where his passport was examined by the Chinese authorities, he represented himself as an agricultural expert. He was at that time warned that the region in which he intended to travel was a bandit-ridden area, and this fact was noted on his passport. He was armed, and carried patent medicine which, according to the Chinese, included narcotic drugs for non-medical purposes.

On June 9th, accompanied by three interpreters and assistants, Captain Nakamura left Ilikotu Station on the western section of the Chinese Eastern Railway. When he had reached a point some distance in the interior, in the direction of Taonan, he and the other members of his party were placed

authorities
in Korea.

The riots in
Korea
intensified
the
anti-Japanese
boycott in
China.

The Japanese
Government
expressed
regret for the
anti-Chinese
riots and
offered
compensation
for the
families of
the dead.

The grounds
for Chinese
protests
concerning the
Wanpaoshan
affair.

The Japanese
position.

Importance of
the Nakamura
case.

Captain
Nakamura was
on a military
mission in
interior
Manchuria.

Captain
Nakamura and
companions
were killed by
Chinese
soldiers.

under detention by Chinese soldiers under Kuan Yuheng, the Commander of the Third Regiment of the Reclamation Army. Several days later, about June 27th, he and his companions were shot by Chinese soldiers and their bodies were cremated to conceal the evidence of the deed.

The Japanese contention.

The Japanese insisted that the killing of Captain Nakamura and his companions was unjustified and showed arrogant disrespect for the Japanese Army and nation ; they asserted that the Chinese authorities in Manchuria delayed to institute official enquiries into the circumstances, were reluctant to assume responsibility for the occurrence, and were insincere in their claim that they were making every effort to ascertain the facts in the case.

The Chinese contention.

The Chinese declared, at first, that Captain Nakamura and his party were detained pending an examination of their permits, which, according to custom, were required of foreigners travelling in the interior ; that they had been treated well ; and that Captain Nakamura was shot by a sentry while endeavouring to make his escape. Documents, including a Japanese military map and two diaries, they stated, were found on his person, which proved that he was either a military spy or an officer on special military mission.

Investigations.

On July 17th, a report of the death of Captain Nakamura reached the Japanese Consul-General at Tsitsihar and, at the end of the month, Japanese officials in Mukden informed the local Chinese authorities that they had definite evidence that Captain Nakamura had been killed by Chinese soldiers. On August 17th, the Japanese military authorities in Mukden released for publication the first account of his death (see *Manchuria Daily News*, August 17th, 1931). On the same day, Consul-General Hayashi, and also Major Mori, who had been sent by the Japanese General Staff from Tokyo to Manchuria to investigate the circumstances, had interviews with Governor Tsang Shih-yi, of Liaoning Province. Governor Tsang promised to investigate it at once.

Immediately thereafter, Governor Tsang Shih-yi communicated with Marshal Chang Hsueh-liang (who was then ill in a hospital in Peiping) and with the Minister for Foreign Affairs in Nanking and, also, appointed two Chinese investigators, who proceeded at once to the scene of the alleged murder. These two men returned to Mukden on September 3rd. Major Mori, who had been conducting an independent investigation on behalf of the Japanese General Staff, returned to Mukden on September 4th. On that day Consul-General Hayashi called on General Yung Chen, the Chinese Chief of Staff, and was informed that the findings of the Chinese investigators were indecisive and unsatisfactory, and that it would therefore be necessary to conduct a second enquiry. General Yung Chen left for Peiping on September 4th to consult with Marshal Chang Hsueh-liang on the new developments in the Manchurian situation, returning to Mukden on September 7th.

Efforts of Chinese to reach a settlement.

Having been informed of the seriousness of the situation in Manchuria, Marshal Chang Hsueh-liang instructed Governor Tsang Shih-yi and General Yung Chen to conduct, without delay and on the spot, a second enquiry into the Nakamura case. Learning from his Japanese military advisers of the deep concern of the Japanese military over this affair, he sent Major Shibayama to Tokyo to make it clear that he wished to settle the case amicably. Major Shibayama arrived in Tokyo on September 12th, and stated, according to subsequent Press reports, that Marshal Chang Hsueh-liang was sincerely desirous of securing an early and equitable termination of the Nakamura issue. In the meantime, Marshal Chang had sent Mr. Tang Er-ho, a high official, on a special mission to Tokyo to consult with the Minister for Foreign Affairs, Baron Shidehara, in order to ascertain what common ground might be found for a solution of various pending Sino-Japanese questions concerning Manchuria. Mr. Tang Er-ho had conversations with Baron Shidehara, General Minami and other high military officials.

On September 16th, Marshal Chang Hsueh-liang gave out an interview to the Press which reported him as saying that the Nakamura case, in accordance with the wish of the Japanese, would be handled by Governor Tsang Shih-yi and the Manchurian authorities, and not by the Foreign Office at Nanking.

The second Chinese commission of investigation, after visiting the scene of the killing of Captain Nakamura, returned to Mukden on the morning of September 16th. On the afternoon of the 18th, the Japanese Consul called upon General Yung Chen, when the latter stated that Commander Kuan Yu-heng had been brought to Mukden on September 16th charged with responsibility for the murder of Captain Nakamura and would be immediately tried by a military court-martial. Later, it was made known by the Japanese, after their occupation of Mukden, that Commander Kuan had been detained by the Chinese in a military prison.

Consul-General Hayashi, Mukden, was reported on September 12th-13th to have reported to the Japanese Foreign Office that "an amicable settlement would probably be made after the return of the investigators to Mukden", especially as General Yung Chen had definitely admitted that Chinese soldiers had been responsible for the death of Captain Nakamura. The Mukden correspondent of the *Nippon Dempo Service* telegraphed a despatch on September 12th stating that "an amicable settlement of the alleged murder case of Captain Shintaro Nakamura of the Japanese General Staff Office by soldiers of the Chinese Reclamation Army Corps is in sight". Numerous statements of Japanese military officers, however, especially those of Colonel K. Doihara, continued to question the sincerity of the Chinese efforts to arrive at a satisfactory solution of the Nakamura case, in view of the fact that Commander Kuan, alleged to have been responsible for the death of Captain Nakamura, had been taken into custody in Mukden by the Chinese authorities, the date of his court-martial having been announced as to occur within a week. Since the Chinese authorities admitted to Japanese consular officials in Mukden, in a formal conference held on the afternoon of September 18th, that Chinese soldiers were responsible for the death of Captain Nakamura, expressing also a desire to secure a settlement of the case diplomatically without delay, it would seem that diplomatic negotiations for attaining a solution of the Nakamura case were actually progressing favourably up to the night of September 18th.

The Nakamura case, more than any other single incident, greatly aggravated the resentment of the Japanese and their agitation in favour of forceful means to effect a solution of outstanding Sino-Japanese difficulties in regard to Manchuria. The inherent seriousness of the case was aggravated by the fact that Sino-Japanese relations just at this time were strained on account of the Wanpaoshan affair, the anti-Chinese riots in Korea, the Japanese military manœuvres across the Tumen River on the Manchurian-Korean frontier, and the Chinese mob violence committed at Tsingtao, in protest against the activities of the local Japanese patriotic societies.

Captain Nakamura was an army officer on active service, a fact which was pointed to by the Japanese as a justification for strong and swift military action. Mass meetings were held in Manchuria and in Japan for the purpose of crystallising public sentiment in favour of such action. During the first two weeks of September, the Japanese Press repeatedly declared that the army had decided that the "solution ought to be by force", since there was no other alternative.

The Chinese claimed that the importance of the case was greatly exaggerated and that it was made a pretext for the Japanese military occupation of Manchuria. They denied the contention of the Japanese that there was insincerity or delay on the part of the Chinese officials in dealing with the case.

The results of
the Nakamura
case.

By the end of August 1931, therefore, Sino-Japanese relations over Manchuria were severely strained in consequence of the many controversies and incidents described in this chapter. The claim that there were 300 cases outstanding between the two countries and that peaceful methods for settling each of them had been progressively exhausted by one of the parties cannot be substantiated. These so-called "cases" were rather situations arising out of broader issues, which were rooted in fundamentally irreconcilable policies. Each side accuses the other of having violated, unilaterally interpreted, or ignored the stipulations of the Sino-Japanese agreements. Each side had legitimate grievances against the other.

The account here given of the efforts made by one side or the other to secure a settlement of these questions at issue between them shows that some efforts were being made to dispose of these questions by the normal procedure of diplomatic negotiation and peaceful means, and these means had not yet been exhausted. But the long delays put a severe strain on the patience of the Japanese. Army circles in particular were insisting on the immediate settlement of the Nakamura case and demanded satisfactory reparation. The Imperial Ex-Soldiers' Association, amongst others, was instrumental in rousing public opinion.

In the course of September, public sentiment regarding the Chinese questions, with the Nakamura case as the focal point, became very strong. Time and again the opinion was expressed that the policy of leaving so many issues in Manchuria unsettled had caused the Chinese authorities to make light of Japan. Settlement of all pending issues, if necessary by force, became a popular slogan. Reference was freely made in the Press to a decision to resort to armed force, to conferences between the Ministry of War, the General Staff and other authorities for the discussion of a plan with this object, to definite instructions regarding the execution, in case of necessity, of that plan to the Commander-in-Chief of the Kwantung Army and to Colonel Doihara, Resident Officer at Mukden, who had been summoned to Tokyo early in September and who was quoted by the Press as the advocate of a solution of all pending issues, if necessary by force and as soon as possible. The reports of the Press regarding the sentiments expressed by these circles and some other groups point to a growing and dangerous tension. J

Chapter IV.

NARRATIVE OF EVENTS IN MANCHURIA ON AND SUBSEQUENT TO SEPTEMBER 18th, 1931.

**Situation
immediately
preceding the
outbreak.**

(See
Map No. 5*)

In the preceding chapter, the growing tension between the Japanese and Chinese interests in Manchuria was discussed and its effect on the attitudes of the military forces of the two nations described. Certain internal, economic and political factors had undoubtedly for some time been preparing the Japanese people for a resumption of the "positive policy" in Manchuria. The dissatisfaction of the army; the financial policy of the Government; the appearance of a new political force emanating from the army, the country districts and the nationalist youth, which expressed dissatisfaction with all political parties, which despised the compromise methods of Western civilisation and relied on the virtues of Old Japan and which included in its condemnation the self-seeking methods whether of financiers or politicians; the fall in commodity prices,

* Note by the Secretariat: All maps are to be found in the pocket of the Cover.

which inclined the primary producer to look to an adventurous foreign policy for the alleviation of his lot; the trade depression, which caused the industrial and commercial community to believe that better business would result from a more vigorous foreign policy: all these factors were preparing the way for the abandonment of the Shidehara "policy of conciliation" with China which seemed to have achieved such meagre results. This impatience in Japan was even greater among the Japanese in Manchuria, where the tension throughout the summer was increasing. As September wore on, this tension reached such a point that it was apparent to all careful observers that a breaking-point must soon be reached. The public Press of both countries tended rather to inflame than to calm public opinion. Vigorous speeches of the Japanese War Minister in Tokyo, counselling direct action by their army in Manchuria, were reported. Protracted delay by the Chinese authorities in making satisfactory investigation of and redress for the murder of Captain Nakamura had particularly incensed the young officers of the Japanese Army in Manchuria, who clearly showed their sensitiveness to irresponsible remarks and slurs made by equally irresponsible Chinese officers on the streets or in restaurants and other places of close contact. And so the stage was set for the events which followed.

On the morning of Saturday, September 19th, the population of Mukden woke to find their city in the hands of Japanese troops. During the night sounds of firing had been heard, but there was nothing unusual in this; it had been a nightly experience throughout the week, as the Japanese had been carrying out night manœuvres involving vigorous rifle and machine-gun firing. True that, on the night of September 18th, the booming of guns and the sound of shells caused some alarm to the few that distinguished them, but the majority of the population considered the firing to be merely another repetition of Japanese manœuvres, perhaps rather noisier than usual.

Appreciating the great importance of this occurrence, which, as will be shown, was the first step of a movement which resulted in the military occupation of practically the whole of Manchuria, the Commission conducted an extensive enquiry into the events of that night. Of great value and interest, of course, were the official accounts of the Japanese and Chinese military leaders involved. The Japanese case was presented by Lieutenant Kawamoto, who is the earliest witness in the story, by Lieutenant-Colonel Shimamoto, the Commanding Officer of the battalion which carried out the attack on the North Barracks (Peitaying), and by Colonel Hirata, who captured the walled city. We also heard evidence from Lieutenant-General Honjo, the Commander-in-Chief of the Kwantung Army, and from several members of his staff. The Chinese case was presented by General Wang I-Cheh, the officer in command of the Chinese troops in the North Barracks, supplemented by the personal narratives of his Chief of Staff and of other officers who were present during the operations. We also heard the evidence of Marshal Chang Hsueh-liang and of his Chief of Staff, General Yung Chen.

According to the Japanese versions, Lieutenant Kawamoto, with six men under his command, was on patrol duty on the night of September 18th, practising defence exercises along the track of the South Manchuria Railway to the north of Mukden. They were proceeding southwards in the direction of Mukden. The night was dark but clear and the field of vision was not wide. When they reached a point at which a small road crosses the line, they heard the noise of a loud explosion a little way behind them. They turned and ran back, and after going about 200 yards they discovered that a portion of one of the rails on the down track had been blown out. The explosion took place at the point of junction of two rails; the end of each rail had been cleanly severed, creating a gap in the

**The night of
September
18th-19th.**
(See
Map No. 6)

**The Japanese
version.**

line of 31 inches. On arrival at the site of the explosion, the patrol was fired upon from the fields on the east side of the line. Lieutenant Kawamoto immediately ordered his men to deploy and return the fire. The attacking body, estimated at about five or six, then stopped firing and retreated northwards. The Japanese patrol at once started in pursuit and, having gone about 200 yards, they were again fired upon by a larger body, estimated at between three and four hundred. Finding himself in danger of being surrounded by this large force, Lieutenant Kawamoto then ordered one of his men to report to the Commander of No. 3 Company, who was also engaged in night manoeuvres some 1,500 yards to the north; at the same time, he ordered another of his men to telephone (by means of a box telephone near the spot) to Battalion Headquarters at Mukden for reinforcements.

At this moment the south-bound train from Changchun was heard approaching. Fearing that the train might be wrecked when it reached the damaged line, the Japanese patrol interrupted their engagement and placed detonators on the line in the hope of warning the train in time. The train, however, proceeded at full speed. When it reached the site of the explosion it was seen to sway and heel over to one side, but it recovered and passed on without stopping. As the train was due at Mukden at 10.30 p.m., where it arrived punctually, it must have been about 10 o'clock p.m., according to Lieutenant Kawamoto, when he first heard the explosion.

Fighting was then resumed. Captain Kawashima, with No. 3 Company, having heard the explosion, was already proceeding southwards when he met Lieutenant Kawamoto's messenger, who guided them to the spot. They arrived at about 10.50 p.m. Meanwhile, Lieutenant-Colonel Shimamoto, the Battalion Commander, on receipt of a telephone message, at once ordered the 1st and 4th Companies that were with him at Mukden to proceed to the spot. He also sent orders to the 2nd Company, which was at Fushun — an hour and a-half away — to join them as soon as possible. The two Companies proceeded by rail from Mukden to Liutiaohu Station, and then on foot to the scene of action, where they arrived a little after midnight.

Lieutenant Kawamoto's patrol, reinforced by Captain Kawashima's Company, was still sustaining the fire of the Chinese troops concealed in the tall kaoliang grass, when the two Companies arrived from Mukden. Although his force was then only 500, and he believed the Chinese army in the North Barracks numbered 10,000, Lieutenant-Colonel Shimamoto at once ordered an attack on the Barracks, believing, as he told us, that "offence is the best defence". The ground between the railway and the North Barracks — a distance of about 250 yards — was difficult to cross in mass formation because of patches of water, and, while the Chinese troops were being driven back over this ground, Lieutenant Noda was sent up the railway with a section of the 3rd Company to intercept their retreat. When the Japanese reached the North Barracks, which were described as glittering with electric light, an attack was made by the 3rd Company, which succeeded in occupying a corner of the left wing. The attack was vigorously contested by the Chinese troops within, and there was fierce fighting for some hours. The 1st Company attacked on the right and the 4th Company in the centre. At 5 a.m. the south gate of the Barracks was blown in by two shells from a small cannon left in an outhouse immediately opposite to it by the Chinese, and by 6 o'clock a.m. the entire barracks were captured at the cost of two Japanese privates killed and twenty-two wounded. Some of the barracks caught fire during the fighting; the remainder were burned out by the Japanese on the morning of the 19th. The Japanese stated that they buried 320 Chinese, but only found about 20 wounded.

In the meantime, operations in other places were being carried out with equal rapidity and thoroughness. Colonel Hirata received a telephone message from Lieutenant-Colonel Shimamoto about 10.40 p.m. to the effect that the South Manchuria Railway track had been destroyed by Chinese troops and that he was about to start to attack the enemy. Colonel Hirata approved his action and himself decided to attack the walled city. The concentration of his troops was complete by 11.30 p.m. and his attack commenced. No resistance was offered, only occasional fighting on the streets, mostly with the Chinese police, of whom 75 were killed. At 2.15 a.m. the wall of the city was scaled. By 3.40 a.m. he had captured it. At 4.50 a.m. he received information that the staff of the 2nd Division and a part of the 16th Regiment had left Liaoyang at 3.30 a.m. These troops arrived shortly after 5 a.m. At 6 a.m. the occupation of the eastern wall was completed; the arsenal and aerodrome were captured at 7.30. The East Barracks were then attacked and by 1 p.m. were occupied without fighting. The total casualties in these operations were 7 Japanese wounded and 30 Chinese killed.

Lieutenant-General Honjo, who had only returned from his tour of inspection that very day, received the first news of what was happening at Mukden by telephone from a newspaper agency at about 11 o'clock a.m. The Chief of Staff received a telegraphic report at 11.46 a.m. from the Special Service Station at Mukden, giving details of the attack, and orders were immediately sent to the troops at Liaoyang, Yingkow and Fenghuangsheng to proceed to Mukden. The fleet was ordered to leave Port Arthur and proceed to Yingkow and the Commander-in-Chief of the Japanese Garrison Army in Korea was asked to send reinforcements. Lieutenant-General Honjo left Port Arthur at 3.30 a.m. and arrived at Mukden at noon.

According to the Chinese version, the Japanese attack on the Barracks (Peitaying) was entirely unprovoked and came as a complete surprise. On the night of September 18th, all the soldiers of the 7th Brigade, numbering about 10,000, were in the North Barracks. As instructions had been received from Marshal Chang Hsueh-liang on September 6th¹ that special care was to be taken to avoid any clash with the Japanese troops in the tense state of feeling existing at the time, the sentries at the walls of the Barracks were only armed with dummy rifles. For the same reason, the west gate in the mud wall surrounding the camp which gave access to the railway had been closed. The Japanese had been carrying out night manoeuvres around the barracks on the nights of September 14th, 15th, 16th and 17th. At 7 p.m. on the evening of the 18th, they were manoeuvring at a village called Wenkuantun. At 9 p.m., Officer Liu reported that a train composed of three or four coaches, but without the usual type of locomotive, had stopped there. At 10 p.m. the sound of a loud explosion was heard, immediately followed by rifle fire. This was reported over the telephone by the Chief of Staff to the Commanding Officer, General Wang I-Cheh, who was at his private house situated near the railway, about six or seven miles from the barracks, to the south. While the Chief of Staff was still at the telephone, news was brought to him that the Japanese were attacking the barracks and that two sentries had been wounded. At about 11 o'clock p.m., a general attack on the south-west corner of the barracks began, and at 11.30 p.m. the Japanese had effected an entry

The Chinese version.

¹ The text of the telegram shown to the Commission at Peiping was as follows :

“Our relations with Japan have become very delicate. We must be particularly cautious in our intercourse with them. No matter how they may challenge us, we must be extremely patient and never resort to force, so as to avoid any conflict whatever. You are instructed to issue, secretly and immediately, orders to all the officers, calling their attention to this point.”

through a hole in the wall. As soon as the attack began, the Chief of Staff gave orders for the lights to be extinguished, and again reported to General Wang I-Cheh by telephone. The latter replied that no resistance was to be offered. Distant artillery fire was heard at 10.30 o'clock p.m. from the south-west and north-west. At midnight, live shells began to fall inside the barracks. On reaching the south gate, the retreating troops of the 621st Regiment found that the Japanese were attacking that gate and that the guard was withdrawing. They accordingly took shelter in some trenches and earthworks until after the Japanese soldiers had passed through into the interior, when they were able to make their escape through the south gate and reached the village of Erhtaitze, to the north-east of the barracks, about 2 a.m. Other troops made their escape through the east gate and the empty barracks just outside the east wall, finally reaching the same village between 3 and 4 a.m.

The only resistance was offered by the 620th Regiment, quartered in the north-east corner building and the second building south of it. The commander of this regiment stated that, when the Japanese troops entered through the south gate at 1 a.m., the Chinese troops withdrew from one building to another, leaving the Japanese to attack empty buildings. After the main body of the Chinese troops had withdrawn, the Japanese turned eastwards and occupied the eastern exit. The 620th Regiment thus found themselves cut off, and had no option but to fight their way through. They started to break through at 5 a.m., but did not get completely clear until 7 a.m. This was the only actual fighting that took place in the barracks and was responsible for most of the casualties. This regiment was the last to reach the village of Erhtaitze.

As soon as they were all assembled, the Chinese troops left the village in the early morning of the 19th for Tungling Station. From here they made their way to a village near Kirin, where they obtained a supply of winter clothing. Colonel Wang was sent to obtain permission from General Hsi Hsia for the troops to enter Kirin City. The Japanese residents at Kirin were so alarmed at the approach of the Chinese soldiers that reinforcements were at once sent from Changchun, Ssuping kai and Mukden to Kirin. Consequently, the Chinese turned back towards Mukden. They left their trains 13 miles outside Mukden, separated into nine groups, and marched round Mukden by night. To escape detection by the Japanese, General Wang I-Cheh himself rode through the town disguised as a peasant. In the morning, the Japanese obtained news of their presence and sent aeroplanes to bomb them. They were obliged to lie hidden by day, but continued their march at night. Eventually they reached a station on the Peiping-Mukden railway, and here they were able to order seven trains, which brought them to Shanhaikwan by October 4th.

**Opinion of the
Commission.**

Such are the two stories of the so-called incident of September 18th as they were told to the Commission by the participants on both sides. Clearly, and not unnaturally in the circumstances, they are different and contradictory.

Appreciating the tense situation and high feeling which had preceded this incident, and realising the discrepancies which are bound to occur in accounts of interested persons, especially with regard to an event which took place at night, the Commission, during its stay in the Far East, interviewed as many as possible of the representative foreigners who had been in Mukden at the time of the occurrences or soon after, including newspaper correspondents and other persons who had visited the scene of conflict shortly after the event, and to whom the first official Japanese account had been given. After a thorough consideration of such opinions, as well as of the accounts of the interested parties, and after a mature study of the considerable quantity of written material and a careful weighing

of the great mass of evidence which was presented or collected, the Commission has come to the following conclusions :

Tense feeling undoubtedly existed between the Japanese and Chinese military forces. The Japanese, as was explained to the Commission in evidence, had a carefully prepared plan to meet the case of possible hostilities between themselves and the Chinese. On the night of September 18th-19th, this plan was put into operation with swiftness and precision. The Chinese, in accordance with the instructions referred to on page 69, had no plan of attacking the Japanese troops, or of endangering the lives or property of Japanese nationals at this particular time or place. They made no concerted or authorised attack on the Japanese forces and were surprised by the Japanese attack and subsequent operations. An explosion undoubtedly occurred on or near the railroad between 10 and 10.30 p.m. on September 18th, but the damage, if any, to the railroad did not in fact prevent the punctual arrival of the south-bound train from Changchun, and was not in itself sufficient to justify military action. The military operations of the Japanese troops during this night, which have been described above, cannot be regarded as measures of legitimate self-defence. In saying this, the Commission does not exclude the hypothesis that the officers on the spot may have thought they were acting in self-defence.

The narrative of the subsequent events must now be resumed.

On the night of September 18th, the Japanese troops in Manchuria were distributed as follows : In addition to the four Companies of the Battalion of Railway Guards which took part in the attack on the North Barracks, and the 29th Regiment of the 2nd Division under Colonel Hirata, which captured the Walled City of Mukden, already described, the rest of the 2nd Division was distributed in various places ; the Headquarters of the 4th Regiment was at Changchun, of the 16th at Liaoyang, of the 30th at Port Arthur ; other parts of these regiments were stationed at Antung, Yingkow, and at many smaller places on the Changchun-Mukden branch and the Antung-Mukden branch of the South Manchuria Railway. Another battalion of Railway Guards was at Changchun, and units of the Railway Guards and Gendarmerie were distributed with the 2nd Division in the smaller places already mentioned. Lastly, there were the garrison troops of Korea.

All the forces in Manchuria, and some of those in Korea, were brought into action almost simultaneously on the night of September 18th over the whole area of the South Manchuria Railway from Changchun to Port Arthur. Their total strength was as follows : 2nd Division, 5,400 men and 16 field-guns ; Railway Guards about 5,000 men ; Gendarmerie about 500. The Chinese troops at Antung, Yingkow, Liaoyang and other smaller towns were overcome and disarmed without resistance. The Railway Guards and Gendarmerie remained in these places, while the units of the 2nd Division at once concentrated at Mukden to take part in the more serious operations. The 16th and 30th Regiments arrived in time to join Colonel Hirata and assisted in the capture of the East Barracks. The 39th Mixed Brigade of the 20th Division (4,000 men and artillery) concentrated at 10 a.m. on the 19th at Shingishu on the Korean frontier, crossed the Yalu river on the 21st, and arrived at Mukden at midnight. From here detachments were sent to Liaoyuan and Hsinmin, which they occupied on the 22nd.

The Chinese Garrisons of Kuanchengtze and Nanling at Changchun, with an estimated strength of 10,000 men and 40 guns, were attacked on the night of September 18th by the 4th Regiment of the 2nd Division and 1st Railway Guard Battalion stationed there (under Major-General Hasebe). Here, however, some resistance was shown by the Chinese. Fighting began at midnight. Nanling barracks were captured by 11 a.m. on the 19th, those of Kuanchengtze by 3 p.m. that day. The total Japanese casualties

**Movements of
Japanese
troops.**

**Occupation of
Changchun on
September
18th-19th,
and Kirin on
September
21st.**

involved were 3 officers and 64 men killed and 3 officers and 85 men wounded. As soon as the fighting at Mukden was over, the Regiments of the 2nd Division were concentrated at Changchun, the staff, with General Tamon, the 30th Regiment and one Battalion of Field Artillery arriving on the 20th, and the 15th Brigade under General Amano arriving on the 22nd. Kirin was occupied on the 21st without the firing of a shot, and the Chinese troops were removed to a distance of about 8 miles.

The Herald of Asia, a semi-official Japanese publication of that time, states that all military operations were then regarded as completed, and that no further movements of troops were anticipated. The military operations which in fact ensued are attributed to Chinese provocation: an anti-Japanese demonstration at Chientao on the 20th, the destruction of a railway station at Lungchingtsun, and the explosion of some bombs which did no damage on Japanese premises at Harbin on September 23rd are mentioned as examples of such provocation. Complaint is also made of growing banditry and of the activities of disbanded soldiers. All of these things, it is claimed, finally forced the Japanese to new military operations against their will.

**Bombing of
Chinchow.**

The first of these operations was the bombing, on October 8th, of Chinchow, to which place the Provincial Government of Liaoning Province had been transferred by Marshal Chang Hsueh-liang at the end of September. According to the Japanese account, the bombing was chiefly directed against the military barracks and the Communications University, where the offices of the Civil Government had been established. The bombing of a civil administration by military forces cannot be justified and there is some doubt whether the area bombed was in fact as restricted as the Japanese allege. Mr. Lewis, an American honorary adviser of the Chinese Government, arrived at Chinchow on October 12th and wrote an account of what he found there to Dr. Koo, who passed on the information later to the Commission in his capacity of Assessor. According to Mr. Lewis, the military barracks were in fact not touched at all and a multitude of bombs fell everywhere in the town, even on the hospital, as well as on the University buildings. The Commander of the bombing-planes informed a Japanese newspaper shortly afterwards that four planes from Changchun were ordered to Mukden at 8.30 a.m. on the 8th. There they joined other planes and a squad of six scouting and five bombing-planes were immediately despatched to Chinchow heavily loaded with bombs and fuel. They arrived at about 1 p.m., within ten to fifteen minutes dropped eighty bombs, and immediately returned to Mukden. The Chinese, according to Mr. Lewis, did not return the fire.

**Nonni Bridge
operations.**

The next operation was that of the Nonni River Bridges, which started in the middle of October and ended on November 19th with the occupation of Tsitsihar by the Japanese troops. The justification for this given by the Japanese was that they were attacked while repairing the bridge over the Nonni River which had been destroyed by General Ma Chan-shan. But the story must be begun earlier and an explanation given of the destruction of the bridges.

At the beginning of October, General Chang Hai-peng, the Garrison Commander at Taonan, who in former times had held the same rank as Ma Chan-shan and Wan Fu-iin, and had tried to become Governor of Heilungkiang Province in their place, started an advance movement along the Taonan-Angangchi Railway with the obvious object of seizing the Provincial Government by force. It is alleged in the Chinese Assessor's document No. 3, and this view is supported by information from neutral sources, that this offensive was instigated by the Japanese. In order to prevent the advance of Chang Hai-peng's troops, General Ma Chan-shan ordered the destruction of the bridges over the Nonni river and both armies faced each other across the large and swampy valley of that river.

The Taonan-Angangchi Railway had been built with capital supplied by the South Manchuria Railway and the line was pledged as security for the loan. Accordingly, the South Manchuria Railway authorities felt that the interruption to the traffic on this line could not be allowed to continue at a season when the transportation of crops from the north of Manchuria was particularly needed. The Japanese Consul-General at Tsitsihar, on instructions from his Government, requested General Ma Chan-shan, who had arrived at Tsitsihar on October 20th, to have the bridges repaired as soon as possible, but no time-limit accompanied this request. The Japanese authorities believed that General Ma Chan-shan would delay as long as possible the repairing of the bridges, as this interruption helped him to keep General Chang Hai-peng's troops at a distance. On October 20th, a small party of employees of the Taonan-Angangchi Railway and the South Manchuria Railway, without military escort, attempted to inspect the damage to the bridges, and was fired upon by Chinese troops in spite of explanations previously given to an officer of the Heilungkiang Provincial forces. This aggravated the situation and accordingly, on October 28th, Major Hayashi, the representative of General Honjo at Tsitsihar, demanded the completion of the repairs by noon of November 3rd, stating that, if they were not carried out by that date, engineers of the South Manchuria Railway, under the protection of Japanese troops, would take over the work. The Chinese authorities asked for an extension of the time-limit, but no answer was returned to this request and Japanese troops were despatched from Ssupingkai for the purpose of protecting the execution of the repair work.

By November 2nd, the negotiations had not progressed and no decision had been reached. On that day, Major Hayashi delivered an ultimatum to Generals Ma Chan-shan and Chang Hai-peng, demanding that neither of them should use the railway for tactical purposes and that both should withdraw their forces to a distance of 10 kilometres from each side of the river. It was intimated that, if the troops of either of these Generals obstructed the repair of the bridges by the engineers of the South Manchuria Railway, the Japanese would regard them as enemies. The ultimatum was to take effect as from noon of November 3rd, and the Japanese protective detachment was under orders to advance to Tahsing Station, on the north side of the valley, by noon of November 4th. The Chinese Assessor (document No. 3), the Japanese Consul-General at Tsitsihar and various officers of the 2nd Division all concur that General Ma Chan-shan replied that, pending instructions from the Central Government, he provisionally accepted, on his own authority, the Japanese demands. But the Japanese witnesses, on the other hand, added that they did not believe in the sincerity of General Ma, who obviously did not intend to permit the damaged bridges to be quickly or effectively repaired. Twice on November 4th a joint commission, including Major Hayashi, a representative of the Japanese Consul-General, and Chinese officers and civil officials went to the bridges in order to avoid an outbreak of hostilities, and the Chinese delegates asked for a postponement of the Japanese advance. The demand was not complied with, and Colonel Hamamoto, the Commander of the 16th Infantry Regiment, in compliance with his orders, advanced to the bridges with one battalion of his regiment, two companies of field artillery and one company of engineers, to begin the repair work in accordance with the terms of the Japanese ultimatum. The engineers, under the command of Captain Hanai, started work on the morning of November 4th, and one infantry company, with two Japanese flags, began its advance to Tahsing Station by noon of that day.

Hostilities actually began during the second attempt of the above-mentioned mixed commission, which went to the spot early in the afternoon of the 4th in order to make a last attempt to secure the withdrawal of the

Chinese troops. As soon as firing began, Colonel Hamamoto realised that his men were in a very difficult position and went immediately to their support with whatever troops he had available. A rapid reconnaissance convinced him that a frontal attack was impossible on account of the swampy ground, and that nothing but an encircling movement against the left wing of the opposing force would help him out of this difficult situation. Accordingly, he despatched his reserve companies to attack the hill on which the left wing of the opposing forces rested, but the small number of his forces and the impossibility of bringing his guns near enough for action prevented him from gaining the position before nightfall. The hill was captured by 8.30 p.m., but no further advance was possible on that day.

The Kwantung Army Headquarters, on receiving a report of the position, immediately despatched strong reinforcements, and another battalion of infantry arrived during the night, enabling the Colonel to re-open his attack at dawn of November 5th. Even then, after a couple of hours and reaching the first Chinese position, he found himself confronted with a strong line of trenches, defended, according to his own statement to the Commission, with about seventy automatic and machine-guns. His attack was held up, and his troops suffered heavy losses as a result of a Chinese encircling counter-attack executed by infantry and cavalry men. The Japanese troops were forced to retire and for the second time they could do nothing but hold their position until nightfall. During the night of November 5th-6th, two fresh battalions arrived. This relieved the situation, and a renewed attack on the morning of the 6th rolled up the entire Chinese front, and brought Tahsing Station into the hands of the Japanese troops by noon. As Colonel Hamamoto's mission was only to occupy Tahsing Station in order to cover the repair work of the bridges, no pursuit of the retreating Chinese troops was made, but the Japanese troops remained in the vicinity of the station.

The Chinese Assessor, in the same document No. 3, alleges that Major Hayashi, on November 6th, made a new request to the Heilungkiang Government, asking (1) that General Ma Chan-shan should resign from the Governorship in favour of General Chang Hai-peng, and (2) that a public safety committee should be organised. A photograph of Major Hayashi's letter containing these requests was shown to the Commission. This document further states that, on the following day, without waiting for a reply, the Japanese troops began a new attack on the provincial forces now stationed at Sanchienfang, about 20 miles north of Tahsing, and that, on November 8th, Major Hayashi sent another letter repeating the demand for General Ma Chan-shan's retirement from the Governorship of the province in favour of General Chang Hai-peng, and for a reply before midnight of that day. On November 11th, the Chinese account continues, General Honjo himself asked by telegram for General Ma Chan-shan's retirement, the evacuation of Tsitsihar, and the right for the Japanese troops to advance to Angangchi Station, again requiring a reply before nightfall of that day. On November 13th, Major Hayashi increased the third demand to one for the Japanese troops to occupy, not only Angangchi Station, but Tsitsihar Station as well. General Ma Chan-shan pointed out in reply that Tsitsihar Station had nothing to do with the Taonan-Angangchi Railway.

On November 14th and 15th, the Japanese combined forces renewed their attack with the support of four aeroplanes. On November 16th, General Honjo demanded the retreat of General Ma Chan-shan to the north of Tsitsihar, the withdrawal of Chinese troops to the north of the Chinese Eastern Railway, and an undertaking not to interfere in any way with the traffic and operation of the Taonan-Angangchi Railway, these demands to be carried out within ten days from November 15th, and a reply to be sent to the Japanese Special Bureau at Harbin. When General Ma Chan-shan declined to accept these terms, General Tamon began a

new general attack on November 18th. General Ma Chan-shan's troops retreated, first to Tsitsihar, which was taken by the Japanese on November 19th, and then to Hailun, to which place the administrative offices of the Government were removed.

According to the evidence of Japanese Generals commanding on the spot, the new operations did not begin before November 12th. General Ma Chan-shan at that time had gathered about 20,000 of his troops to the west of Sanchienfang, and even sent for the land colonisation troops in Heilungkiang Province and the forces of General Ting Chao. Against these large forces, which showed an increasingly threatening attitude, the Japanese could oppose only the now concentrated division of General Tamon, consisting of two brigades under Generals Amano and Hasabe. In order to relieve this tense situation, General Honjo demanded, on November 12th, that all Heilungkiang troops should retire to the north of Tsitsihar and that his troops should be allowed to proceed northward for the protection of the Taonan-Angangchi Railway. The advance did not begin before November 17th, when the Chinese sent cavalry troops around the right flank of the Japanese and attacked them. General Tamon informed the Commission that, in spite of his small strength of 3,000 infantrymen and 24 field-guns, he ventured to attack the Chinese forces and completely defeated them on November 18th, with the result that Tsitsihar was occupied on the morning of the 19th. One week later, the 2nd Division returned to its original quarters, leaving General Amano with one infantry regiment and one battery of artillery at Tsitsihar to hold the place against General Ma Chan-shan's troops. This small Japanese force was subsequently reinforced by the newly-formed "Manchukuo" troops, but these new troops, at the time of our visit to Tsitsihar in May 1932, were not yet considered capable of fighting the forces of General Ma Chan-shan.

The attached Map No. 7 (Military Situation Chart) shows the distribution of regular troops of both sides at the time of the first resolution of the Council. No account is taken of disbanded soldiers and bandit groups which, at that time, specially infested the areas east and west of the Liao River and the Chientao district. Both the parties have accused each other of purposely instigating banditry — the Japanese attributing to the Chinese the motive of wishing to create disorder in the lost parts of Manchuria, and the Chinese suspecting the Japanese of wishing to find pretexts for occupying the country and still further extending their military operations. The strength and military value of these gangs are so vague and changeable that it would not be possible to insert an accurate estimate of their significance into the picture of the military situation. The chart shows that the Command of the North-Eastern troops had succeeded in organising a force of considerable strength in the south-western part of Liaoning Province. These troops had been able to construct a strongly entrenched position on the right bank of the Taling River very close to the foremost Japanese outposts. Such a situation may well have caused the Japanese military authorities some anxiety, as they estimated the total strength of these regular troops at 35,000 men, or about double the total admitted strength of their own forces in Manchuria at that moment.

This situation was relieved by action taken in consequence of certain events which occurred at Tientsin during the month of November. Reports as to the origin of the trouble differ widely. There were two outbreaks, on November 8th and 26th, respectively, but the whole affair is extremely obscure.

According to the Japanese account in the *Herald of Asia*, the Chinese population at Tientsin was divided between those who supported and those who opposed Marshal Chang Hsueh-liang, and the latter organised forces to create a political demonstration in the Chinese city by attacking the guardians of public order on November 8th. In this dispute between

(See
Map No. 7)

**The Tientsin
incident.**

**Outbreak of
November 8th :
Japanese
version.**

two Chinese factions, the Commander of the Japanese garrison observed strict neutrality from the beginning, but was forced to open fire when Chinese guards in the vicinity of the Japanese Concession began to shoot indiscriminately into his district. His demand that the combating Chinese forces should keep at 300 yards distance from the border of the Concession did not relieve the situation, which grew so tense that, on November 11th or 12th, all foreign garrisons mounted guard.

Chinese
version.

The account given by the Municipal Government of Tientsin is very different. They assert that the Japanese employed Chinese ruffians and Japanese plain-clothes men, who were formed into operating gangs within the Japanese Concession, in order to start trouble in the Chinese city. Their police authorities, being timely informed by agents of this situation, were able to repulse the disorderly bands emerging from the Japanese Concession. They say that, from the confession of arrested members of these gangs, they are able to prove that the riot was organised by the Japanese and that the men were armed with guns and ammunition of Japanese make. They admit that the Japanese garrison Commander complained on the morning of the 9th that some of his men had been wounded by stray bullets and that he had asked for a withdrawal to a distance of 300 yards, but they assert that, in spite of their acceptance of these conditions, the Japanese regular troops attacked the Chinese city with armoured cars and shelled it.

The account of the Municipal Government further states that, on November 17th, an agreement was reached which fixed the details for the withdrawal to a distance of 300 yards, but it asserts that the Japanese did not carry out their part of the agreement, and that consequently the situation grew worse.

On November 26th, a terrific explosion was heard, immediately followed by firing of cannon, machine-guns and rifles. The electric lights in the Japanese Concession were put out, and plain-clothes men emerged from it attacking the police stations in the vicinity.

Outbreak of
November
26th :
Conflicting
accounts.

The Japanese account of this later disturbance as given in the *Herald of Asia* is to the effect that, on the 26th, the situation had become so much better that their volunteer corps was disbanded and that, on the same evening, the Chinese opened fire on the Japanese barracks, and as the fire, in spite of their protests, did not stop until noon of the 27th, they had no choice but to accept the challenge and to fight the Chinese. The battle went on until the afternoon of the 27th, when a peace conference was held. On that occasion, the Japanese demanded the immediate cessation of hostilities and the withdrawal of Chinese troops and police forces to a distance of 20 Chinese li from all places where foreign troops were stationed. The Chinese agreed to withdraw their soldiers, but not their police forces, which were alone responsible for the safety of foreigners in that district. The Japanese say that, on November 29th, the Chinese offered their withdrawal from the neighbourhood of the Concession ; their offer was accepted ; the Chinese armed police withdrew on the morning of the 29th and the defence work was removed on the 30th.

Effect of the
Tientsin
disturbances
on the
situation in
Manchuria.

The threatening situation at Tientsin on the 26th caused the staff officers of the Kwantung Army to propose to the Commander an immediate expedition of troops via Chinchow and Shanhaikwan to reinforce the endangered small force at Tientsin. As a mere transport problem it would have been easier and quicker to despatch reinforcements by sea via Dairen. But considered strategically, the suggested route had this advantage, that it would enable the advancing troops to dispose *en route* of the very inconvenient Chinese concentration around Chinchow. It was assumed that the delay in taking this route would not be long, as little or no resistance from the Chinese was anticipated. The suggestion was approved, and one armoured train, one troop train, and a couple of aeroplanes crossed the Liao River on November 27th, and their attack on the first Chinese outposts was sufficient

to initiate a retreat of the Chinese troops from their entrenched position. The armoured-car corps also changed its position. A shade of resistance led the Japanese to reinforce their strength by more armoured trains, infantry trains, and artillery. They also repeatedly threw bombs on Chinchow, but news of the improved situation at Tientsin soon deprived the expedition of its original objective and, on November 29th, to the great surprise of the Chinese, the Japanese forces were withdrawn to Hsinmin.

Another consequence of the earlier disturbances at Tientsin was that the former Emperor, who had been living in the Japanese Concession there, sought a safer refuge at Port Arthur on November 13th, after a talk with Colonel Doihara.

The districts evacuated by the Japanese were re-occupied by the Chinese troops, and this fact was widely advertised. Chinese *morale* was slightly raised; and the activities of irregular forces and bandits increased. Profiting by the winter season, they crossed the frozen Liao River at many points and raided the country around Mukden. The Japanese military authorities realised that, even to maintain their existing positions, reinforcements would be necessary, and with these reinforcements they hoped to be able to get rid of the menace of the Chinese concentration at Chinchow.

Meanwhile, the situation in Manchuria was a subject of further discussion in Geneva. When accepting the resolution on December 10th, the Japanese delegate stated that his acceptance " was based on the understanding that this paragraph (No. 2) was not intended to preclude the Japanese forces from taking such action as might be necessary ' to provide directly for the protection of the lives and property of Japanese subjects against the activity of bandits and lawless elements rampant in various parts of Manchuria'. Such action was admittedly 'an exceptional measure called for by the special situation prevailing in Manchuria', and its necessity would end when normal conditions should be restored there ". To that the Chinese representative replied " that the injunction to the parties not to aggravate the situation should not be violated under the pretext of the existence of lawlessness caused by the state of affairs in Manchuria ", and several Council members taking part in the discussion admitted that " circumstances might arise there causing danger to Japanese lives and property and in such an emergency it might be inevitable that Japanese forces in the neighbourhood should take action ". When this matter has been referred to by Japanese officers who have given evidence before the Commission, it has been usually asserted that the resolution of December 10th " gave Japan the right to maintain her troops " in Manchuria, or made the Japanese Army responsible for the suppression of banditry there. In describing the subsequent operations, they assert that, while executing this right against the bandit forces near the Liao River, they incidentally came in conflict with the remaining Chinese forces near Chinchow, which were in consequence withdrawn within the Great Wall. The fact remains that, having made their reservation at Geneva, the Japanese continued to deal with the situation in Manchuria according to their plans.

The 2nd Division, with the exception of its garrison at Tsitsihar, was concentrated west of Mukden. Reinforcements soon began to arrive; the 4th Brigade of the 8th Division¹ between December 10th and 15th. On December 27th, Imperial sanction was obtained for the despatch of the Staff of the 20th Division and another brigade from Korea. Changchun and Kirin were for the time being only protected by Independent Railway Guards.

As a Japanese advance on Chinchow was imminent, the Chinese Minister for Foreign Affairs made an attempt to prevent further fighting by offering to withdraw the Chinese troops to within the Great Wall, provided that three or

**The
occupation of
Chinchow.**

**Japanese
reservation
when accepting
the resolution
of the Council
on December
10th.**

**Arrival of
reinforce-
ments.
(See
Map No. 8.)**

**Abortive
negotiations
for the
withdrawal of
Chinese
troops.**

¹ All the statements here given concerning numbers of units and strength of the Japanese forces are based on official Japanese information.

four foreign Powers were willing to guarantee the maintenance of a neutral zone north and south of Chinchow. Nothing came of the proposal. Meanwhile, conversations were initiated between Marshal Chang Hsueh-liang and the Japanese Chargé d'Affaires at Peiping, but these too were abortive for different reasons. The Chinese allege in their document No. 3, Annex E, that, at each successive visit, on December 7th, 25th and 29th, the Japanese delegate increased his demands concerning the Chinese retreat, and his promises with regard to the restraint of the Japanese troops became more and more vague. The Japanese, on the other hand, claim that the Chinese promises to withdraw were never sincere.

**Attack on
Chinchow.**

The concentrated attack of the Japanese forces began on December 23rd, when the 19th Chinese Brigade was forced to give up its position. From that day, the advance continued with perfect regularity and hardly met with any resistance at all, the Chinese Commander having given out a general order to retreat. Chinchow was occupied on the morning of January 3rd and the Japanese forces continued their advance right up to the Great Wall at Schanhaikwan, where they established a permanent contact with the Japanese garrison in that place.

The complete evacuation of Manchuria by the troops of Marshal Chang Hsueh-liang, practically without striking a blow, was not unconnected with the internal conditions of China south of the Wall. Reference has been made in an earlier chapter to the feuds between rival Generals and it must be remembered these feuds had not ceased.

**The
occupation of
Harbin.**

The comparative ease with which the offensive down to Shanhaikwan was carried out enabled the Japanese to release some of their troops from their original positions and make them available for advances in other directions. The main force of the 2nd Division, which had done nearly all the fighting so far, returned to their quarters at Liaoyang, Mukden, and Changchun for a rest. On the other hand, the increased length of railway line to be protected against possible bandit raids at any point necessitated the use of a large number of troops the fighting strength of which was diminished by their distribution over such wide areas. The two brigades under the command of the Staff of the 20th Division were left for this purpose in the newly occupied zone, and the 4th Brigade of the 8th Division joined them more to the north. The Japanese military authorities assured us that, within these well-guarded areas, a state of law and order was soon established and that banditry was practically extinguished on both sides of the Liao River during the following weeks. This statement was made to us in the month of June, but, at the moment of writing this Report, we read of vigorous raids from volunteer troops on Yingkow and Haicheng, with threats even to Mukden and Chinchow.

The district which, at the beginning of this year, gave more trouble than any other was that north and east of Harbin, to which the remaining followers of the two former Provincial Governments of Kirin and Heilungkiang had withdrawn. The Chinese Generals in this northern sector seemed to have maintained some contact with Headquarters at Peiping, whence they received some support from time to time. The advance on Harbin began, as that on Tsitsihar had done, by an encounter between two Chinese forces. General Hsi Hsia at the beginning of January prepared for an expedition to the North with the view to occupying Harbin. Between him and that city were Generals Ting Chao and Li Tu, with what are described as anti-Kirin forces. According to information provided by the Japanese Assessor, when our preliminary report was under consideration, satisfactory terms would have been arranged by negotiation between the parties had it not been for the influence of the authorities at Peiping. Negotiations were in fact initiated and, while they were being carried on, General Hsi Hsia advanced with his troops as far as Shuangchong, which they reached on January 25th, but, when it came to serious fighting on

the following morning in the immediate neighbourhood south of the city, the advance was at once checked. The situation thus created was felt by the Japanese to be full of danger for the large Japanese and Korean colonies at Harbin. Fighting between two more or less irregular Chinese forces in the immediate neighbourhood would have resulted in the retreat on the town of a defeated army, the horrors of which the recent history of China provides so many examples. Urgent appeals were therefore sent to the Kwantung Army, even Chinese merchants, so the Japanese assert, joining in the appeal from fear that their property might be looted.

Colonel Doihara, now General, who, in this emergency, was sent to Harbin on the 26th in order to take over the office of the special Japanese service there, told the Commission that the fighting between the two Chinese forces around Harbin continued for about ten days, and that there was great anxiety for the 4,000 Japanese residents, who mostly lived in a menaced area, together with 1,600 Koreans in the Chinese suburb of Fuchiatien, who were exposed to the danger of massacre. In spite of the fact that the anti-Kirin forces held the town during ten days of continual fighting, the casualties among the Korean and Japanese residents were comparatively few. The latter organised themselves into armed volunteer bands and helped their nationals to escape from the Chinese suburb. One Japanese and three Koreans are said to have been killed while trying to escape. In addition, one of the Japanese aeroplanes, sent to reconnoitre the threatening situation, was forced to land owing to engine trouble and its occupants are said to have been killed by Ting Chao's troops.

These two incidents decided the Japanese military authorities to intervene. Again the 2nd Division was called upon to help its endangered countrymen. But this time the problem was not so much one of fighting as of transportation, the railing north of Changchun being a joint Sino-Russian undertaking. As the rolling-stock of the southern branch of the Chinese Eastern Railway was greatly depleted, the Commander of the 2nd Division decided to send, in the first instance, only General Hasebe and two infantry battalions. Negotiations with the railway authorities were started, but, when these seemed likely to be long drawn out, the Japanese officers decided to enforce the transport of their troops. The railway authorities protested and refused to work the trains, but, in spite of their opposition, the Japanese military authorities succeeded on the night of January 28th in forming three military trains, which went as far north as the second Sungari bridge, which they found damaged by the Chinese forces. As the repairs were made on the 29th, Shuangcheng was reached on the afternoon of January 30th. Early on the following morning, and still under cover of darkness, the small Japanese force was attacked by Ting Chao's troops and severe fighting took place, resulting in the repulse of the Chinese, but no further progress was possible that day. By that time, the Soviet and Chinese railway authorities had agreed that the transport of Japanese troops on the Chinese Eastern Railway would be allowed, on the understanding that they were proceeding with the sole object of giving protection to the Japanese residents at Harbin. The fares of the troops were paid for in cash. On February 1st, the Japanese troops began to arrive and the main force of the 2nd Division was concentrated near Shuangcheng on the morning of February 3rd. Reinforcements were even called upon from Tsitsihar, where, as will be remembered, a part of the 2nd Division had remained since November 19th. But many difficulties had still to be overcome, as the line between Harbin and Tsitsihar was cut by the Chinese, who, at the same time, attacked detachments of the Independent Railway Guards on the southern branch of the Chinese Eastern Railway at different places.

On February 3rd, the anti-Kirin troops, now estimated to have a total strength of about 13,000 to 14,000 soldiers with 16 guns, had taken up an

entrenched position along the southern boundary of the city. The 2nd Division began to advance against this position on the same day, reaching the Weitangkou (Nanchengtze) River, about 20 miles north of Shuangcheng, on the night of February 3rd-4th. Fighting commenced on the following morning. On the evening of the 4th, the Chinese position was partly taken by the Japanese troops, and by noon of the 5th a final decision was reached. Harbin was occupied on the afternoon of the same day, and the Chinese withdrew in the direction of Sanhsing.

**Further
Japanese
military
operations up
to the end of
August 1932.**

*(See Maps
Nos. 9 and 10.)*

The successful attack of the 2nd Division brought the town of Harbin into the hands of the Japanese authorities, but, as it was not immediately followed by any pursuit of the retiring Chinese forces, little change was produced on the situation in Northern Manchuria as a whole. The railways north and east of Harbin and the important waterway of the Sungari River still remained under the control of the anti-Kirin troops and those of Ma Chan-shan. The arrival of further reinforcements, repeated expeditions to the east and north and six months of fighting took place before the occupied area was extended as far as Hailun in the north and the districts of Fangchung and Hailin in the east. According to Japanese official statements, the anti-Kirin troops, with those of General Ma Chan-shan, were completely routed, but, according to official Chinese sources, they are still in existence. Although reduced in their fighting strength, they continually hamper the Japanese forces, at the same time avoiding actual encounters in the open field. According to newspaper information, both the eastern and western branches of the Chinese Eastern Railway are still being attacked and damaged at different places between Harbin and Hailin.

The Japanese operations since the beginning of February may be summarised as follows :

Towards the end of March, the main part of the 2nd Division left Harbin in the direction of Fangcheng in order to suppress the anti-Kirin troops of Generals Ting Chao and Li Tu. The Division advanced as far as the region of Sanhsing and returned to Harbin in the earlier part of April. By that time, the 10th Division had arrived at Harbin and took over the sector from the 2nd Division. This unit was engaged for about a month in constant fighting against the anti-Kirin troops with the greater part of its forces in the district near Sanhsing and with a minor detachment along the eastern branch of the Chinese Eastern Railway, in the direction of Hailin.

In the earlier part of May, the Japanese forces in the north of Manchuria were further reinforced by the 14th Division. A detachment of this unit took part in the fighting against the anti-Kirin forces and advanced as far as the valley of Mutan River, south of Sanhsing, forcing the opposing troops to withdraw to the most eastern corner of Kirin Province. But the main operations of the 14th Division, which began in the latter part of May, took place in the region north of Harbin and were directed against the troops of General Ma Chan-shan. The 14th Division carried out its main attack to the north of Harbin, along the Hulan-Hailun Railway, and, with minor forces to the east of Koshan, the proposed terminus of the Tsitsihar-Koshan Railway. The Japanese claim that, during the earlier part of August, the troops of General Ma Chan-shan were again effectively routed and that they have strong evidence that the General himself was killed. The Chinese assert that the General is still alive. In this action, cavalry newly arrived from Japan likewise took part.

During the month of August, several minor engagements took place on the borders of Fengtien and Jehol Provinces, mainly near the Chinchow-Peipiao branch line (of the Peiping-Mukden Railway), which is the only means of access to Jehol by railway. There are widespread fears in China that these events are only a prelude to larger military operations at an early date, aimed at the occupation of Jehol by the Japanese. The main lines

of communication which still exist between China Proper and the Chinese forces in Manchuria run through Jehol, and the fear of a Japanese attack in this province, which is already claimed as part of the territory of "Manchukuo", is not unreasonable. Its imminence is freely discussed in the Japanese Press.

The Japanese version of the recent events submitted to the Commission by the Japanese Assessor is as follows :

An official attached to the Kwantung Army Headquarters named Ishimoto was kidnapped by Chinese "volunteers" on July 17th from a train travelling between Peipiao and Chinchow, within the boundaries of the Province of Jehol. A small detachment of Japanese infantry with light artillery made an immediate attempt to rescue him, but failed in their purpose, and the result was the occupation of a village on the frontier of Jehol by Japanese troops.

During the latter part of July and in August, Japanese aeroplanes demonstrated several times over this part of Jehol and dropped some bombs, but "uninhabited areas outside the villages" were carefully selected. On August 19th, a Japanese staff officer was sent to Nanling, a small town situated between Peipiao and the provincial boundary to negotiate for the release of Mr. Ishimoto. On his return journey with a small infantry detachment, he was fired upon. In self-defence the fire was returned and, on the arrival of another infantry detachment, Nanling was occupied but evacuated on the following day.

Through the Chinese Assessor, extracts were submitted to the Commission from the reports of General Tang Yu-ling, the Governor of the Province of Jehol. These reports claim that fighting on a much larger scale took place, and that a Chinese battalion of railway guards was in action against a superior number of Japanese infantry, supported by two armoured trains. They claim that the bombing referred to by the Japanese was directed against Chaoyang, one of the larger towns in that region, and that, as a result, 30 casualties were caused among both military and civilians. The Japanese offensive was resumed on August 10th, when an armoured train attacked Nanling.

The information given by the Japanese Assessor concludes by stating that, although the maintenance of order in Jehol is "a matter of internal policy for Manchukuo, Japan cannot be indifferent to the situation in that region in view of the important role played by Japan in the maintenance of peace and order in Manchuria and Mongolia, and that any disorders in Jehol would immediately produce very serious repercussions throughout Manchuria and Mongolia". General Tang Yu-ling concludes his report by stating that all possible measures were being taken to offer effective resistance should the Japanese attacks be renewed.

From these communications, it seems that an extension of the area of conflict in this region is a contingency which must be reckoned with.

Although the main Chinese Army was withdrawn within the Great Wall at the end of 1931, the Japanese continued to meet with opposition of an irregular kind in different parts of Manchuria. There have been no further battles such as occurred on the Nonni River, but fighting has been constant and widely dispersed. It has been the practice of the Japanese to describe indiscriminately as "bandits" all the forces now opposed to them. There are, in fact, apart from bandits, two distinct categories of organised resistance to the Japanese troops or to those of "Manchukuo" — namely, the regular and irregular Chinese troops. It is extremely difficult to estimate the number of these two and, as the Commission was not able to meet any of the Chinese Generals still in the field, it is necessary to make reservations with regard to the reliability of the information given below. Chinese authorities are naturally reluctant to give away exact information about such troops as are still offering resistance to the Japanese in Manchuria.

**Nature of
resistance
offered by the
Chinese.**

**Remnants of
the original
North-Eastern
Armies.**

Japanese authorities, on the other hand, are disposed to minimise the numbers and fighting value of the forces still opposed to them.

The remnants of the original North-Eastern Armies are to be found exclusively in the provinces of Kirin and Heilungkiang. The re-organisation of troops which took place around Chinchow late in 1931 was not of long duration, because all those units were subsequently withdrawn inside the Great Wall. But the regular Chinese troops, which, before September 1931, were stationed in the Sungari region and along the Chinese Eastern Railway, have never been seriously engaged with the Japanese troops, and continue to carry on a guerilla warfare which has given, and still gives, much trouble to the Japanese and "Manchukuo" forces. The Generals Ma Chan-shan, Ting Chao and Li Tu have acquired great fame throughout China as leaders of these troops. All three are former brigade-generals in command of railway guards or garrison troops in North Manchuria. Probably the greater part of the troops under their command remained faithful to their respective leaders and the cause of China after the destruction of the Young Marshal's regime. The strength of General Ma's troops cannot easily be determined, because, as will be remembered, this General changed his allegiance.

As Governor of Heilungkiang Province, he was in command of all the provincial troops, the number of which was given to us as seven brigades in all. Since the month of April, he has definitely taken up a position against Japan and "Manchukuo". The number of troops at his disposal between Hulan River, Hailun and Taheiho is estimated by Japanese authorities as six regiments, or between 7,000 and 8,000 men. Generals Ting Chao and Li Tu control six old brigades of Chang Hsueh-liang's Army, and have since raised in the country three additional brigades. Their total strength at the time of our Preliminary Report was estimated by Japanese authorities at about 30,000; but it is very probable that the troops of General Ma Chan-shan, as well as those of Generals Ting Chao and Li Tu, have considerably diminished in number since the month of April and are now below the estimated figure. Both units, as will be seen later on, have suffered a great deal from concentrated attacks of regular Japanese troops since the occupation of Harbin. At present, they seem unable to hinder any operation by the Japanese troops and carefully avoid meeting them in the open field. The use of aeroplanes by the Japanese and the complete absence of this weapon on the other side account for the greater part of such losses as they have sustained.

**Irregular
forces.
Volunteers.**

When considering the irregular forces, it is necessary to distinguish between the different volunteer forces in Kirin Province co-operating with the Armies of Generals Ting Chao and Li Tu. In our Preliminary Report of April 29th, 1932, we mentioned, on page 5, under the heading "Volunteers", three different volunteer armies and several minor corps, one of the latter between Tunhua and Tienpaoshan remaining in touch with these regular troops of Generals Ting Chao and Li Tu. Owing to the absence of railways and other means of communication in those districts, this corps still keeps the same position. Its Chief, Wang Teh-ling, united different "anti-Manchukuo" forces and kept them firmly under his command. Though this force may be of small significance compared with Japanese troops (which hardly exhibit any activity to the east of Tunhua), it seems well able to hold its own against the "Manchukuo" troops and maintains its position in a considerable part of Kirin Province. No evidence is available concerning the present activity of the "Big Sword Society" which, while keeping in touch with Wang Teh-ling, created considerable disturbance in the Chientao district. On the other hand, no action of importance has been undertaken against it by Japanese troops.

An official Japanese document has been submitted to the Commission enumerating a large number of so-called route-armies and other Chinese

units, each containing not more than 200 to 400 men, which form the subdivisions of the volunteer armies. Their field of activity extends to the areas around Mukden and the Antung-Mukden Railway, to Chinchow and the boundary between Jehol and Fengtien Provinces, to the western branch of the Chinese Eastern Railway and to the district between Hsinmin and Mukden. Thus the area covered by these volunteers and the anti-Kirin forces combined comprises the greater part of Manchuria.

In the middle of August, fighting broke out in the immediate neighbourhood of Mukden, at different places of the southern part of the South Manchuria Railway, especially at Haicheng and at Yingkow. On several occasions, the Japanese troops have found themselves in a difficult position, but nowhere have the volunteers succeeded in attaining a victory of any importance. It seems doubtful whether any change in the general situation in Manchuria is to be anticipated in the near future, but, at the time of the completion of our Report, fighting continues over a wide area.

As in China, banditry has always existed in Manchuria. Increasing or diminishing in numbers in relation to the activity or the weakness of the Government, professional bandits are to be found in all parts of the Three Provinces and their services were often employed by different parties for political purposes. The Chinese Government has presented to the Commission a document stating that, during the last twenty or thirty years, Japanese agents to a great extent instigated bandits to serve their political interests. A passage from the "Second Report of Progress of Manchuria to 1930", published by the South Manchuria Railway, is quoted in this document to the effect that, within the railway area alone, the number of cases of banditry had increased from 9 cases in 1906 to 368 in 1929. According to the Chinese document quoted above, banditry has been encouraged by the smuggling of arms and munitions on a large scale from Dairen and the Kwantung Leased Territory. It is asserted, for instance, that the notorious bandit chief, Lin Yin-shin, was provided in November last with arms, munitions and other means in order to establish the so-called Independent Self-Defence Army which was organised with the help of three Japanese agents and destined to attack Chinchow. After the failure of this attempt, another bandit chief got Japanese help for the same purpose, but fell into the hands of the Chinese authorities with all his material of Japanese origin.

Japanese authorities, of course, see the state of banditry in Manchuria in quite a different light. According to them, its existence is due exclusively to the inefficiency of the Chinese Government. They allege also that Chang Tso-lin, to a certain extent, favoured the existence of bandit gangs in his territory, because he thought that, in time of need, they could easily be converted into soldiers. The Japanese authorities, while admitting the fact that the complete overthrow of Chang Hsueh-liang's Government and Army greatly added to the number of bandits in the country, claim that the presence of their troops in the country will enable them to wipe out the principal bandit units within from two to three years. They hope that the organisation of "Manchukuo" police and of self-defence corps in each community will help to put an end to banditry. Many of the present bandits are believed to have been peaceful citizens who, on account of the complete loss of their property, were induced to take up their present occupation. Given the opportunity of resuming the occupation of farming, it is hoped that they will return to their former peaceful mode of life.

(See
Map No. 6.)

Bandits.

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(See
Map No. 6.)

Bandits.

Chapter V. SHANGHAI.

The
Shanghai
affair.
(See Map
No. 11.)

At the end of January, fighting broke out at Shanghai. The story of that affair has already been told in its broad outlines down to February 20th by the Consular Committee appointed by the League. The fighting was still in progress when the Commission arrived at Tokyo on the 29th, and several discussions took place with members of the Japanese Government on the origin, motives and consequences of their armed intervention in this place. When we reached Shanghai, on March 14th, the fighting was over, but the negotiations for an armistice were proving difficult. The arrival of the Commission at this moment was opportune, and may have helped to create a propitious atmosphere. We were able to appreciate the tense feeling which had been created by the recent hostilities and to obtain an immediate and vivid impression both of the difficulties and of the issues involved in this controversy. The Commission was not instructed to continue the work of the Consular Committee or to make a special study of the recent events there. In fact, we were informed by the Secretary-General of the League of Nations that the Chinese Government had expressed themselves as opposed to any suggestion that the Commission should delay its journey to Manchuria for the purpose of studying the situation at Shanghai.

We heard the views of both the Chinese and the Japanese Governments on the Shanghai affair, and were the recipients of a large amount of literature from both sides on the subject. We also visited the devastated area and heard statements from Japanese naval and military officers on the recent operations. In an individual capacity, too, we had conversations with the representatives of many shades of opinion on matters which were fresh in the memory of everyone living in Shanghai. But we did not, as a Commission, officially investigate the Shanghai affair and therefore express no opinion upon the disputed points connected with it. We shall, however, for purposes of record, complete the story of the operations from February 20th until the final withdrawal of the Japanese troops.

Narrative of
events at
Shanghai from
February 20th
onwards.
(See Map
No. 12.)

The last report of the Consular Committee ended, it will be remembered, by stating that the Japanese, on February 20th, opened a new attack in the Kiangwan and Woosung areas. This attack brought no marked success to the Japanese troops, despite the fact that it was continued on the following days, but it enabled them to learn that parts of the so-called Chinese Bodyguard Army — viz., the 87th and 88th Divisions — were now fighting against them as well as the 19th Route Army. This fact, together with the difficulties which the nature of the country presented, decided the Japanese to reinforce their troops by two more divisions — namely, the 11th and 14th.

On February 28th, the Japanese troops occupied the western part of Kiangwan, which had been evacuated by the Chinese. On the same day, the Woosung fort and fortifications along the Yangtse River were again bombed from the air and from the sea, and bombing-planes operated over the whole front, including the aerodrome at Hungjao and the Nanking Railway. General Shirakawa, who was appointed to the supreme command of the Army, arrived in Shanghai on February 29th. From this date onwards the Japanese Headquarters announced substantial progress. In the district of Kiangwan they advanced slowly, and the Naval Headquarters stated that the opposing forces at Chapei showed signs of giving way as a consequence of the daily bombardment. On the same day, the aerodrome

at Hangchow, which is 100 miles distant from Shanghai, was bombed from the air.

On March 1st, as the frontal attack had advanced but slowly, the Japanese Army Commander initiated a wide enveloping movement by landing the main force of the 11th Division at some distance on the right bank of the Yangtze River, in the vicinity of Tsiyakow, for the purpose of making a surprise attack on the left flank of the Chinese Army. The manœuvre was successful in compelling an immediate retreat of the Chinese forces beyond the 20-kilometre limit originally asked for in the Japanese Commander's ultimatum of February 20th. Woosung fort had been evacuated by the Chinese troops when, on March 3rd, it was entered by the Japanese troops after many aerial and naval bombardments. On the previous day, bombing operations had been extended as far as 7 kilometres east of Quinsan Station on the Shanghai-Nanking Railway, with the alleged object of preventing the transportation of reinforcements to the Chinese front.

On the afternoon of March 3rd, the Japanese Commander gave the order to stop fighting. The Chinese Commander issued a similar order on March 4th. A strong complaint was made by the Chinese that the 14th Japanese Division was landed at Shanghai between March 7th and 17th, after the cessation of hostilities, and about a month later was transported to Manchuria in order to reinforce the Japanese troops there.

In the meantime, attempts to secure a cessation of hostilities through the good offices of friendly Powers and of the League of Nations had been continued. On February 28th, the British Admiral, Sir Howard Kelly, received on his flagship the delegates of both parties. An agreement on the basis of mutual and simultaneous withdrawal and of a temporary character was proposed. The conference was not successful, owing to the differing opinions of the two parties as to the basis of the negotiations.

On February 29th, the President of the Council of the League of Nations made recommendations which contemplated, amongst other things, "a mixed conference in the presence of other interested Powers in view of the final conclusion of the fighting and for a definite cessation of hostilities, subject to local arrangements". Both parties accepted, but a successful outcome of the negotiations was rendered impossible by the conditions of the Japanese delegates, who demanded that : (1) the Chinese troops should first begin to withdraw, and (2) the Japanese, having ascertained that the withdrawal was taking place, should then retire, not, as formerly stated, to the International Settlement and the extra-Settlement streets, but to an area extending from Shanghai to Woosung.

On March 4th, the Assembly of the League, recalling the suggestions of the Council, (1) called on both Governments to make the cessation of hostilities effective ; (2) requested other interested Powers to inform the Assembly on the execution of the previous paragraph ; and (3) recommended negotiations, with the assistance of other Powers, for the conclusion of the arrangements in order to render definite the cessation of hostilities and to regulate the withdrawal of the Japanese troops, wishing to be informed by the Powers on the development of these negotiations.

On March 9th, the Japanese sent a memorandum to the Chinese through the intermediary of the British Minister, in which their readiness to negotiate on the basis of the points laid down by the Assembly was expressed.

On March 10th, the Chinese replied through the same channel that they too were ready to negotiate on this basis, but on condition that the conference should be limited to matters pertaining to the definite cessation of hostilities and the complete and unconditional withdrawal of the Japanese troops. On March 13th, the Japanese intimated that they were not disposed to regard the Chinese reservations as modifying the sense of the resolutions of the League of Nations or in any way binding on themselves. They thought that both parties should meet on the basis of the resolutions.

On March 24th, the Sino-Japanese Conference on the cessation of hostilities was opened. In the meantime, the withdrawal of Japanese military and naval forces had actually begun. On March 20th naval and air contingents left Shanghai, reducing the remaining strength to something not far above normal. The Japanese Headquarters announced on March 27th, on the occasion of further withdrawal, that this had nothing to do with the above-mentioned Conference or with the League of Nations, but was simply the outcome of the independent decision of the Headquarters of the Imperial Japanese Army to recall units no longer required at Shanghai.

On March 30th, the Conference announced that, on the preceding day, an agreement relative to a definite cessation of hostilities had been reached, but further difficulties supervened and it was not till May 5th that a complete armistice agreement was ready for signature. It provided for a definite cessation of hostilities, fixed a line to the west of Shanghai as a temporary limit for the advance of Chinese troops, pending further arrangements upon the re-establishment of normal conditions, and provided for the withdrawal of the Japanese troops to the International Settlement and the extra-Settlement roads (streets) as previous to January 28th. Certain areas outside the Settlement had to be temporarily included, because the number of Japanese troops was too large to be quartered within the Settlement alone, but these do not require to be mentioned as they have since been evacuated. A Joint Commission, in which the assistant friendly Powers — the United States of America, Great Britain, France and Italy — and the two parties were represented, was established to certify the mutual withdrawal. This Commission was also to collaborate in arranging for the transfer from the Japanese forces to the Chinese Police.

The Chinese added two qualifications to the agreement. The first declared that nothing in the agreement was to imply permanent restriction of the movement of Chinese troops in Chinese territory, and the second that it was to be understood that, even in areas temporarily provided for the stationing of the Japanese troops, all municipal functions, including that of policing, would remain with the Chinese authorities.

The terms of this agreement as a whole have in the main since been carried out. The evacuated areas were turned over to the Chinese Special Police Force between May 9th and 30th. The turning-over, however, of these four areas has been somewhat delayed. It was but natural that, when the Chinese owners of houses and factories, officials of railways and companies, and others began to re-enter the evacuated areas, numerous complaints concerning looting, wilful destruction and carrying away of property should have been addressed to the Japanese military authorities. In the opinion of the Chinese, the whole question of reparations remains for further negotiations. They estimate the casualties in killed, wounded and missing as 24,000 officers, men and civilians, and the total material loss at approximately 1,500,000,000 Mexican dollars. A draft agreement dealing with the extra-Settlement road areas has been initialled by representatives of the Shanghai Municipal Council and of the Chinese Municipality of Greater Shanghai, but it has not yet received the approval of either the Municipal Council or of the City Government. The Municipal Council has referred it to the Senior Consul for the observations of the Consular Body.

**Effect on the
Manchurian
situation of
the Chinese
resistance at
Shanghai.**

The Shanghai affair undoubtedly exercised considerable influence upon the situation in Manchuria. The ease with which the Japanese had been able to occupy the greater part of Manchuria, and the absence of any resistance by the Chinese troops, not only led to a belief in Japanese naval and military circles that the fighting quality of the Chinese Army was negligible, but also caused profound depression throughout China. The stout resistance put up from the first by the Chinese 19th Route Army,

with the assistance later of the 87th and 88th Guard Divisions, was hailed throughout China with the greatest enthusiasm, and the fact that the original 3,000 marines had to be supplanted by three divisions and a mixed brigade of the Japanese Army before the Chinese forces were finally dislodged and driven back after six weeks of fighting created a profound impression upon the Chinese *morale*. The feeling prevailed that China must be saved by her own efforts. The Sino-Japanese conflict was brought home to the people throughout China. Everywhere opinion hardened and the spirit of resistance increased. Former pessimism gave place to equally exaggerated optimism. In Manchuria, the news from Shanghai put fresh heart into the scattered forces still opposing the Japanese troops. It encouraged the subsequent resistance of General Ma Chan-shan and stimulated the patriotism of the Chinese all over the world. The resistance of the Volunteer Armies increased. Expeditions to suppress them met with indifferent success, and in some areas the Japanese stood on the defensive, taking up positions along certain railway lines, which were frequently attacked.

The hostilities at Shanghai were followed by several other incidents, one of which was the short bombardment of Nanking. This incident created much excitement and alarm, even outside China. It happened on the late evening of February 1st, but did not last for more than an hour. The incident was probably caused by a misunderstanding, but had the important consequence of a temporary removal of the Chinese Government from Nanking to Loyang.

Chinese and Japanese versions both of the origin and of the facts are widely divergent. Two justifications were given to us from Japanese sources. The first was that, since the outbreak of hostilities at Shanghai, the Chinese had extended the Lion Hill Forts, constructed trenches and established artillery positions at the gates near the river and on the opposite side of it, thus making military preparations on a scale sufficient to arouse concern amongst the Japanese, who had warships on the river. The second was that the vernacular papers had spread untruthful stories of Chinese victories at Shanghai, which had caused great excitement among the Chinese population of Nanking. In consequence, Chinese employed by Japanese were, it is alleged, forced by threats to give up their situations, and Chinese merchants refused to sell even the necessary food supplies to Japanese residents, including the Consular staff and the crews of warships.

The Chinese did not comment on these complaints. They assert that the general uneasiness and tense atmosphere prevailing were caused by the fact that the Japanese, after the Shanghai outbreak, increased the number of their warships from two to five, and subsequently to seven (the Japanese authorities give the number as six, these being three old gunboats and three destroyers); that the Commander of the warships landed a certain number of sailors and put them on guard duty before the wharf of the Nisshin Kisen Kaisha, where the Japanese Consular staff and all the Japanese residents had taken refuge on a hulk. With the events of Shanghai fresh in their memories, such measures may well have filled the minds of the already-excited population at Nanking with fears of a similar experience.

We know from a report of the Police Commissioner of Nanking to the Ministry of Foreign Affairs that the authorities at Nanking who were solely responsible for the protection of their own subjects and of foreign nationals at that place greatly resented the landing of Japanese naval forces. They addressed representations to the Japanese Vice-Consul, who replied that he was unable to do anything in the matter. At the same time, special instructions were given to the local police station at Hsiakwan, where the warships were anchored and the above-mentioned wharf was situated, to prevent, if possible, any contact between Chinese and Japanese in this area, especially at night-time. According to the Japanese official reports, their refugees were taken on board a steamer

**The Incident
of Nanking,
February 1st,
1932.**

of the name *Nisshin Kisen Kaisha* during the days following January 29th, and a considerable number were transported to Shanghai. On the late evening of February 1st, the Japanese assert that three gunshots were suddenly fired, apparently from the Lion Hill Forts. At the same time, Chinese regulars fired on the Japanese naval guards on the river banks, causing two casualties, of which one was fatal. The fire was returned, but directed only at the immediate neighbourhood of their landing-place and stopped as soon as the firing from the shore had ceased. Such is the Japanese version. The Chinese, on the other hand, stoutly deny that any firing at all took place, but allege that eight shells in all were fired at the forts, at Hsiakwan station and at other places, accompanied by machine-gun and rifle firing, and that during this time searchlights were directed at the shore. This caused considerable panic amongst the inhabitants, who rushed into the interior of the city; but no casualties were reported and the material damage was not great.

It is also possible that the incident was first started by the firing of crackers by the excited Chinese population, celebrating a supposed victory at Shanghai.

Chapter VI.

“ MANCHUKUO ”.

PART I. — STAGES IN THE FORMATION OF THE “NEW STATE”.

Chaotic
conditions
resulting from
Japanese
occupation
of Mukden.

As a result of the events of September 18th, 1931, as described in Chapter IV, the civil administration of Mukden City and of the Province of Liaoning (Fengtien) was completely disorganised and even that of the other two provinces was affected to a lesser extent. The suddenness of the attack on Mukden, which was not only the political centre of all Manchuria but, next to Dairen, also the most important commercial centre of South Manchuria, created a panic among the Chinese population. Most of the prominent officials, and the leading members of the educational and commercial communities who could afford to do so, left immediately with their families. During the days following September 19th, over 100,000 Chinese residents left Mukden by the Peiping-Mukden Railway, and many who could not get away went into hiding. The police, and even the prison warders, disappeared. The municipal, district and provincial administrations at Mukden completely broke down, the public utility companies for the supply of electric light, water, etc., the buses and tramways, and the telephone and telegraph services, ceased to function. Banks and shops kept their doors closed.

Restoration of
order and civil
administration
in Mukden
City.

The immediate necessity was the organisation of a municipal government and the restoration of the ordinary civic life of the city. This was undertaken by the Japanese and carried through quickly and efficiently. Colonel Doihara was installed as Mayor of Mukden, and within three days normal civil administration was restored. Several hundred police and most of the prison warders were brought back with the help of General Tsang Shih-yi, the Civil Governor of the Province, and the public utility services were restored. An Emergency Committee, with a majority of Japanese members, helped Colonel Doihara, who held his post for one month. On October 20th, the reins of municipal government were restored to a qualified Chinese body, with Dr. Chao Hsin-po (a lawyer who had studied for eleven years in Japan and was a Doctor of Law of Tokyo University) as Mayor.

The next problem was to re-organise the provincial administration in each of the Three Provinces. This task was more difficult in Liaoning than in either of the other two, because Mukden was the centre of this provincial administration ; most of the influential men had fled, and for a time a Chinese provincial administration continued to be carried on at Chinchow. It was three months, therefore, before the re-organisation was completely accomplished. Lieutenant-General Tsang Shih-yi, the existing President of the Liaoning Provincial Government, was first approached on September 20th and invited to organise a Provincial Government, independent of the Chinese Central Government. This he refused to do. He was then put under arrest and released on December 15th.

After General Tsang Shih-yi had refused to help in the establishment of an independent Government, another influential Chinese official, Mr. Yuan Chin-kai, was approached. He was a former provincial governor and a Vice-President of the North-Eastern Political Committee. The Japanese military authorities invited him and eight other Chinese residents to form a " Committee for the Maintenance of Peace and Order ". This Committee was declared to have been formed on September 24th. The Japanese Press at once acclaimed it as the first step in a separatist movement, but Mr. Yuan Chin-kai publicly disclaimed any such intention on October 5th. The Committee, he said, had " been brought into being to preserve peace and order after the breakdown of the former administration. It assisted, moreover, in relieving refugees, in restoring the money market, and it attended to some other matters, solely for the sake of preventing unnecessary hardship. It had, however, no intention of organising a Provincial Government or declaring independence ".

On October 19th, the Committee opened the Board of Finance, and Japanese advisers were appointed to assist the Chinese functionaries. The Director of the Board of Finance had to obtain the approval of the military authorities before giving effect to the Board's decisions. In the districts, the tax collectors' offices were controlled by the Japanese gendarmerie or other agencies. In some cases, they had to submit their books daily for inspection to the gendarmerie, whose approval had to be obtained for the disbursement of any monies on public objects, such as police, justice, education, etc. Any case of remittance of taxes to the " hostile party " at Chinchow was to be at once reported to the Japanese authorities. At the same time, a Financial Readjustment Committee was organised the chief business of which was to re-organise the taxation system. Japanese representatives and the representatives of Chinese guilds were allowed to take part in discussions on taxation. According to a statement in the " History of the Independence of Manchukuo ", dated May 30th, 1932, and submitted to the Commission by the " Department of Foreign Affairs " at Changchun, these discussions led to the abolition on November 16th, 1931, of six taxes, the reduction of four others by half, the transfer of eight others to local governments, and the prohibition of all levies, without a legal basis.

On October 21st, the Board of Industry was opened by the Committee, whose name was now changed to that of " Liaoning Province Self-Government Office ". The consent of the Japanese military authorities was sought and obtained and a number of Japanese advisers were appointed. Before issuing any orders, the Director was required to obtain the approval of the Japanese military authorities.

Lastly, the Liaoning Self-Government Office organised a new North-Eastern Communications Committee, which gradually assumed control of various railways, not only in Liaoning Province, but also in Kirin and Heilungkiang. This Committee was separated from the Liaoning Self-Government Office on November 1st.

On November 7th, the Liaoning Province Self-Government Office transformed itself into the Liaoning Provincial Government *ad interim*,

**The
re-organisation
of Provincial
Government :**

(1) LIAONING
PROVINCE

**General Tsang
Shih-yi refuses
to organise
an independent
Provincial
Government.**

**Formation of a
" Peace and
Order
Maintenance
Committee "
under the
chairmanship
of Mr. Yuan
{Chin-kai,
Septemb. 25th.**

**Board of
Finance
opened,
October 19th.**

**Board of
Industry
established,
October 21st.**

**North-Eastern
Communi-
cations
Committee.**

**Declaration of
November 7th,**

and
establishment
of a Provincial
Government on
November 10th.

Appointment
of Supreme
Advisory
Board.

Name of
Province
changed to
Fengtien on
November 20th,
and General
Tsang Shih-yi
installed as
Governor on
December 15th.

(2) KIRIN
PROVINCE

(3) THE SPECIAL
ADMINISTRATIVE
DISTRICT
OF THE CHINESE
EASTERN
RAILWAY

which issued a declaration by which it severed its relations with the former North-Eastern Government and with the Central Government at Nanking. It requested the local governments in Liaoning to abide by the decrees it had issued, and announced that henceforth it would exercise the authority of a Provincial Government. On November 10th, a public opening ceremony took place.

Simultaneously with the transformation of the Self-Government Office into the Liaoning Provincial Government *ad interim*, a Supreme Advisory Board was inaugurated under the chairmanship of Mr. Yu Chung-han, who had been Vice-Director of the Peace and Order Maintenance Committee. Mr. Yu announced the objects of this Board as : the maintenance of order, the improvement of administration by the suppression of bad taxes, the reduction of taxation, and the improvement of the organisation of production and sale. The Board was, furthermore, to direct and supervise the acting Provincial Government, and to foster the development of local self-government in accordance with the traditions of local communities and with modern needs. It comprised sections dealing with general affairs, investigation, protocol, guidance, supervision, and an Institute for Training in Self-Government. Nearly all the important functionaries were Japanese.

On November 20th, the name of the Province was changed to that of Fengtien, which had been its name before its union with Nationalist China in 1928, and, on December 15th, Mr. Yuan Chin-kai was replaced by General Tsang Shih-yi, who was released from his confinement and installed as Governor of Fengtien Province.

The task of establishing a provincial Government in the province of Kirin was far easier. On the 23rd, the Commander of the 2nd Division, Major-General Tamon, had an interview with Lieutenant-General Hsi Hsia, the acting head of the provincial administration in the absence of General Chang Tso-hsiang, and invited him to assume the chairmanship of the Provincial Government. After this interview, General Hsi Hsia summoned the various Government organisations and public associations to a meeting on September 25th, which was also attended by Japanese military officers. No opposition was expressed to the idea of establishing a new provisional government, and a proclamation to that effect was published on September 30th. The Organic Law of the new Provincial Government of Kirin was subsequently announced. The committee system of government was abolished, and Governor Hsi Hsia took full responsibility for the conduct of government. Some days later, the principal officials of the new Government were appointed by him and some Japanese functionaries were added later. The chief of the Bureau of General Affairs was a Japanese. In the districts also, some administrative re-organisation and change of personnel took place. Out of forty-three districts, fifteen were re-organised, which involved the dismissal of the Chinese District Officers. In ten others, the District Officers were retained after declaring their allegiance to General Hsi Hsia. The others still remained under Chinese military leaders loyal to the old regime, or kept aloof from the contending factions.

The Chief Administrator of the Special District, Lieutenant-General Chang Ching-hui, was friendly to the Japanese. He had no military force behind him, whereas the old regime could still dispose of considerable forces both in Kirin and Heilungkiang, as well as the railway guards in the Special District itself. On September 27th, he summoned a conference in his office at Harbin to discuss the organisation of the Emergency Committee of the Special District. This Committee was formed with General Chang as Chairman and eight other members, amongst whom were General Wang Juihwa and General Ting Chao, who later, in January 1932, became the leader of the " anti-Kirin " forces, in opposition to General Hsi Hsia. On November 5th, the anti-Kirin Army, under the command of the Generals

of Chang Tso-hsiang, established a new Kirin Provincial Government at Harbin. After General Chang Ching-hui had been appointed, on January 1st, 1932, Governor of Heilungkiang, he declared in that capacity the independence of the Province on January 7th. On January 29th, General Ting Chao took possession of the office of the Chief Administrator and placed General Chang under restraint in his own house. The latter regained his liberty when the Japanese forces came north and occupied Harbin on February 5th, after defeating General Ting Chao. From that time onwards, the Japanese influence made itself increasingly felt in the Special District.

In Heilungkiang Province, a more complicated situation had arisen owing to the conflict between General Chang Hai-peng and General Ma Chan-shan, which was described in the last chapter. After the occupation of Tsitsihar by the Japanese on November 19th, a Self-Government Association of the usual type was established, and this Association, which was said to represent the will of the people, invited General Chang Ching-hui, of the Special District, to act concurrently as Governor of Heilungkiang. As the situation around Harbin was still unsettled, and no definite agreement with General Ma had been reached, this invitation was not accepted until early in January 1932. Even then General Ma's attitude was ambiguous for some time. He co-operated with General Ting Chao until the latter's defeat in February, and then came to terms with the Japanese, accepting the Governorship of Heilungkiang out of General Chang's hands, and subsequently co-operated with the other Governors in the establishment of the new State. A Self-Government Guiding Committee was established at Tsitsihar on January 25th, and the same form of Provincial Government as in the other Provinces was gradually established.

The Province of Jehol has hitherto kept aloof from the political changes which have taken place in Manchuria. Jehol is part of Inner Mongolia. Over 3,000,000 Chinese settlers now live in the Province and they are gradually pushing out to the north the nomadic Mongols, who still live under their traditional tribal or Banner system. These Mongols, who are said to number about one million, have maintained some relations with the Mongol Banners settled in the west of Fengtien Province. The Mongols in Fengtien and Jehol have formed "Leagues" the most influential of which is the Cherim League. The Cherim League joined the Independence movement, as did also the Mongols in the Barga District, or Hulunbuir, in the west of Heilungkiang, who have often attempted to free themselves from Chinese rule. The Mongols do not easily assimilate with the Chinese. They are a proud race, and every Mongol remembers the exploits of Genghis Khan and the conquest of China by Mongol warriors. They resent Chinese over-lordship and they resent particularly the immigration of Chinese settlers, by which they are being gradually extruded from their territory. The Leagues of Chaota and Chosatu in Jehol are keeping in touch with the Banners in Fengtien, which are now ruled by committees. General Tang Ju-lin, the Governor of the Province, is reported to have assumed full responsibility for his Province on September 29th, and to have kept in touch with his colleagues in Manchuria. At the inauguration of "Manchukuo" on March 9th, Jehol was included in the new State. In fact, however, no decisive step was taken by the Government of the Province. The latest events in this Province were referred to at the end of chapter IV.

The local self-governing administrations thus established in all the Provinces were subsequently combined into a separate and independent "State". To understand the ease with which this was accomplished and the amount of evidence which it has been possible to bring forward of Chinese support for it when it was accomplished, it is necessary to consider the peculiar feature of Chinese organised life which in some circumstances is a strength and in others a weakness. As has been already stated in Chapter I, the community obligations recognised by the Chinese are rather

(4)
HEILUNGKIANG.

(5) JEHOL.

The creation
of an
independent
"State".

- to the family, to a locality, or to persons, than to the State. Patriotism as it is understood in the West is only beginning to be felt. Guilds, associations, leagues, armies, are all accustomed to follow certain individual leaders. If, therefore, the support of a particular leader can be secured by persuasion or coercion, the support of his adherents over the whole area of his influence follows as a matter of course. The foregoing narrative of events shows how successfully this Chinese characteristic was utilised in the organisation of the Provincial Governments, and the agency of the same few individuals was used to complete the final stage.

The Self-Government Guiding Board.

The chief agency in bringing about independence was the Self-Government Guiding Board, which had its central office in Mukden. By reliable witnesses, it was stated to the Commission to have been organised, and in large part officered, by Japanese, although its chief was a Chinese, and to have functioned as an organ of the Fourth Department of the Kwantung Army Headquarters. Its main purpose was to foster the independence movement. Under the direction and supervision of this Central Board, local self-government executive committees were formed in the districts of Fengtien Province. To those various districts, as occasion demanded, the Central Board sent out members from its large and experienced staff of inspectors, directors and lecturers, many of whom were Japanese. It utilised also a newspaper, which it edited and published.

The proclamation of the Self-Government Guiding Board, Mukden, January 7th.

The nature of the instructions given by the Central Board is apparent from the proclamation which it issued as early as January 7th, under date of January 1st. The proclamation stated that the North-East was faced with the need for developing, without delay, a great popular movement for the establishment of a new independent State in Manchuria and Mongolia. It described the development of its work in various districts in Fengtien Province, and outlined its plan for the extension of its activities to the remaining districts and even to the other Provinces. It then appealed to the people of the North-East to overthrow Marshal Chang Hsueh-liang, to join the Self-Government Association, to co-operate in setting up a clean administration and improving the living conditions of the people, and it ended with the words: "Organisations of the North-East, Unite! Towards the new State! Towards Independence!" Of this proclamation, fifty thousand copies were distributed.

Plans of the Chief of the Board in January.

As early as January also, the Chief of the Self-Government Guiding Board, Mr. Yu Chung-han, was already making plans, together with Governor Tsang Shih-yi, for the new State which, it was reported, was to be established on February 10th. But the Harbin outbreak of January 29th and General Ma's ambiguous attitude during the conflict with Ting Chao appear to have been the main reasons for the temporary postponement of further preparations at that time.

The Mukden Conference, February 16th-17th.

Later, after Ting Chao's defeat, negotiations between Lieutenant-General Chang Ching-hui and General Ma had brought about, on February 14th, a settlement according to which General Ma was to become Governor of Heilungkiang. The meeting at which the foundation of the new State was to be arranged was held on February 16th and 17th at Mukden. The Governors of the Three Provinces and the Special District were present in person, as well as Dr. Chao Hsin-po, who had played a prominent part in all the preparatory work.

At a meeting of these five men, it was decided that a new State should be established, that a North-Eastern Administrative Council should be organised which would exercise temporarily the supreme authority over the Provinces and the Special District, and, finally, that this Supreme Council should, without delay, make all necessary preparations for the founding of the new State. On the second day of the Conference, two Mongol Princes attended, one representing the Barga District (Hulunbuir) in Western Heilungkiang, the other, Prince Chiwang of the Cherim Leagues,

representing practically all Banners, who respect this Prince more than any other leader.

The Supreme Administrative Council was constituted the same day. Its members were Lieutenant-General Chang Ching-hui, Chairman of the Council, the Governors of Fengtien, Kirin, Heilungkiang and Jehol, and Prince Chiwang and Prince Ling Sheng for the Mongolian districts. The first decisions of the Council were : to adopt the republican system for the new " State " ; to respect the autonomy of the constituting Provinces ; to give the title of " Regent " to the Chief Executive, and to issue a Declaration of Independence, to be signed by the Governors of the four Provinces and the Special District, by Prince Chiwang for all the Banners, and by Prince Kueifu for Hulunbuir in Heilungkiang. The Commander-in-Chief of the Kwantung Army gave that night an official dinner in honour of the " Heads of the new State ", whom he congratulated on their success and assured of his assistance in case of need.

**The Supreme
Administrative
Council,
February 17th.**

The Declaration of Independence was published on February 18th. It referred to the ardent wishes of the people to have permanent peace and to the duty of the Governors, who were said to have been chosen by the people, to fulfil those wishes. The Declaration referred to the necessity for the establishment of a new State, and claimed that the North-Eastern Administrative Council had been constituted for this purpose. Now that relations with the Kuomintang and the Government at Nanking had been severed, the people were promised the enjoyment of good government. This Declaration was sent by circular wire to all places in Manchuria. Governor Ma and Governor Hsi Hsia then returned to their respective provincial capitals, but they designated representatives to meet Governor Tsang Shih-yi, Governor Chang Ching-hui, and Mayor Chao Hsin-po for the purpose of working out the details of the plan.

**Declaration of
Independence,
February 18th.**

In a subsequent meeting held by this group, on February 19th, it was decided to establish a Republic, to lay down the principle of the separation of powers in the Constitution, and to ask the former Emperor Hsuan-Tung to become the Chief Executive. In the following days, it was decided that the capital should be Changchun ; the new era of government was to be styled " Tatung " (Great Harmony), and the design of the national flag was fixed. Notification of the decisions taken was sent, on February 25th, to all provincial governments, including Jehol, as well as to the Mongol administrative offices of Hulunbuir and of the Cherim, Chaota and Chosatu Leagues. The last-named Leagues are established in Jehol. They could, therefore, as already stated, take no steps against the wishes of the Chairman of the Government of that Province.

**Plans for the
new State.**

After the Declaration of Independence and the announcement of the plans for the new State, the Self-Government Guiding Board took the leading part in organising popular manifestations of support. It was instrumental in forming societies for the " Acceleration of the Foundation of the New State ". It instructed its branches in the various districts throughout Fengtien, the Self-Government Executive Committees, to do everything possible to strengthen and hasten the independence movement. In consequence, the new " Acceleration Societies " sprang up rapidly, centring around the Self-Government Executive Committees.

**The State
Foundation
Acceleration
Movement.**

From February 20th onwards, these newly-formed " Acceleration Societies " became active. Posters were prepared, slogans printed, books and pamphlets issued, a *North-Eastern Civilisation Half-Monthly* was edited and red scrolls were distributed. Leaflets were sent by post to various prominent citizens asking them to help the propaganda work. At Mukden the scrolls were distributed by the Chinese Chamber of Commerce, to be placed on the door-posts.

During the same time, the Self-Government Executive Committees in the districts summoned meetings of popular representatives, such as

**The
organisation**

of popular approval of independence.

members of the local gentry, and the chairmen and prominent members of commercial, agricultural, industrial and educational associations. In addition, mass meetings were organised and parades or processions were conducted through the principal streets of the district capitals. Resolutions expressing the wishes either of the people in general or of special groups were passed at conferences of prominent local men and at the mass meetings, in which it was claimed many thousands of persons took part. These resolutions were naturally sent to the Self-Government Guiding Board at Mukden.

The Mukden resolutions favouring a New State, February 28th.

After the Acceleration Societies and the Self-Government Executive Committees had been active in various districts of Fengtien, a provincial convention was organised at Mukden to give concrete evidence of the general desire of the people for the establishment of the State. Accordingly, on February 28th, a meeting was held in which about 600 persons took part, including all the district officers of the Province and the representatives of nearly all classes and organisations. This meeting issued a declaration which stated that it expressed the joy of the 16,000,000 inhabitants of Fengtien Province at the downfall of the old oppressive military caste and the dawn of a new era. As far as Fengtien was concerned, the movement had thus been brought to a conclusion.

The Independence Movement in Kirin Province.

The movement in Kirin Province in favour of a new State was also organised and directed. While in the Conference at Mukden on February 16th, Governor Hsi Hsia sent a circular telegram to his District Officers asking them to enlighten him as to public opinion in regard to the policy to be followed by the new State. The District Officers were enjoined to give adequate guidance to the various guilds and associations in their districts. In direct response to the telegram, independence movements sprang up everywhere. On February 20th, the Kirin Provincial Government created the State Foundation Committee, which was to guide the various organisations in conducting their independence campaigns. On February 24th, the People's Association at Changchun held a mass meeting in which about 4,000 persons are reported to have taken part. They demanded the acceleration of the foundation of the new State. Similar meetings were held in other districts and also in Harbin. On February 25th, the mass meeting for the whole Province was held at the city of Kirin. About ten thousand persons were reported to have been present. A declaration was duly issued similar to that passed at Mukden on February 28th.

In Heilungkiang Province.

In Heilungkiang Province, the Mukden Self-Government Guidance Board played an important part. On January 7th, after General Chang Ching-hui had accepted the governorship of Heilungkiang, he declared the Province to be independent.

The Board lent its assistance in conducting the acceleration movement in Heilungkiang. Four directing officers, two of whom were Japanese, were despatched from Mukden to Tsitsihar. Two days after their arrival, on February 22nd, they convened a meeting in the reception hall of the Government House, in which a large number of associations were represented. It was a Pan-Heilungkiang Conference, which was to decide upon the methods of preparing for the establishment of the State. It was resolved to hold a mass demonstration on February 24th.

Many thousands of persons took part in the mass demonstration at Tsitsihar, which was covered with posters, scrolls, streamers and pennants in commemoration of the event. The Japanese artillery fired 101 guns in honour of the day. Japanese planes circled overhead, dropping down leaflets. A declaration was promptly issued which favoured a republican form of government, with a responsible Cabinet and a President as the head of the State. All powers were to be concentrated in the Central Government, and the provincial governments were to be abolished, leaving districts and municipalities as the units of local government.

By the end of February, Fengtien, Kirin, Heilungkiang and the Special District had passed the stages of district and provincial declarations. The Mongol Banners had also given their allegiance to the new State, since it was known that it would mark off special autonomous Mongol districts and would in other ways guarantee the rights of the Mongol inhabitants. The Mohammedans had already, at a meeting on February 15th, at Mukden, pledged their allegiance. The majority of the small number of unassimilated Manchus were also in favour of the new State as soon as it had become known that their former Emperor would probably be offered the post of Chief Executive.

After the districts and provinces had given formal support to the plan of a new State, the Self-Government Guiding Board took the lead in convening an All-Manchuria Convention, which was held at Mukden on February 29th. There were present official delegates from the provinces, the districts of Fengtien Province and the Mongol territories, and, in addition, many others, including representatives of various groups, such as the Koreans in Kirin Province and the Special District, and the branches of the Youth League of Manchuria and Mongolia : altogether over 700 persons.

Speeches were delivered and a declaration and resolution were unanimously approved, the former denouncing the previous regime, the latter welcoming the new State. A second resolution was also adopted designating as the provisional President of the new State the former Emperor Hsuan Tung, now known by his personal name as Mr. Henry Pu-yi.

The North-Eastern Administrative Council met at once in urgent session and elected six delegates to proceed to Port Arthur, to convey their invitation to the former Emperor at Port Arthur, where he had been residing since he left Tientsin in the previous November. Mr. Pu-yi at first declined it, but on March 4th a second delegation comprising twenty-nine delegates obtained his consent to accept the post for one year only. Then the Administrative Council elected its chairman, Lieutenant-General Chang Ching-hui, and nine others, to be the Reception Committee. On March 5th, the Committee went to Port Arthur and was received in audience. In response to its request, the former Emperor, on March 6th, left Port Arthur for Tangkangtze, and after two days began, on the 8th, to receive homage as the Regent of "Manchukuo".

The inauguration ceremonies were held at the new capital, Changchun, on March 9th. Mr. Pu-yi, as Regent, made a declaration in which he promised to found the policy of the new State upon the basis of "morality, benevolence and love". On the 10th, the principal members of the Government were appointed; the members of the Cabinet, the Presidents of the Board of Legislation and the Board of Control; the President and Vice-President and Councillors of the Privy Council, the Governors of the Provinces and of the Special District, the Commanders of the Defence Forces of the Provinces, and some other high officials. A notice regarding the establishment of "Manchukuo" was issued by telegram on March 12th to the foreign Powers. The declared purpose of this notice was to communicate to the foreign Powers the fundamental object of the formation of "Manchukuo" and its principles of foreign policy; and to request that they recognise it as a new State.

Prior to the arrival of the Regent, a number of laws and regulations, on which Dr. Shao Hsin-po had been working for some time, had been made ready for adoption and promulgation. They came into force on March 9th, simultaneously with the law regulating the organisation of the Government, while the laws which theretofore had been in effect, in so far as they were not in conflict with the new laws, or with the fundamental policy of the State, were provisionally adopted by special ordinance of the same date.

The All-Manchuria Convention, Mukden, February 29th.

Mr. Henry Pu-yi, the former Emperor, accepts the headship of "Manchukuo"

The Inauguration ceremonies, Changchun, March 9th.

The date of the establishment of "Manchukuo"; Laws and Regulations.

**Sources of
Information.**

This narrative of the stages by which the "State of Manchukuo" was created has been compiled from all the sources of information available. The events were reported at length, as they occurred, in Japanese newspapers, and most fully, perhaps, in the columns of the Japanese-edited *Manchuria Daily News*. The two documents entitled "Histoire de l'Indépendance du Mandchoukouo — Ministère des Affaires étrangères du Mandchoukouo", and "A General Outline of Manchukuo — Department of Foreign Affairs, Manchukuo", which were prepared at Changchun on May 30th by the present administration, and the "Memorandum on the so-called Independence Movement in the Three Eastern Provinces", prepared by the Chinese Assessor, have also been carefully studied. In addition, wherever possible, neutral sources of information were utilised.

**Civil
administration
since
September 18th.**

The measures of civil administration taken by the Japanese military authorities between September 18th and the establishment of the "Manchukuo Government", notably the control of the Banks, the administration of the public utility services and the management of the railways, indicated that, from the commencement of the operations, objects more permanent than the requirements of a temporary military occupation were being pursued. Immediately after the occupation of Mukden, on September 19th, guards were placed in or in front of all Chinese banks, railway offices, the administrative offices of public utility services, the office of the Mining Administration, and similar premises. Investigations were then conducted into the financial and general situation of these enterprises. When they were allowed to re-open, Japanese were appointed as advisers, experts, or secretaries to officials, usually with administrative powers. Many business enterprises were owned by the former administration of the Three Eastern Provinces, as well as by the provincial administrations; and, as the previous Government was regarded as an enemy Government in time of war, no bank, no mining, agricultural or industrial enterprise, no railway offices, no public utility — in fact, no single source of revenue in which they had been interested in either their public or private capacities — was left without supervision.

Railways.

As regards railways, the measures taken by the Japanese authorities from the outset of the period of military occupation were designed to settle definitely, in a manner favourable to Japanese interests, some of the questions which had long been in dispute between the Chinese and Japanese railways, and which have been described in Chapter III. The following measures were promptly taken:

1. All the Chinese-owned railways north of the Great Wall, and the monies standing to their credit in banks in Manchuria, were seized.
2. In order that the railways might be co-ordinated with the South Manchuria Railway, certain changes were made in the arrangement of tracks in and around Mukden, by cutting the tracks of the Peiping-Mukden Railway at the viaduct under the South Manchuria Railway, thus closing the Liaoning Central station, the Fengtien East station, the Fengtien North Gate station, and thus severing the connection with the Chinese Government railway to Kirin (later replaced).
3. At Kirin, a physical connection was made between the Hailun-Kirin line and the Kirin-Tunhua and Kirin-Changchun Railways.
4. A staff of Japanese technical advisers was installed in various departments of the railways.
5. The "special rates" adopted by the Chinese authorities were abolished and the original tariffs restored, thus bringing freight rates on Chinese railways more into conformity with those of the South Manchuria Railway.

During the period between September 18th, when the North-Eastern Communications Committee ceased to function, and the date of the creation of the " Manchukuo Ministry of Communications ", the Japanese authorities assumed entire responsibility for the administration of the railways.

Measures of a similar kind, which went beyond those which were necessary for the protection of the lives and property of their nationals, were taken by the Japanese in respect of the public electricity supplies at Mukden and Antung. Also, in the period between September 18th and the establishment of " Manchukuo ", the Japanese authorities made changes in the administration and management of the Chinese Government telephone, telegraph and wireless services which would ensure their intimate co-ordination with the Japanese telephone and telegraph services in Manchuria.

Other public utilities.

Since September 18th, 1931, the activities of the Japanese military authorities, in civil as well as in military matters, were marked by essentially political considerations. The progressive military occupation of the Three Eastern Provinces removed in succession from the control of the Chinese authorities the towns of Tsitsihar, Chinchow and Harbin, finally all the important towns of Manchuria ; and following each occupation, the civil administration was re-organised. It is clear that the Independence Movement, which had never been heard of in Manchuria before September 1931, was only made possible by the presence of the Japanese troops.

Conclusions.

A group of Japanese civil and military officials, both active and retired, who were in close touch with the new political movement in Japan to which reference was made in Chapter IV, conceived, organised and carried through this movement, as a solution to the situation in Manchuria as it existed after the events of September 18th.

With this object, they made use of the names and actions of certain Chinese individuals, and took advantage of certain minorities among the inhabitants, who had grievances against the former administration.

It is also clear that the Japanese General Staff realised from the start, or at least in a short time, the use which could be made of such an autonomy movement. In consequence, they provided assistance and gave direction to the organisers of the movement. The evidence received from all sources has satisfied the Commission that, while there were a number of factors which contributed to the creation of " Manchukuo ", the two which, in combination, were most effective, and without which, in our judgment, the new State could not have been formed, were the presence of Japanese troops and the activities of Japanese officials, both civil and military.

For this reason, the present regime cannot be considered to have been called into existence by a genuine and spontaneous independence movement.

PART II. — THE PRESENT GOVERNMENT OF " MANCHUKUO "

" Manchukuo " is governed in accordance with an Organic Law and a Guarantee Law of Civil Rights. The Organic Law prescribes the fundamental organisation of the governmental organs. It was promulgated by Ordinance No. 1 issued on March 9th, the first year of Tatung (1932).

The Organic Law.

The Regent is head of the State. All executive power is vested in him, and he has also the authority to overrule the Legislative Council. He is assisted by a Privy Council, which is to advise him upon important affairs.

A characteristic feature of the Organic Law is the separation of governmental power into four divisions or departments : the Executive, the Legislative, the Judicial and the Supervisory.

The functions of the Executive department are carried out, under the direction of the Regent, by the Premier and the Ministers of State, who together form a State Council or Cabinet. The Premier supervises

The Executive Department.

the work of the Ministries and, through the powerful Board of General Affairs, has direct charge of their confidential matters, personnel, accounting and supplies. Subordinate to the State Council are various bureaux, especially the important Advisory Bureau and the Legislative Bureau. Executive power is thus largely concentrated in the hands of the Premier and the Regent.

**The
Legislative
Department.**

The legislative power is vested in the Legislative Council. Its approval will be necessary for all laws and revenue Acts. But should it reject any Bill, the Regent may ask the Council to re-consider its decision and, if it should again reject it, the Regent, after consulting the Privy Council, shall decide the matter. At present, however, no law has yet been passed for the organisation of the Council, with the result that laws are drafted by the State Council and become effective after the Privy Council has been consulted and the approval of the Regent has been obtained. So long as the Legislative Council is not organised, the Premier's position is predominant.

**The Judicial
Department.**

The judiciary comprises a number of law courts, divided into three grades, the Supreme Court, Higher Courts, and District Courts.

**The
Supervisory
Department.**

The Supervisory Council supervises the conduct of officials and audits their accounts. The members of the Council may not be dismissed except for a criminal offence or disciplinary punishment, and may not be subjected to suspension or transfer of office or reduction of salary against their wishes.

**Provinces and
Special
Districts.**

For purposes of local government, "Manchukuo" is divided into five provinces and two special districts. The provinces are Fengtien, Kirin, Heilungkiang, Jehol, and Hsin-An or Hsingan. The last-named, which contains the Mongol districts, is subdivided into three areas or sub-provinces, so as to conform to the traditional Banner system and the union of Banners into Leagues. The special districts are the old Chinese Eastern Railway, or Harbin district, and the newly established Chientao, or Korean district. By means of this administrative division, the important minorities, Mongols, Koreans and Russians, are to be guaranteed, as far as possible, special administration in conformity with their needs. Although the Commission made several requests to be shown a map of the area claimed to be included in the "State of Manchukuo", this was not provided, but a letter was received giving the boundaries of the "State" as follows:

"The new State is bounded on the south by the Great Wall, and the Mongol Leagues and Banners in the same comprise Hulinbuir and the Leagues of Cherim, Chaota and Chosatu and their Banners."

At the head of the provinces are Civil Governors. But since it is desired to concentrate executive power in the Central Government, they are to be given no authority over either troops or finance. In the provinces, as well as in the central government, the General Affairs Department holds a controlling position. It is in charge of confidential matters, of personnel, accounting, correspondence, and matters which do not come under other departments.

**Districts and
municipalities.**

Provinces are divided into districts. These are administered largely by district self-government offices, which have under their direction various governmental departments, particularly that of General Affairs. Municipal governments exist at Mukden, Harbin, and Changchun. At Harbin, however, it is planned to create a Greater Harbin, which will include both the Russian and the Chinese cities. The Special Railway District is to be abolished. Part of it will be included in Greater Harbin, and the remainder, stretching east and west along the Chinese Eastern Railway, is to be added to Heilungkiang and Kirin Province.

The "Government of Manchukuo" regards the provinces as administrative areas, and the districts and the municipalities as units of finance.

It determines the amount of their taxes and passes upon the budget. All local revenues must be paid into the Central Treasury, which will then supervise the proper disbursement. These revenues may not be retained, in whole or in part, by the local authorities, as was customary under the old regime. Naturally, this system has not as yet been brought into satisfactory operation.

In the "Government of Manchukuo", Japanese officials are prominent, and Japanese advisers are attached to all important Departments. Although the Premier and his Ministers are all Chinese, the heads of the various Boards of General Affairs, which, in the organisation of the new State, exercise the greatest measure of actual power, are Japanese. At first they were designated as advisers, but more recently those holding the most important posts have been made full Government officials on the same basis as the Chinese. In the Central Government alone, not including those in local governments or in the War Office and the military forces or in Government enterprises, nearly 200 Japanese are "Manchukuo" officials.

**Japanese
officials
and advisers.**

Japanese control the Board of General Affairs and the Legislative and Advisory Bureaux, which in practice constitute a Premier's Office, the General Affairs Department in the Ministries and in the Provincial Governments, and the Self-Government Directing Committees in the Districts, and the police departments in the Provinces of Fengtien, Kirin, and Heilungkiang. In most bureaux, moreover, there are Japanese advisers, counsellors and secretaries.

There are also many Japanese in the railway offices and in the Central Bank. In the Supervisory Council, Japanese hold the posts of Chief of the Bureau of General Affairs, Chief of the Control Bureau, and Chief of the Auditing Board. In the Legislative Council, the Chief Secretary is a Japanese. Finally, some of the most important officials of the Regent are Japanese, including the Chief of the Office of Internal Affairs and the Commander of the Regent's bodyguard¹.

The aim of the Government, as expressed in the proclamation of the North-Eastern Administrative Committee of February 18th, and of the "Government of Manchukuo" of March 1st, is to rule in accordance with the fundamental principle of "Wang Tao". It is difficult to find an exact English equivalent for this phrase. The interpreters provided by the "Manchukuo" authorities translated it "love", but scholars give the meaning as the "kingly way", which may have many shades of meaning. Traditionally, the Chinese have used the expression "Wang Tao" as antithetical to "Pa Tao", which latter expression as discussed by Dr. Sun Yat-sen in his "San Min Chu Yi" (Three People's Principles), connotes reliance upon physical force and compulsion. Sun Yat-sen explained that "Wang Tao", therefore, was the antithesis of "Might makes right".

**The aims of
the
Government.**

The policy of the Self-Government Guiding Board, the chief agency in the creation of the new Government, was continued by the Advisory Bureau, which had superseded it. Military officers were not to be allowed to interfere in matters of administration. Regulations governing the qualifications for Government service are to be enacted and appointments are to be made on the basis of the ability of the candidates.

Taxation is to be reduced and placed on a legal basis, and reformed in accordance with sound principles of economics and administration. Direct taxes are to be transferred to the District and Municipal Governments, while the Central Government is to secure the income derived from indirect taxes.

Taxation.

¹ The more important appointments have meanwhile been announced in the *Manchuria Government Gazette*.

The documents supplied by the Changchun authorities state that a number of taxes have already been abolished, while others have been reduced. Hopes are expressed that readjustment of Government enterprises and Government-owned resources will increase revenue and that the eventual reduction of the military forces will lessen expenditure. However, for the time being, the financial position of the new State is unsatisfactory. Guerilla warfare has kept military expenditure high, while, at the same time, the Government is not receiving revenues from various normal sources. Expenditure for the first year is now roughly estimated at \$85,000,000, against revenue \$65,000,000, showing a deficit of \$20,000,000, which it is intended to cover by a loan from the newly established Central Bank as explained hereafter¹.

The Government declared its intentions, as financial conditions improve, to spend as much as possible of its revenue upon education, public welfare, and development of the country, including reclamation of waste land, exploitation of mineral and forestry resources, and extension of the system of communications. It states that it will welcome foreign financial assistance in the development of the country, and that it will adhere to the principles of Equal Opportunity and of the Open Door.

Education.

The Government has already begun to re-open primary and secondary schools, and it intends to train a large number of teachers who will thoroughly understand the spirit and policies of the new State. A new curriculum is to be adopted, new text-books compiled, and all anti-foreign education abolished. The new educational system will aim to improve primary schools and to stress vocational education, the training of the primary school-teachers, and the teaching of sound ideas as to sanitary living. The teaching of English and Japanese is to be compulsory in the middle schools, and of Japanese is to be voluntary in the primary schools.

**Justice and
police.**

The "Manchukuo" authorities have decided that, in the domain of justice, the interference of administrative authorities should not be tolerated. The status of judicial officers is guaranteed by the law, and their salaries are to be adequate. The qualifications for judicial positions will be raised. Extra-territorial rights, for the time being, will be respected, but the Government intends to start negotiations with foreign Powers for their abolition as soon as adequate reforms in the present system shall have been effected. The police are to be properly selected, trained and paid, and completely separated from the Army, which is not to be allowed to usurp police functions.

The Army.

Re-organisation of the Army is planned, but, since at present it consists largely of the old Manchurian soldiery, caution is felt to be necessary in order to avoid increasing discontent and mutiny.

**"Manchukuo"
Central Bank
opened its
head offices in
Changchun and
branches in
many other
Manchurian
cities on
July 1st, 1932.**

The Central Bank of "Manchukuo" was established on June 14th, and officially opened its doors for business on July 1st. The Bank has its head offices in Changchun, the capital of "Manchukuo", and branches and sub-branches to the number of 170 in most of the cities of Manchuria.

The Bank was organised as a joint-stock company with a charter to run for thirty years. Its first officers were Chinese and Japanese bankers and financiers. It was empowered to "regulate the circulation of the domestic currency, maintain its stability and control the financing service". The capital of the bank was authorised at \$30,000,000 (silver) and permission was given it to issue notes against a specie reserve of at least 30%.

**The Central
Bank absorbed
all of the old
provincial
banks,
including the
Frontier Bank.**

The old provincial banks, including the Frontier Bank, were amalgamated with the new Central Bank, and their entire businesses, including affiliated enterprises, were turned over to it. Provision was further made for liquidating the non-Manchurian branches of the old provincial banks.

¹ See special study No. 4, annexed to this Report.

In addition to what it will be able to salvage from the old banks, the Central Bank has a Japanese loan reported at 20,000,000 Yen¹ and a subscription to its capital of \$7,500,000 (silver) from the "Manchukuo Government" on which to establish itself². The Bank has planned to unify all the Manchurian currencies by redeeming them for new notes at rates which have been officially prescribed as from July 1st, 1932. These new notes are based on the silver dollar and are to be covered to the extent of at least 30 per cent by silver, gold, foreign currencies or deposits. Whether or not the new currency is to be convertible on demand and without limit into hard money is not made clear in official pronouncements. The old notes will be permitted to circulate for two years from the passage of the Conversion Act, but will not be valid after that time.

The order for the new Central Bank notes has been placed with the Japanese Government, but thus far neither the notes nor the new hard money are in circulation. The present currencies of Manchuria remain what they were prior to September 18th, 1931, with the exception that the notes are being surcharged with the signature of Mr. Yung-hou (the President of the new Central Bank) as they pass through the various banks.

It is not clear how the new "Manchukuo" Bank can hope to accomplish its ambitious programme of unifying and stabilising all the present Manchurian currencies with the limited amount of capital at its disposal. The resources inherited from the old provincial banking institutions with the addition of a loan from Japanese banks and a subscription to its capital from the "Manchukuo Government" seem entirely inadequate for the purpose. Moreover, it is not clear on what basis the financial relations between the Bank and the "Manchukuo Government" will be established. According to the preliminary "Manchukuo" budget supplied to the Commission by the Finance Minister, "Manchukuo" expects to face a deficit of over 20,000,000 Yuan³ during its first year of existence. According to the Minister, this was to be covered by a loan from the Central Bank (not then in existence). A Government which subscribes 7,500,000 Yuan to its bank and then borrows over 20,000,000 Yuan from it to balance its budget is not establishing either its Central Bank or its budget on a sound financial basis.

Unless the Central Bank can obtain more actual hard money than it now appears to possess, it can hardly hope to unify and stabilise all Manchurian currencies on a *convertible* silver-dollar basis. Even if it were to succeed in creating a currency which was uniform though not convertible, it would possibly have accomplished something, but even a uniform currency the stability of which is not guaranteed by conversion falls short of the requirements of a sound monetary system.⁴

In regard to various public utilities, as well as in regard to the railways, arrangements have been made which have tended to link up the Chinese and Japanese systems. Before the outbreak at Mukden, the Japanese were anxious to bring this about, but the Chinese consistently refused to give their consent. Between September 18th,⁵ however, and the formation of

New currency to be based on the silver dollar, but whether it will be convertible is not clear.

Present Manchurian currencies essentially what they were prior to September 18th, 1931.

"Manchukuo's" unification programme based on inadequate supply of hard money.

Central Bank more likely to unify the currencies than to make them convertible.

The Japanese extend their control over the Chinese Public Utility System.

¹ It is quite possible that this was intended to be "Yuan".

² According to the preliminary budget furnished the Commission by the "Manchukuo" Finance Minister on May 5th, 1932.

³ This and the following items in the budget were given as *Yen* in an interview by the "Manchukuo" Finance Minister with a Commissioner, but in the English translation of "A General Outline of Manchukuo" presented by the Department of Foreign Affairs, Manchukuo, they are given in terms of Yuan. The Commission therefore takes the liberty of using *Yuan* rather than *Yen* in its reference to this and the following budgetary items.

The fact that the Chinese symbol for *Yuan* is the same as the one which the Japanese employ for the *Yen* has been a constant source of difficulty in dealing with the English and French translations supplied the Commission by both the Chinese and Japanese.

⁴ See special study No. 5, annexed to this Report.

“ Manchukuo ”, steps were at once taken to realise the wishes of the Japanese as already mentioned in the first section of this chapter. Since the formation of the “ new State ”, the policy of the “ Manchukuo Ministry of Communications ” seems to be to enter into agreements with the South Manchuria Railway Company for the exploitation of at least some of the main railway lines under its authority.

The Chinese Telephone, Telegraph and Radio Systems.

The Chinese telephone, telegraph and radio systems in Manchuria, being entirely Government-owned, had their own executives and, in addition, were subject to a unified control by the North-Eastern Telephone, Telegraph and Radio Administration. Since September 18th, all three of these systems have been brought into closer co-operation with existing Japanese systems throughout Manchuria. Moreover, arrangements have been made between the Japanese and the North-Eastern Telegraph Administration for through telegrams from or to any place in Manchuria and to or from any place in Kwantung Leased Territory, Japan, Korea, Formosa, and the South Sea Islands. Between the principal centres in North Manchuria and the Japanese post offices at Dairen, Mukden and Changchun, direct circuit lines have been constructed to ensure the quick transmission of messages.

Japanese “ kana ”¹ messages have been given especially low rates. To learn to handle Japanese “ kana ” syllables, special training is being given to the Chinese staff, and it is planned to have Japanese clerks gradually join the Chinese telegraph workers at the chief centres. Thus, every facility has been given to favour telegraphic intercourse between Manchuria and the whole Japanese Empire. Naturally, the commercial connections between the countries are thereby greatly strengthened.

The Salt Gabelle. The Japanese military authorities took control, in September 1931, of the funds of the Salt Gabelle.

After the events of September 18th - 19th, the Japanese authorities issued orders to the offices and banks in which the revenue of the Salt Gabelle was retained that no payment from these funds was to be made without their consent.

Supervision over the Salt Gabelle was insisted upon on the ground that the greater part of the revenue from this source, though nominally national, had in fact been retained by Marshal Chang Hsueh-liang's Government. Income from this source, in 1930, had amounted to about \$25,000,000 silver, of which \$24,000,000 had been retained in Manchuria. Only \$1,000,000 had been remitted to the Inspectorate-General of the Salt Gabelle in Shanghai.

Marshal Chang Hsueh-liang agreed in 1928 to pay the Manchurian quota.

After Marshal Chang Hsueh-liang had joined the National Government in December 1928, he agreed to pay the monthly quota of \$86,600 silver which had been fixed as the amount due from Manchuria towards the loans secured on the Salt Gabelle. Somewhat later, in April 1930, a revised table was announced in which the Manchurian monthly quota was raised to \$217,800. Because of local pressure upon the Manchurian finances, however, Marshal Chang requested a postponement of the new assignment. At the time of the Mukden incident, his arrears amounted to \$576,200. The first remittance at the new rate of \$217,800 was actually made on September 29th, 1931, by consent of the Japanese Army officers. Since then, to March 1932 inclusive, the newly-established authorities in Manchuria have remitted to the Central Government, not only these monthly quotas, but also the quota arrears left unpaid by Marshal Chang Hsueh-liang. The surplus from the Salt revenue, however, they regarded as Manchurian, and not national, income, and therefore considered that they were justified in retaining it for local purposes.

The seizure of Salt funds at Newchwang (Yinkow) in October and November 1931.

After the Mukden Committee for the Maintenance of Peace and Order had been transformed into the Provincial Government *ad interim*, it ordered the District Salt Inspectorate at Newchwang to transfer all its funds to the Provincial Bank for disbursement by the Board of Finance. According to Chinese official reports, the Bank of China at Newchwang was likewise,

¹ A Japanese phonetic script.

on October 30th, forced to give up the Salt funds on deposit, amounting to \$672,709.56 silver without authority from the original depositors. A receipt was given in the name of the Liaoning Finance Board, which was signed only by the Japanese adviser to that Board.

The new Kirin Provincial Government took similar steps with regard to the Salt Transportation Office of Kirin and Heilungkiang. According to Chinese official report, it demanded the transfer of the Salt revenue to its provincial treasury. When the Chief of the Office refused, he was detained for some days and replaced by a nominee of Governor Hsi Hsia, who, on October 22nd, forcibly took possession of the Office, while the Auditorate Office was closed under Governor Hsi Hsia's orders. In this case, too, the Salt funds deposited in the Bank of China and the Bank of Communications were claimed by the new Kirin authorities and, on November 6th, were transferred to the Provincial Bank. Since then, Salt funds have from time to time been withdrawn and expended by the local authorities, while the monthly quotas have been sent regularly to Shanghai. From October 30th, 1931, to August 25th, 1932, for which period Chinese official figures are available, Salt revenue amounting to \$14,000,000 silver was retained in Manchuria.

The Salt Administration throughout Manchuria continued to function, although under the restrictions described and under supervision, until March 28th, when the Minister of Finance of the "Manchukuo Government" ordered that the deposits, accounts, documents, and other properties belonging to the Inspectorate should be handed over on the following day to the Salt Comptroller of "Manchukuo", and that the collection of Salt revenue, which was originally undertaken by the Bank of China, should be transferred to the Bank of the Three Eastern Provinces. He stated that those officials who wished to continue their service in the Salt Gabelle Administration of the "Manchukuo" should report their names to the Salt Comptroller's Office, and promised that their applications would receive serious consideration provided they first renounced allegiance to the Government of the Republic of China.

On April 15th, the District Inspectorate at Newchwang was dissolved by force. The Director and Deputy-Director were put out of office. The premises were occupied, and safes and documents and seals were seized. The remaining officials were requested to continue their service, but they are all reported to have refused. A number of those who had been in the Salt Administration followed the Director to Tientsin and waited for further instructions from Shanghai. The work of the former Salt Inspectorate in the Three Eastern Provinces was thus completely taken over by the new Comptroller's Office of "Manchukuo". The new Government, however, has stated that it is prepared to continue to pay its equitable proportion of the sums required for the service of the foreign loans secured on the Salt revenue.

Since the Customs funds collected in Manchuria had always been remitted to the Central Government, the Japanese military authorities did not interfere with the Customs administration nor with the remittance of funds to Shanghai. Interference with this revenue was first made by the "Manchukuo Government" on the ground that their State was independent.

One of the first acts of the North-Eastern Administrative Committee, which was established on February 17th as the Provincial "Government of Manchukuo", was to instruct the Superintendents of Customs at the Manchurian Treaty ports that, although the Customs revenue belonged of right to "Manchukuo" and would, in the future, be under the control of the Committee, for the time being the Superintendents and Commissioners of Customs should carry on their duties as usual. They were informed that a Japanese Customs Adviser had been appointed at each Manchurian

The new Kirin Provincial Government also seized the Salt Revenue.

The "Government of Manchukuo" took over the administration of the Salt Gabelle.

The Customs.

Customs revenue in Manchuria.

port for the purpose of supervising the general Customs administration. The ports concerned were Lungchingtsun, Antung, Newchwang and Harbin, together with some sub-stations, at which the revenue collected in 1931 amounted respectively to Hk. Tls. 574,000, 3,682,000, 3,792,000, and 5,272,000. The port of Aigun, which is still outside the sphere of control of the "Manchukuo Government", is functioning under the Chinese Customs Service. The port of Dairen, in the Kwantung Leased Territory, has a distinct status. The fact that the Customs revenue collected in the Manchurian ports, including Dairen, amounted in 1930 to 14.7 per cent and in 1931 to 13.5 per cent of the total for all China shows the importance of Manchuria in the Chinese Customs Administration.

The procedure by which the "Manchukuo" authorities took over the entire Customs administration in Manchuria is well illustrated by the action taken at Antung, which has been described as follows by the Inspectorate-General of Customs :

The
"Government
of
Manchukuo"
took over the
Customs
Administration
and Revenue,
March-June
1932.

A Japanese Customs Adviser was appointed to the Antung Customs Office in March, but he took no active steps until the middle of June, when he sent definite orders from the "Manchukuo" Ministry of Finance to the Bank of China that Customs funds were no longer to be remitted to Shanghai. On June 16th, four armed "Manchukuo" police, accompanied by the Assistant Superintendent of Police, a Japanese, visited the Bank of China and informed the Manager that they had come to guard the revenue. On June 19th, the Bank of China handed over to the Bank of the Three Eastern Provinces Tls. 783,000, and informed the Commissioner that this action was taken as a result of *force majeure*.

On June 26th and 27th, a Japanese Adviser of the "Manchukuo Government" demanded that the Customs House at Antung should be handed over to him. The Commissioner refused, but "Manchukuo" police, all Japanese, forced the Commissioner to leave the Customs House. The Commissioner, however, still attempted to carry on the Customs work in his home, since 80 per cent of the Antung Customs revenue is collected in the railway area, hoping that the Japanese authorities would not permit interference within this area. But the "Manchukuo" police entered the Japanese railway zone, arrested a number of Customs staff, intimidated the others, and forced the Commissioner to suspend the Chinese Customs Service.

The Customs
situation at
Dairen.

Until June 7th, the Dairen Customs revenue was remitted to Shanghai at intervals of three or four days, but, under date of June 9th, the "Manchukuo Government" gave notice that these remittances should no longer be made. When no further funds reached Shanghai, the Inspector-General of Customs took up the matter by telegraph with the Japanese Commissioner at Dairen. As a result, the Commissioner refused to send on the Customs receipts on the ground that the Chief of the Foreign Section of the Government of the Japanese Leased Territory had advised him that the remittance of the Customs revenue might severely affect Japanese interests. The Inspector-General therefore, on June 24th, dismissed the Dairen Commissioner for insubordination.

The "Manchukuo Government", on June 27th, appointed the dismissed Commissioner and the members of his staff as "Manchukuo" officials, to serve in their former positions. It had threatened to establish a new Customs House at Wafangtien, on the frontier of the Leased Territory, if the Japanese authorities should prevent them from taking charge of the Dairen Customs. The Japanese authorities of the Leased Territory did not oppose the passing of the Customs administration into the hands of the newly appointed "Manchukuo" officials. They maintained that the problem did not concern Japan, but was an issue solely between "Manchukuo" on the one hand and the Government of China and its Dairen Commissioner on the other.

The " Manchukuo Government " maintains that, since " Manchukuo " is an independent State, it exercises, of right, complete jurisdiction over the Customs administration of its territory. But it has stated that, in view of the fact that various foreign loans and indemnities were based upon the Chinese Customs revenue, it is prepared to pay its equitable proportion of the annual sums necessary to meet these obligations. It hopes that, after depositing this amount in the Yokohama Specia Bank, there will be a Customs surplus for 1932-33 available for local use of about \$19,000,000 silver.

The view of the " Manchukuo Government " regarding the Customs.

The Japanese military authorities in Manchuria, after September 18th, did not greatly interfere with the Post Office, apart from exercising a certain censorship of newspapers and letters. After the establishment of " Manchukuo ", the Government desired to take over the postal services of the territory, and appointed, on April 14th, special officers to take charge of the transfer of the Postal Administration. On April 24th, it applied for permission to join the International Post Union, for which it has not yet qualified.

The Postal Administration in Manchuria.

As the Postal Commissioners refused to surrender their offices, the *status quo* was for some time respected, although " Manchukuo " supervisors were placed in certain offices with a view to exercising a measure of control. The " Manchukuo Government ", however, finally decided to issue its own stamps and to discontinue the use of the Chinese stamps. By ordinance of the Ministry of Communications of July 9th, it informed the public that the new stamps and cards would be offered for sale on August 1st. At this stage, the Chinese Government ordered the Postal Commissioners to close the office in Manchuria and to give the staff the choice of receiving three months' pay or of returning to designated bases in China for service at other places. The " Manchukuo " authorities, in turn, offered to take into their service all the postal employees who wished to remain, and promised to guarantee their financial and other rights acquired under the Chinese Administration. On July 26th, the " Manchukuo Government " took over completely the postal service throughout Manchuria.

The " Manchukuo Government " has stated that it will respect private property and all concessions awarded by either the Central Government of China or by the former Government of Manchuria, provided the concessions were legally granted in accordance with the laws and regulations previously in force. It has also promised to pay the lawful debts and obligations of the former administration and has appointed a Commission to pass upon claims of indebtedness. In regard to the properties belonging to Marshal Chang Hsueh-liang and some of the other prominent leaders of the former regime, it is yet too early to state what action will be taken. According to Chinese official reports, all the personal property of Marshal Chang Hsueh-liang, General Wan Fu-lin, General Po Yu-lin, and certain others has been confiscated. The " Manchukuo " authorities, however, take the view that, since the former Government officials used their power to amass wealth for themselves, they are not yet prepared to recognise property thus acquired as properly " private property ". A careful investigation is being made of the possessions of the former officials. This is reported to have been finished as far as Bank deposits are concerned.

The treatment of private property.

Having thus described the organisation of the " Manchukuo Government ", its programme, and some of the measures it has taken to affirm its independence from China, we must state our conclusions regarding its operations and its principal characteristics.

Comments.

The programme of this " Government " contains a number of liberal reforms the application of which would be desirable, not only in Manchuria, but also in the rest of China ; in fact, many of these reforms figure equally in the programme of the Chinese Government. In their interviews with

the Commission, the representatives of this "Government" claimed that, with the help of the Japanese, they would be able to establish peace and order within a reasonable time and would thereafter be able to maintain it permanently. They expressed the belief that they would be able to secure the support of the people in time by assuring them an honest and efficient administration, security from bandit raids, lower taxation as the result of reduced military expenditure, currency reform, improved communications and popular political representation.

But, after making every allowance for the short time which has hitherto been at the disposal of the "Manchukuo Government" for carrying out its policy, and after paying due regard to the steps already taken, there is no indication that this "Government" will in fact be able to carry out many of its reforms. To mention but one example¹: there seem to be serious obstacles in the way of the realisation of their budgetary and currency reforms. A thorough programme of reforms, orderly conditions and economic prosperity could not be realised in the conditions of insecurity and disturbance which existed in 1932.

As regards the "Government" and the public services, although the titular heads of the Departments are Chinese residents in Manchuria, the main political and administrative power rests in the hands of Japanese officials and advisers. The political and administrative organisation of the "Government" is such as to give to these officials and advisers opportunities, not merely of giving technical advice, but also of actually controlling and directing the administration. They are doubtless not under the orders of the Tokyo Government, and their policy has not always coincided with the official policy either of the Japanese Government or of the Headquarters of the Kwantung Army. But in the case of all-important problems, these officials and advisers, some of whom were able to act more or less independently in the first days of the new organisation, have been constrained more and more to follow the direction of Japanese official authority. This authority, in fact, by reason of the occupation of the country by its troops, by the dependence of the "Manchukuo Government" on those troops for the maintenance of its authority both internally and externally, in consequence, too, of the more and more important role entrusted to the South Manchuria Railway Company in the management of the railways under the jurisdiction of the "Manchukuo Government", and finally by the presence of its consuls, as liaison agents, in the most important urban centres, possesses in every contingency the means of exercising an irresistible pressure. The liaison between the "Manchukuo Government" and Japanese official authority is still further emphasised by the recent appointment of a special ambassador, not officially accredited, but resident in the capital of Manchuria, exercising in his capacity of Governor-General of the Kwantung Leased Territory a control over the South Manchuria Railway Company and concentrating in the same office the authority of a diplomatic representative, the head of the Consular Service, and Commander-in-chief of the Army of Occupation.

The relations between "Manchukuo" and Japan have hitherto been somewhat difficult to define, but the latest information in the possession of the Commission indicates that it is the intention of the Japanese Government to define them before long. A letter dated August 27th, 1932, addressed to the Commission by the Japanese Assessor, states that the Special Ambassador, General Muto, "left Tokyo on August 20th for Manchuria. On arrival he will commence negotiations for the conclusion of a fundamental treaty concerning the establishment of friendly relations between Japan and Manchuria. The Government of Japan regards the conclusion of this treaty as a formal recognition of "Manchukuo".

¹ See special studies Nos. 4 and 5, annexed to this Report.

PART III. — THE OPINIONS OF THE INHABITANTS
OF MANCHURIA.

It was one of the objects of the Commission to ascertain the attitude of the inhabitants of Manchuria towards the new "State". Owing to the circumstances in which the enquiry had to be made, however, the obtaining of evidence presented some difficulty. The danger, real or supposed, to the Commission from bandits, Korean Communists, or supporters of the new Government who might be angered by the presence of the Chinese Assessor on account of his criticisms of that regime, provided a reason for exceptional measures of protection. There were no doubt occasional real dangers in the unsettled conditions of the country, and we are grateful for the efficient protection with which we were provided throughout our tour. But the effect of the police measures adopted was to keep away witnesses ; and many Chinese were frankly afraid of even meeting members of our staff. We were informed at one place that, before our arrival, it had been announced that no one would be allowed to see the Commission without official permission. Interviews were therefore usually arranged with considerable difficulty and in secrecy, and many informed us that it was too dangerous for them to meet us even in this way.

**Attitude of the
inhabitants of
Manchuria.**

In spite of these difficulties, we were able to arrange private interviews with business-men, bankers, teachers, doctors, police, tradesmen and others, in addition to our public interviews with "Manchukuo" officials, Japanese consuls and military officers. We also received over 1,500 written communications, some delivered by hand, the majority sent by post to different addresses. The information so received was checked as far as possible from neutral sources.

Many delegations representing public bodies and associations were received, and usually presented to us written statements. Most of the delegations were introduced by the Japanese or "Manchukuo" authorities, and we had strong grounds for believing that the statements left with us had previously obtained Japanese approval. In fact, in some cases persons who had presented them informed us afterwards that they had been written or substantially revised by the Japanese and were not to be taken as the expression of their real feelings. These documents were remarkable for the studied neglect to comment either favourably or otherwise upon Japanese participation in the establishment or maintenance of the "Manchukuo" administration. In the main, these statements were concerned with the relation of grievances against the former Chinese administration and contained expressions of hope and confidence in the future of the new "State".

**Deputations
and prepared
statements.**

The letters received came from farmers, small tradesmen, town workers and students, and related the feelings and experiences of the writers. After the return of the Commission to Peiping in June, this mass of correspondence was translated, analysed and arranged by an expert staff specially selected for the purpose. All these 1,550 letters, except two, were bitterly hostile to the new "Manchukuo Government" and to the Japanese. They appeared to be sincere and spontaneous expressions of opinion.

Letters.

The higher Chinese officials of the "Manchukuo Government" are in office for various reasons. Many of them were previously in the former regime and have been retained either by inducements or by intimidation of one kind or another. Some of them conveyed messages to the Commission to the effect that they had been forced to remain in office under duress, that all power was in Japanese hands, that they were loyal to China, and that what they had said at their interviews with the Commission in the presence of the Japanese was not necessarily to be believed. Some officials have remained in office to prevent their property from being confiscated, as has happened in the case of some of those who have fled into China.

**Officials of the
"Manchukuo"**

Others, men of good repute, joined in the hope that they would have power to improve the administration, and under promise of the Japanese that they would have a free hand. Some Manchus joined in the hope of getting benefits for persons of Manchu race. Some of these have been disappointed and complained that no real authority was conceded to them. Lastly, a few men are in office because they had personal grievances against the former regime or for reasons of profit.

Minor and local officials.

The minor and local officials have in the main retained their offices under the new regime, partly because of the necessity for earning a living and supporting their families and partly because they feel that if they go worse men might be put in their place. Most of the local magistrates have also remained in office, partly from a sense of duty to the people under their charge and partly under pressure. While it was often difficult to fill the higher posts with reputable Chinese, it was an easy matter to get Chinese for service in minor posts and local offices, though the loyalty of the service rendered in such circumstances is at least questionable.

Police.

The "Manchukuo" Police are partly composed of members of the former Chinese police, partly of new recruits. In the larger towns, there are actually Japanese officers in the police, and in many other places there are Japanese advisers. Some individual members of the police who spoke to us expressed their dislike of the new regime, but said they must continue to serve to make a living.

Army.

The "Manchukuo" Army also consists in the main of the former Manchurian soldiers re-organised under Japanese supervision. Such troops were at first content to take service under the new regime provided they were merely required to maintain local order. But, since they have on occasions been called upon to engage in serious warfare against Chinese forces and to fight under Japanese orders side by side with Japanese troops, the "Manchukuo" Army has become increasingly unreliable. Japanese sources report the frequent defection of "Manchukuo" forces to the Chinese side, while the Chinese claim that one of their most reliable and fruitful sources of warlike supplies is the "Manchukuo" Army.

Business-men and bankers.

The Chinese business-men and bankers who were interviewed by us were hostile to "Manchukuo". They disliked the Japanese; they feared for their lives and property, and frequently remarked: "We do not want to become like the Koreans." After September 18th, there was a large exodus of business-men to China, but some of the less rich ones are now returning. Generally speaking, the smaller shopkeepers expect to suffer less from Japanese competition than do the larger merchants and manufacturers, who often had profitable relations with the former officials. Many shops were still closed at the time of our visit. The increase in banditry adversely affected business in the countryside, and the machinery of credit has largely broken down. The announced Japanese intention to exploit Manchuria economically, and the numerous visits of Japanese economic missions to Manchuria in the last few months, have caused apprehension among Chinese business-men, in spite of the fact that many of these missions are reported to have returned to Japan disappointed.

**Professional classes :
doctors,
teachers,
students.**

The professional classes, teachers and doctors, are hostile to "Manchukuo". They allege that they are spied upon and intimidated. The interference with education, the closing of Universities and some schools, and the alterations in the school text-books, have added to their hostility, already great on patriotic grounds. The censorship of the Press, post and opinion is resented, as is also the prohibition of the entry into "Manchukuo" of newspapers published in China. There are, of course, Chinese who have been educated in Japan who are not included in this generalisation. Many letters were received from students and young people directed against "Manchukuo".

Evidence regarding the attitude of farmers and town workers is divergent and naturally difficult to obtain. Opinion among foreigners and educated Chinese was to the effect that they were either hostile or indifferent to "Manchukuo". The farmer and worker is politically uneducated, usually illiterate, and normally takes little interest in the Government. The following reasons were advanced by witnesses for the agricultural populations being hostile to "Manchukuo", and were confirmed in some of the letters received from this class of person. The farmers have good grounds for believing that the new regime will lead to an increased immigration of Koreans, and possibly of Japanese. The Korean immigrants do not assimilate with the Chinese, and their methods of agriculture are different. While the Chinese farmer mainly grows beans, kaoliang and wheat, the Korean farmer cultivates rice. This means digging canals and dykes and flooding the fields. If there are heavy rains, the dykes built by the Koreans are liable to burst and flood neighbouring Chinese land, ruining the crops. There have also been constant quarrels in the past with Koreans over land ownership and rents. Since the establishment of "Manchukuo" the Chinese allege that the Koreans have often ceased to pay rent, that they have seized lands from the Chinese, and that the Japanese have forced the Chinese to sell their lands at an unfavourable price. The farmers near the railways and towns have suffered from orders forbidding the planting of kaoliang — a crop which grows to ten feet in height and favours the operations of bandits — within five hundred metres of railway lines and towns. The falling-off of the seasonal migration of labourers from China proper, due to the economic depression and accentuated to some extent by the political disturbances, continues. The public lands, usually available on terms to immigrants from China, have now been taken over by "Manchukuo".

Since September 18th, 1931, there has been an unparalleled growth of banditry and lawlessness in the countryside, partly due to disbanded soldiery and partly due to farmers who, having been ruined by bandits, have to take to banditry themselves for a living. Organised warfare, from which Manchuria, compared to the rest of China, had been free for many years, is now being waged in many parts of the Three Provinces between Japanese and "Manchukuo" troops and the scattered forces still loyal to China. This warfare naturally inflicts great hardships on the farmers, especially as the Japanese aeroplanes have been bombing villages suspected of harbouring anti-"Manchukuo" forces. One result has been that large areas have not been planted, and next year the farmer will find it harder than ever to pay his taxes. Since the outbreak of disorders, large numbers of the more-recently-established immigrants from China have fled back inside the Wall. These material reasons, when added to a certain ingrained dislike of the Japanese, caused many witnesses to tell us that the Chinese farmers, who constitute the overwhelming mass of the population of Manchuria, suffer from and dislike the new regime, and that their attitude is one of passive hostility.

As regards the townspeople, in certain places they have suffered from the attitude of Japanese soldiers, gendarmes and police. Generally speaking, the behaviour of the Japanese troops has been good, there being no widespread lootings or massacres, though we have received in our letters complaints of individual brutality. On the other hand, the Japanese have been vigorous in suppressing elements that they believed to be hostile. The Chinese allege that many executions have taken place, and also that prisoners have been threatened and tortured in Japanese gendarmerie stations.

It was, we were told, impossible to stimulate in the towns a show of popular enthusiasm for the inauguration ceremonies of "Manchukuo".

Generally speaking, the attitude of the town population is a mixture of passive acquiescence and hostility.

Minorities.

While we found the Chinese majority either hostile or indifferent to the "Manchukuo", the new Government receives some support from among various minority racial groups in Manchuria, such as the Mongols, Koreans, White Russians and Manchus. They have in varying degrees suffered oppression from the former administration, or economic disadvantage from the large immigration of Chinese in the last few decades, and, while no section is entirely enthusiastic, they hope for better treatment from the new regime, whose policy in turn is to encourage these minority groups.

Mongols.

The Mongols have remained a race apart from the Chinese and have, as already stated, preserved a strong race-consciousness, as well as their tribal system, aristocracy, language, dress, special modes of life, manners, customs and religion. Though still mainly a pastoral people, they are increasingly engaged in agriculture and in the transportation of products by carts and animals. The Mongols bordering Manchuria have suffered increasingly from Chinese immigrants who obtain possession of and cultivate their lands from which they are being gradually extruded. This leads to chronic and unavoidable ill-feeling. Mongol delegations we received complained also of past sufferings from the rapaciousness of Chinese officials and tax-gatherers. The Mongols of Inner Mongolia have seen Outer Mongolia pass under the influence of the U.S.S.R., whose extension to Inner Mongolia they dread. They wish to preserve their separate national existence against the encroachments of the Chinese on the one hand and the U.S.S.R. on the other. Placed in this precarious position, they have greater hope of preserving their separate existence under the new regime. It must be observed, moreover, that the Princes are mainly dependent for their wealth on fixed property and on their special privileges, and that they therefore tend to become amenable to *de facto* authorities. A deputation, however, of Mongol Princes was received by the Commission in Peiping and stated their opposition to the new regime. At present, the connection between the Mongols bordering on Manchuria and the "Manchukuo Government" is undefined, and the "Manchukuo Government" has so far refrained from interfering in their administration. While the support of certain of these Mongol elements at present is genuine, if cautious, they are quite prepared to withdraw it should the Japanese prove a menace to their independence or economic interests at some future date.

Manchus.

The Manchus have been almost completely assimilated with the Chinese, although in Kirin and Heilungkiang there still exist small and politically unimportant colonies of Manchus who, though bilingual, remain distinctly Manchu. Since the establishment of the Republic, the remnants of the Manchu race lost their privileged position: although the Republic promised to continue the payment of their subsidies, they were paid in depreciated currency, and were therefore forced to take up farming and trade, in which they had no experience. The few distinct Manchu groups that remain may cherish hopes that, with the establishment of "Manchukuo", whose backers spoke so often about the inhabitants of Manchuria being distinct in race from those of the rest of China, and in which the last of the Manchu Emperors is the chief executive, they may once more get privileged treatment. Persons of Manchu race have entered the Government with such hopes, but Chinese witnesses in Manchuria alleged that these office-holders have been disillusioned by finding all the power in Japanese hands and their own proposals ignored. Although there may still exist some sentimental loyalty to the ex-Emperor among persons of Manchu blood, there does not exist any race-conscious Manchu movement of any significance. They have been so largely assimilated with the Chinese that, although efforts have been made to recruit Manchus for the administration

and to stimulate Manchu race-consciousness, this source of support for the new Government is not sufficient to give it any title to represent the people.

In the past, there has been much friction between Korean farmers backed by the Japanese authorities on the one hand, and Chinese officials, landowners and farmers on the other. There is no doubt that, in the past, Korean farmers suffered from violence and extortion.

The Korean deputations which appeared before the Commission generally welcomed the new regime, but we cannot say to what extent they were representative of their community. In any case, those Koreans who are political refugees having emigrated to escape Japanese domination might not be expected to welcome an extension of that domination. These refugees have proved a fertile ground for Communist propaganda, and maintain contact with the revolutionary groups inside Korea.¹

Of all the minority communities in Manchuria, the small colony of White Russians — at least 100,000 in number — in and around Harbin has suffered the most in recent years. Because they are a minority community with no national Government to protect them, they have been subjected to every kind of humiliation by the Chinese officials and police. They are in conflict with the Government of their own country and are, even in Manchuria, in constant anxiety on that account. The richer and more educated members of their community can earn a livelihood, but they have been liable to suffer whenever the Chinese authorities have thought some advantage was to be gained from the U.S.S.R. at their expense. The poorer members find it very hard to make a living and have suffered continually at the hands of the police and the Chinese courts. In a province where taxes are assessed by a process of bargaining, they have been made to pay a higher portion of their assessed taxes than their Chinese neighbours. They have experienced many restrictions on their trade and movements and have had to pay bribes to the officials to have their passports examined, their contracts approved or their land transferred. It is not to be wondered at that many members of this community, whose condition could not well be made worse, should have welcomed the Japanese and now entertain hopes that their lot may be improved under the new administration.

We received a deputation of White Russians when we were in Harbin, as well as many letters, and we gathered from them that they would support any regime which would guarantee to them :

- (1) The right of asylum ;
 - (2) An honest and efficient police administration ;
 - (3) Justice in the law courts ;
 - (4) An equitable system of taxation ;
 - (5) Rights of trade and settlement, not dependent on the payment of bribes ;
 - (6) Facilities for educating their children.
- Their requirements in this respect were chiefly efficient teaching of foreign languages to enable them to emigrate, and good technical education to enable them to obtain business employment in China.
- (7) Some assistance regarding land settlement and emigration.

Such are the opinions of the local population conveyed to us during our tour in Manchuria. After careful study of the evidence presented to us in public and private interviews, in letters and written statements, we have come to the conclusion that there is no general Chinese support for the "Manchukuo Government", which is regarded by the local Chinese as an instrument of the Japanese.

¹ See also Chapter III and special study No. 9, annexed to this Report.

Koreans.

**White
Russians.**

**Conclusions
of the
Commission.**

Chapter VII.

JAPAN'S ECONOMIC INTERESTS AND THE CHINESE BOYCOTT^{1 2}.

Chinese boycott of Japanese goods an important factor in Sino-Japanese struggle.

The three preceding chapters have been chiefly confined to a description of military and political events since September 18th, 1931. No survey of the Sino-Japanese conflict would be accurate or complete without some account of another important factor in the struggle — namely, the Chinese boycott of Japanese goods. To understand the methods employed in this boycott movement and their effect on Japanese trade, some indication must be given of the general economic position of Japan, of her economic and financial interests in China, and of the foreign trade of China. This is also necessary to understand the extent and character of the economic interests of both China and Japan in Manchuria, which will be discussed in the next chapter.

Japan's over-population.

During the Meiji Restoration period in the sixties of the last century, Japan emerged from her isolation of over two centuries, and within less than fifty years developed into a world Power of the first rank. A population formerly almost stationary started to grow rapidly from 33,000,000 in 1872 until it reached a figure of 65,000,000 in 1930; and this tremendous growth still continues at the rate of about 900,000 per year.

The population of Japan compared with its total surface is approximately 437 persons per square mile, as against about 41 in the United States, 330 in Germany, 349 in Italy, 468 in the United Kingdom, 670 in Belgium and 254 in China.

Comparing the population of Japan per square mile of *arable* land with that of other countries, the ratio for Japan is exceptionally high, due to the particular geographical formation of the Island Empire :

| | | | |
|-------------------------|-------|---------------------------|-----|
| Japan | 2,774 | Germany | 806 |
| The United Kingdom. . . | 2,170 | France | 467 |
| Belgium | 1,709 | United States of America. | 229 |
| Italy | 819 | | |

Due to a highly concentrated population on agricultural land, the individual holdings are exceedingly small, 35 per cent of the farmers tilling less than one acre and 34 per cent less than two and a-half acres. The expansion limit of tillable land has been reached, as has also the limit of cultivation intensity — in short, the soil of Japan cannot be expected to produce much more than it does to-day, nor can it provide much additional employment.

Agrarian difficulties.

Moreover, as a result of intensive cultivation and the widespread use of fertilisers, the cost of production is high.

The price of land is far higher than in any other part of Asia, and even in the most overcrowded parts of Europe. Much discontent seems to exist amongst the heavily indebted population, and conflicts between tenants and landowners are on the increase. Emigration has been considered a possible remedy, but, for reasons dealt with in the next chapter, it has not, up to the present time, proved to be a solution.

¹ "BOYCOTT"... The word was first used in Ireland, and was derived from the name of Captain Charles Cunningham Boycott (1832-1897), agent for the estates of the Earl of Earne in County Mayo. For refusing in 1880 to receive rents at figures fixed by the tenants, Captain Boycott's life was threatened, his servants were compelled to leave him, his fences torn down, his letters intercepted and his food supplies interfered with. The term soon came into common English use, and was speedily adopted into many foreign languages. — *Encyclopædia Britannica*.

² See special study (No. 8) on this subject, annexed to this Report.

Japan at first turned to industrialism to foster the growth of an urban population which would both provide a home market for agricultural products and turn labour to the production of goods for domestic and foreign use. Several changes have occurred since that time. Where, formerly, Japan was more than self-sufficing from the point of view of food supply, of recent years from 8 to 15 per cent of its total imports have been foodstuffs, the fluctuation being due to the varying conditions of the home crops, principally rice. The importation of foodstuffs, and the probable increasing need of these imports, necessitate an attempt to offset the country's already unfavourable trade balance by an increase in exports of industrial products.

If Japan is to find employment for her increasing population through the process of further industrialisation, the development of her export trade and of foreign markets capable of absorbing an increasing amount of her manufactured and semi-manufactured goods becomes more and more essential. Such markets would, at the same time, serve as a source of supply of raw materials and of foodstuffs.

Japanese export trade, as hitherto developed, has two main directions: her luxury product, raw silk, goes to the United States of America and her staple manufactures, chiefly cotton textiles, go to the countries of Asia, the United States taking 42.5 per cent of her exports and the Asia market as a whole taking 42.6 per cent. Of this latter trade, China, the Kwantung Leased Territory and Hong-Kong take 24.7 per cent, and a large share of the remainder is handled by Chinese merchants in other parts of Asia.¹

During 1930, the last year for which complete figures are available, the total exports of Japan amounted to 1,469,852,000 Yen, and her imports to 1,546,071,000 Yen. Of the exports, 260,826,000 Yen, or 17.7 per cent, went to China (excluding the Kwantung Leased Territory and Hong-Kong), while, of the imports, 161,667,000 Yen, or 10.4 per cent, came from China (excluding the Kwantung Leased Territory and Hong-Kong).

Analysing the principal commodities exported by Japan to China, it will be found that China takes 32.8 per cent of all aquatic products exported by Japan; 84.6 per cent of refined sugar; 75.1 per cent of coal and 31.9 per cent of cotton tissues, or an average of 51.6 per cent.

The same analysis applied to the commodities imported from China shows that 24.5 per cent of the total amount of beans and peas imported by Japan comes from China; 53 per cent of the oil-cake; and 25 per cent of vegetable fibres; or an average of 34.5 per cent.

As these figures are for China only, excluding Hong-Kong and the Kwantung Leased Territory, they do not indicate the extent of Japanese trade with Manchuria, which passes mainly through the port of Dairen.

The facts and figures just given clearly show the importance to Japan of her trade with China. Nor is Japan's interest in China limited to trade alone; she has a considerable amount of capital invested in industrial enterprises, as well as in railways, shipping and banking, and, in all of these branches of financial and economic activity, the general trend of development has been increasing considerably during the last three decades.

In 1898, the only Japanese investment of any consequence was a small cotton gin in Shanghai owned jointly with Chinese, representing a value of about 100,000 taels. By 1913, the estimated total of Japanese investments in China and Manchuria amounted to 435,000,000 Yen out of a total of 535,000,000 Yen estimated investments abroad. By the end of the World War, Japan had more than doubled her investments in China and Manchuria over those of 1913, a considerable part of this increase being due to the famous "Nishihara loans", which had been partially granted for political considerations. Notwithstanding this setback, Japan's investments in China and Manchuria in 1929 were estimated at almost 2,000,000,000

Need for further industrialisation.

China a market for Japanese export trade.

Importance of Sino-Japanese trade relations.

Japanese investments in China.

¹ Figures for 1929 — *Japan Year-book of 1931.*

Yen¹ out of her total investments abroad of 2,100,000,000 Yen, showing that Japan's investments abroad have been almost entirely confined to China and Manchuria, the latter having absorbed by far the greater part of this investment (particularly in railways).

Apart from these investments, China has been indebted to Japan for various State, provincial and municipal loans which, in 1925, were estimated at a total of 304,458,000 Yen (the greater part unsecured), plus 18,037,000 Yen interest.

Although the bulk of Japan's investments are in Manchuria, a considerable amount is invested in industries, shipping and banking in China proper. Nearly 50 per cent of the total number of spindles operated in the spinning and weaving industry in China in 1929 were owned by Japanese. Japan was second in the carrying trade of China, and the number of Japanese banks in China in 1932 is put at thirty, a few of which are joint Sino-Japanese enterprises.

**China's
interests
in the
development
of trade
with Japan.**

Although the foregoing figures are stated from the standpoint of Japan, it is easy to see their relative importance from the standpoint of China. Foreign trade with Japan has held first place in the total foreign trade of China up to 1932. In 1930, 24.1 per cent of her exports went to Japan, while in the same year 24.9 per cent of her imports came from Japan. This, in comparison with the figures from Japan's standpoint, shows that the trade of China with Japan is a greater percentage of her total foreign trade than is the trade of Japan with China of the total foreign trade of Japan. But China has no investments, banking or shipping interests in Japan. China requires, above all else, to be able to export her products in increasing quantities to enable her to pay for the many finished products she needs and in order to establish a sound basis of credit on which to borrow the capital required for further development.

**Sino-Japanese
economic and
financial
relations
easily affected
by any
disturbing
factor.**

From the foregoing, it is evident that Sino-Japanese economic and financial relations are both extensive and varied, and, consequently, easily affected and disorganised by any disturbing factor. It also appears that, in its entirety, Japanese dependence on China is greater than China's dependence on Japan. Hence Japan is the more vulnerable and has more to lose in case of disturbed relations.

It is therefore clear that the many political disputes which have arisen between the two countries since the Sino-Japanese war of 1895 have in turn affected their mutual economic relations, and the fact that, in spite of these disturbances, the trade between them has continued to increase proves that there is an underlying economic tie that no political antagonism has been able to sever.

**Origin of
boycott.**

For centuries the Chinese have been familiar with boycott methods in the organisation of their merchants, bankers and craft guilds. These guilds, although they are being modified to meet modern conditions, still exist in large numbers and exercise great power over their members in the defence of their common professional interests. The training and attitude acquired in the course of this century-old guild life has been combined, in the present-day boycott movement, with the recent fervent nationalism of which the Kuomintang is the organised expression.

**Modern
anti-foreign
boycotts.**

The era of modern anti-foreign boycotts employed on a national basis as a political weapon against a foreign Power (as distinct from a professional instrument used by Chinese traders against each other) can be said to have started in 1905, with a boycott directed against the United States of America because of a stipulation in the Sino-American Commercial Treaty, as renewed and revised in that year, restricting more severely than before the entry of Chinese into America. From that moment onward

¹ According to another estimate, Japan's investments in China, including Manchuria, total approximately 1,800,000,000 Yen.

until to-day there have been ten distinct boycotts which can be considered as national in scope (besides anti-foreign movements of a local character), nine of which were directed against Japan¹ and one against the United Kingdom.

If these boycotts are studied in detail, it will be found that each of them can be traced back to a definite fact, event or incident, generally of a political nature and interpreted by China as directed against her material interests or detriments to her national prestige. Thus, the boycott of 1931 was started as a direct sequel to the massacre of Koreans in July, following the Wanpaoshan incident in June of that year, and has been accentuated by the events at Mukden in September and at Shanghai in January 1932. Each boycott has its own immediately traceable cause, but none of the causes in themselves would have initiated economic retaliation on so extensive a scale had it not been for the mass psychology described in Chapter I. The factors contributing to the creation of this psychology are : a conviction of injustice (rightly or wrongly considered as such), an inherited faith in Chinese cultural superiority over foreigners, and a fervent nationalism of a Western type mainly defensive in aims but in which certain aggressive tendencies are not lacking.

Although a Society for the Regeneration of China (Hsing Chung Hui), which may be considered the pregenitor of the Kuomintang, was founded as far back as 1893, and although there can be no doubt that all the boycotts from 1905 to 1925 were launched with the war-cry of Nationalism, there is no concrete evidence that the original nationalist associations, and later the Kuomintang, had a direct hand in their organisation.

Inspired by Dr. Sun Yat-sen's new creed, Chambers of Commerce and Student Unions were fully capable of such a task, guided as they were by century-old secret societies, guild experience and guild mentality. The merchants furnished the technical knowledge, means of organisation and rules of procedure, while the students inspired the movements with the enthusiasm of their newly acquired convictions and their spirit of determination in the national cause, and helped to put them into operation. While the students were generally moved by nationalistic feelings alone, the Chambers of Commerce, though sharing those feelings, thought it wise to participate from a desire to control the operation of the boycott. The actual rules of the earlier boycotts were designed to prevent the purchase of the goods of the country against which the movement was directed. Gradually, however, the field of action was extended to a refusal to export Chinese goods to the country concerned or to sell or render services to its nationals in China. Finally, the avowed purpose of the more recent boycotts has become to sever completely all economic relations with the " enemy country ".

It should be pointed out that the rules thus established were never carried out to the fullest extent, for reasons which have been fully dealt with in the special study annexed to this Report. Generally speaking, the boycotts have always had more impetus in the South, where nationalistic feelings found their first and most fervent adherents, than in the North, Shantung especially having withheld support.

¹ The date and immediate cause of each of these boycotts is :

- 1908 The *Tatsu Maru* incident.
- 1909 The Antung-Mukden Railway question.
- 1915 The " Twenty-one Demands ".
- 1919 The Shantung question.
- 1923 Port Arthur and Dairen recovery question.
- 1925 May 30th incident.
- 1927 Despatch of troops to Shantung.
- 1928 Tsinan incident.
- 1931 The Manchurian affair (Wanpaoshan and Mukden events).

**Causes of
these boycott
movements.**

**Boycott
movements
before 1925.**

Boycott movement since 1925. Action of the Kuomintang Party.

From 1925 onward, a definite change took place in the boycott organisation. The Kuomintang, having from its creation supported the movement, increased its control with each successive boycott until to-day it is the real organising, driving, co-ordinating and supervising factor in these demonstrations.

In doing this, the Kuomintang, as indicated by evidence in the possession of the Commission, did not dismiss the associations which had hitherto been responsible for the direction of boycott movements. It rather co-ordinated their efforts, systematised and made uniform their methods, and put unreservedly behind the movement the moral and material weight of its powerful party organisation. Having branches all over the country, possessing vast propaganda and information services, and inspired by a strong nationalistic sentiment, it rapidly succeeded in organising and stimulating a movement which had, up to that time, been somewhat sporadic. As a consequence, the coercive authority of the organisers of the boycotts over the merchant and the general public became stronger than ever before, although at the same time a fair margin of autonomy and initiative was left to the individual boycott associations.

Methods employed.

The boycott rules continued to vary according to local conditions, but, parallel with the strengthening of the organisation, the methods employed by the Boycott Societies became more uniform, more strict and effective. At the same time, the Kuomintang Party issued instructions prohibiting the destruction of commercial houses belonging to Japanese or the infliction of physical harm. This does not mean that the lives of Japanese in China have never been threatened in the course of a boycott, but as a whole it may be stated that, during the more recent boycotts, acts of violence against Japanese subjects have been less numerous and serious than in earlier days.

An examination of the technique of the methods employed shows that the atmosphere of popular sentiment without which no boycott could succeed is created by a formidable propaganda uniformly carried out all over the country, using slogans well chosen to incite the popular mind against the " enemy " country.

Anti-Japanese propaganda.

In the present boycott directed against Japan, which the Commission has seen in operation, every available means was employed to impress upon the people the patriotic duty of not buying Japanese goods. The columns of the Chinese Press were filled with propaganda of this kind ; the walls of buildings in the towns were covered with posters, often of an extremely violent character¹ ; anti-Japanese slogans were printed on currency notes, on letters and telegram-forms ; chain letters went from hand to hand, etc. These examples are by no means exhaustive, but serve to show the nature of the methods employed. The fact that this propaganda does not differ essentially from that used in certain countries of Europe and America during the World War 1914-1918 only proves the degree of hostility towards Japan which the Chinese have come to feel as a result of the political tension between the two countries.

Boycott rules adopted by Anti-Japanese Associations.

Essential as the political atmosphere of a boycott may be to its ultimate success, nevertheless no such movement could be effective if the boycott associations had not secured a certain uniformity in their rules of procedure. The four general principles adopted at the first meeting of the Shanghai Anti-Japanese Association held on July 17th, 1931, may serve as an illustration of the main objects aimed at by these rules. They were :

¹ In most cities visited by the Commission, these posters had been removed beforehand, but declarations from reliable local witnesses, who often possessed samples of these posters, bore out the fact mentioned above. Moreover, samples are to be found in the archives of the Commission.

- (a) To withdraw the orders for Japanese goods already ordered ;
- (b) To stop shipment of Japanese goods already ordered but not yet consigned ;
- (c) To refuse to accept Japanese goods already in the godowns but not yet paid for ;
- (d) To register with the Anti-Japanese Association Japanese goods already purchased and to suspend temporarily the selling of these goods. The procedure of registration will be separately decided upon.

Subsequent resolutions adopted by the same Association are much more detailed and contain provisions for all possible cases and eventualities.

A powerful means of enforcing the boycott is the compulsory registration of Japanese goods held in stock by Chinese merchants. Inspectors of the anti-Japanese societies watch the movement of Japanese goods, examine those of doubtful origin in order to ascertain whether or not they are Japanese, undertake raids on stores and godowns where they suspect the presence of non-registered Japanese goods, and bring to the attention of their principals any case of the violation of the rules they may discover. Merchants who are found to be guilty of such a breach of the rules are fined by the Boycott Associations themselves, and publicly exposed to popular disapproval, while the goods in their possession are confiscated and sold at public auction, the proceeds going into the funds of the anti-Japanese organisation.

The boycott is not limited to trade alone. Chinese are warned not to travel on Japanese ships, to use Japanese banks or to serve Japanese in any capacity, either in business or in domestic service. Those who disregard these instructions are subjected to various forms of disapproval and intimidation.

Another feature of this boycott, as of previous ones, is the wish not only to injure Japanese industries, but to further Chinese industries by stimulating the production of certain articles which have hitherto been imported from Japan. The principal result has been an extension of the Chinese textile industry at the expense of Japanese-owned mills in the Shanghai area.

The boycott of 1931, organised on the lines just described, continued until about December of that year, when a certain relaxation became apparent. In January 1932, in the course of the negotiations then proceeding between the Mayor of Greater Shanghai and the Japanese Consul-General in that city, the Chinese even undertook to dissolve voluntarily the local anti-Japanese association.

During the hostilities in Shanghai, and the months immediately following the evacuation of the Japanese troops, the boycott, although never completely abandoned, was moderated, and during late spring and early summer it even looked as if Japanese trade in different parts of the country might resume. Then, quite suddenly, at the end of July and beginning of August, coinciding with the reported military activity on the borders of Jehol, there was a marked revival of the boycott movement. Articles urging the people not to buy Japanese goods appeared anew in the Chinese Press, the Shanghai Chamber of Commerce published a letter suggesting a resumption of the boycott, and the Coal Merchants' Guild in the same city decided to restrict to the minimum the importation of Japanese coal. At the same time, more violent methods were employed, such as the throwing of a bomb into the compound of a coal dealer suspected of having handled Japanese coal, and the sending of letters to store-keepers threatening to destroy their property unless they stopped selling Japanese commodities.

**Fluctuations
of the boycott
movement in
1931-32.**

Some of the letters reproduced in the newspapers were signed the "Blood-and-Iron Group" — or the "Blood-and-Soul Group for the Punishment of Traitors".

Such is the situation at the time of writing this Report. This recrudescence of the boycott activity caused the Japanese Consul-General in Shanghai to lodge a formal protest with the local authorities.

Material effects of boycott movement.

The various boycott movements, and the present one in particular, have seriously affected Sino-Japanese relations, both in a material and in a psychological sense.

As far as the material effects are concerned — that is, the loss of trade — the Chinese have a tendency to under-state them in their desire to present the boycott as rather a moral protest than as an act of economic injury, while the Japanese attach too absolute a value to certain trade statistics. The arguments used in this connection by the two parties are examined in the annexed study already referred to. In that study, also, will be found full particulars of the extent of the damage done to Japanese trade, which has certainly been considerable.

Another aspect of the subject should also be mentioned. The Chinese themselves suffer losses from goods already paid for, not registered with the Boycott Associations, and seized for public auction; from fines paid to the associations for violation of the boycott rules; from revenue not received by the Chinese Maritime Customs, and, generally speaking, from loss of trade. These losses are considerable.

Psychological effect on Sino-Japanese relations.

The psychological effect of the boycott on Sino-Japanese relations, although even more difficult to estimate than the material effect, is certainly not less serious, in that it has had a disastrous repercussion on the feelings of large sections of Japanese public opinion towards China. During the visit of the Commission to Japan, both the Tokyo and the Osaka Chambers of Commerce stressed this subject.

The knowledge that Japan is suffering injuries against which she cannot protect herself has exasperated Japanese public opinion. The merchants whom we interviewed at Osaka were inclined to exaggerate certain abuses of boycott methods as racketeering and blackmailing, and to under-estimate or even to deny completely the close relationship between Japan's recent policy towards China and the use of the boycott as a defensive weapon against that policy. On the contrary, instead of regarding the boycott as China's weapon of defence, these Japanese merchants insisted that it was an act of aggression against which the Japanese military measures were a retaliation. Anyway, there is no doubt that the boycott has been amongst the causes which have profoundly embittered the relations between China and Japan in recent years.

Controversial issues in connection with the boycott :

(1) Whether the movement is spontaneous or organised.

There are three controversial issues involved in the policy and methods of the boycott.

The first is the question whether the movement is purely spontaneous, as the Chinese themselves claim, or whether, as the Japanese allege, it is an organised movement imposed upon the people by the Kuomintang by methods which at times amount to terrorism. On this subject much may be said on both sides. On the one hand, it would appear to be impossible for a nation to exhibit the degree of co-operation and sacrifice involved in the maintenance of a boycott over a wide area and for a long period if there did not exist a foundation of strong popular feeling. On the other hand, it has been clearly shown to what extent the Kuomintang, using the mentality and the methods which the Chinese people have inherited from their old guilds and secret societies, has taken control of the recent boycotts, and particularly of the present one. The rules, the discipline, and the sanction used against the "traitors", which form such an essential part of the present boycott, show that, however spontaneous, the movement is certainly strongly organised.

All popular movements require some measure of organisation to be effective. The loyalty of all adherents to a common cause is never uniformly strong and discipline is required to enforce unity of purpose and action. Our conclusion is, that the Chinese boycotts are both popular and organised; that, though they originate in and are supported by strong national sentiment, they are controlled and directed by organisations which can start or call them off, and that they are enforced by methods which certainly amount to intimidation. While many separate bodies are involved in the organisation, the main controlling authority is the Kuomintang.

The second issue is whether or not, in the conduct of the boycott movement, the methods employed have always been legal. From the evidence collected by the Commission, it is difficult to draw any other conclusion than that illegal acts have been constantly committed, and that they have not been sufficiently suppressed by the authorities and the courts. The fact that these methods are mainly the same as those used in China in olden days may be an explanation, but not a justification. When in former days a guild elected to declare a boycott, searched the houses of suspected members, brought them before the Guild Court, punished them for a breach of rules, imposed fines and sold the goods seized, it acted in conformity with the customs of that time. Moreover, it was an internal affair of a Chinese community, and no foreigner was involved. The present situation is different. China has adopted a code of modern laws, and these are incompatible with the traditional methods of trade boycotts in China. The memorandum in which the Chinese Assessor has defended his country's point of view with regard to the boycott does not contest this statement, but argues that "the boycott... is pursued, generally speaking, in a legitimate manner". The evidence at the disposal of the Commission does not bear out this contention.

(2) Legality
or otherwise of
boycott
methods.

In this connection, a distinction should be made between the illegal acts committed directly against foreign residents *in casu* Japanese, and those committed against Chinese with the avowed intention, however, of causing damage to Japanese interests. As far as the former are concerned, they are clearly not only illegal under the laws of China but also incompatible with treaty obligations to protect life and property and to maintain liberty of trade, residence, movement and action. This is not contested by the Chinese, and the boycott associations, as well as the Kuomintang authorities, have tried, although they may not always have been successful, to prevent offences of this kind. As already stated, they have occurred less frequently during the present boycott than on previous occasions.¹

With regard to illegal acts committed against Chinese, the Chinese Assessor observed on page 17 of his memorandum on the boycott :

"We would like to observe, in the first place, that a foreign nation is not authorised to raise a question of internal law. In fact, we find ourselves confronted with acts denounced as unlawful but committed by Chinese nationals in prejudice to other Chinese nationals. Their suppression is a matter for the Chinese authorities, and it seems to us that no one has the right of calling into account the manner in which the Chinese penal law is applied in matters where both offenders and sufferers belong to our own nationality. No State has the right of intervention in the administration of exclusively domestic affairs of another State. This is what the principle of mutual respect for each other's sovereignty and independence means."

¹ According to recent Japanese information, there were thirty-five instances in which goods belonging to Japanese merchants were seized and kept in detention by members of the Anti-Japanese Associations in Shanghai during the period from July 1931 to the end of December 1931. The value of the goods involved was estimated approximately at \$287,000. Of these instances, in August 1932, five were reported as still remaining unsolved.

So stated, the argument is incontestable, but it overlooks the fact that the ground of the Japanese complaint is not that one Chinese national has been illegally injured by another, but that the injury has been done to Japanese interests by the employment of methods which are illegal under Chinese law, and that failure to enforce the law in such circumstances implies the responsibility of the Chinese Government for the injury done to Japan.

(3) Responsibility of the Chinese Government for the boycott.

This leads to a consideration of the last controversial point involved in the policy of the boycott — namely, the extent of the responsibility of the Chinese Government. The Chinese official attitude is that “the liberty of choice in making purchases is a personal right which no Government can interfere with ; while the Governments are responsible for the protection of lives and property, they are not required by any commonly recognised regulations and principles to prohibit and punish the exercise of an elemental right of every citizen”.

The Commission has been supplied with documentary evidence which is reproduced in the Study No. 8 annexed to this Report and which indicates that the part taken by the Chinese Government in the present boycott has been somewhat more direct than the quotation above would tend to indicate. We do not suggest that there is anything improper in the fact that Government departments should support the boycott movement ; we only wish to point out that official encouragement involves a measure of Government responsibility. In this connection, the question of relations between the Government and the Kuomintang must be considered. Of the responsibility of the latter there can be no question. It is the controlling and co-ordinating organ behind the whole boycott movement. The Kuomintang may be the maker and the master of the Government, but to determine at what point the responsibility of the party ends and that of the Government begins is a complicated problem of constitutional law on which the Commission does not feel it proper to pronounce.

Comments.

The claim of the Government that the boycott is a legitimate weapon of defence against military aggression by a stronger country, especially in cases where methods of arbitration have not previously been utilised, raises a question of a much wider character. No one can deny the right of the individual Chinese to refuse to buy Japanese goods, use Japanese banks or ships, or to work for Japanese employers, to sell commodities to Japanese, or to maintain social relations with Japanese. Nor is it possible to deny that the Chinese, acting individually or even in organised bodies, are entitled to make propaganda on behalf of these ideas, always subject to the condition, of course, that the methods do not infringe the laws of the land. Whether, however, the organised application of the boycott to the trade of one particular country is consistent with friendly relations or in conformity with treaty obligations is rather a problem of international law than a subject for our enquiry. We would express the hope, however, that, in the interest of all States, this problem should be considered at an early date and regulated by international agreement.

In the course of the present chapter, it has been shown first that Japan, in connection with her population problem, is seeking to increase her industrial output and to secure for this purpose reliable oversea markets ; secondly, that, apart from the export of raw silk to the United States of America, China constitutes the principal market for Japanese exports and at the same time supplies the Island Empire with an important amount of raw materials and foodstuffs. Further, China has attracted nearly the whole of Japan's foreign investments, and even in her present disturbed and undeveloped condition, offers a profitable field to Japanese economic and financial activities of various types. Finally, an analysis of the injury caused to Japanese interests in China by the various boycotts which have

succeeded one another from 1908 until to-day has drawn attention to the vulnerable character of those interests.

The dependence of Japan on the Chinese market is fully recognised by the Japanese themselves. On the other hand, China is a country which stands in the most urgent need of development in all fields of economic life, and Japan, which in 1931, notwithstanding the boycott, occupied the first place in her total foreign trade, seems, more than any other foreign Power, indicated as an ally in economic matters.

The interdependence of the trade of those two neighbouring countries and the interests of both call for an economic *rapprochement*, but there can be no such *rapprochement* so long as the political relations between them are so unsatisfactory as to call forth the use of military force by one and the economic force of the boycott by the other.

Chapter VIII.

ECONOMIC INTERESTS IN MANCHURIA.¹

It has been shown in the preceding chapter that the economic requirements of Japan and China, unless disturbed by political considerations, would lead to mutual understanding and co-operation and not to conflict. The study of the inter-relation between Japanese and Chinese economic interests in Manchuria, taken in themselves and apart from the political events of recent years, leads to the same conclusion. The economic interests of both countries in Manchuria are not irreconcilable; indeed, their reconciliation is necessary if the existing resources and future economic possibilities of Manchuria are to be developed to the fullest extent.

In Chapter III, the claim of Japanese public opinion that the resources, both actual and potential, of Manchuria are essential to the economic life of their country has been fully examined. The object of this chapter is to consider how far this claim is in conformity with economic facts.

It is a fact, in South Manchuria, that Japan is the largest foreign investor, whereas in North Manchuria the same is true of the U.S.S.R. Taking the Three Provinces as a whole, the Japanese investments are more important than those of the U.S.S.R., although precisely to what extent it is difficult to say because of the impossibility of obtaining reliable comparative figures. As the subject of investments is examined in detail in an annex to this Report, a few essential figures will be sufficient to illustrate the relative importance of Japan, the U.S.S.R. and other countries as participating factors in the economic development of Manchuria.

According to a Japanese source of information, Japanese investments were estimated in 1928 at about 1,500,000,000 Yen, a figure which, if correct, must have grown to-day to approximately 1,700,000,000 Yen.² A Russian source puts Japanese investments at the present time at about 1,500,000,000 Yen for the whole of Manchuria inclusive of the Kwantung Leased Territory, and at about 1,300,000,000 Yen for the Three Provinces, the bulk of Japanese capital being invested in Liaoning Province.

Investments.

¹ See, for this chapter, special studies Nos. 2, 3, 6, 7, annexed to this Report.

² Another Japanese authority puts the total of Japanese investments in China, including Manchuria, in 1929 at a figure of approximately 1,500,000,000 Yen.

With regard to the nature of these investments, it will be found that the majority of the capital has been devoted to transportation enterprises (mainly railways), agriculture, mining and forestry coming next. As a matter of fact, the Japanese investments in South Manchuria centre mainly round the South Manchuria Railway, while the investments of the U.S.S.R. in the North are to a great extent, directly or indirectly, linked up with the Chinese Eastern Railway.

Foreign investments other than Japanese are more difficult to estimate and, in spite of the helpful assistance of those immediately interested, the information obtained by the Commission has been meagre. Most of the figures given by the Japanese are prior to 1917 and consequently out of date. For the U.S.S.R., as has been stated, no definite estimate is possible. With regard to other countries, a recent Russian estimate for North Manchuria only, which it has not been possible to verify, indicates the United Kingdom as the next largest investor with 11,185,000 gold dollars, followed by Japan with 9,229,400 gold dollars, the United States of America with 8,220,000 gold dollars, Poland with 5,025,000 gold dollars, France with 1,760,000 gold dollars, Germany with 1,235,000 gold dollars, and miscellaneous investments 1,129,600 gold dollars, making a total of 37,784,400 gold dollars. For South Manchuria, similar figures are not available.

Japan's
economic
relations with
Manchuria.

It is now necessary to analyse the part Manchuria plays in the economic life of Japan. A detailed study on this subject will be found in an Annex to this Report, from which it will be seen that, although this part is an important one, it is at the same time limited by circumstances which must not be overlooked.

It does not seem from past experience that Manchuria is a region suitable for Japanese emigration on a large scale. As already stated in Chapter II, the farmers and coolies from Shantung and Shihli (now Hopei) have in the last few decades taken possession of the soil. Japanese settlers are, and for many years will mostly be, business-men, officials, salaried employees, who have come to manage the investments of capital, the development of various enterprises, and the utilisation of natural resources.

Agriculture.

As regards her supplies of agricultural produce, Japan to-day depends on Manchuria mainly for the soya bean and its derivatives, the use of which as foodstuff and forage may even increase in the future. (As a fertiliser, which is to-day one of its chief uses, its importance is likely to decrease with the growth of chemical industries in Japan.) But the question of food supply is not at the moment acute for Japan, the acquisition of Korea and Formosa having helped to solve at least for the time her rice problem. If at some future date the need for this commodity becomes urgent for the Japanese Empire, Manchuria may be able to provide an additional source of supply. But in that case a large amount of capital would have to be spent in the development of a sufficient irrigation system.

Heavy
Industries.

Larger still, it seems, will be the amount of capital necessary for the creation of Japanese heavy industries, if these are destined to become independent of foreign countries, as a result of the utilisation of the resources of Manchuria. Japan seeks, above all, to develop in the Three Eastern Provinces the production of those raw materials which are indispensable to her national defence. Manchuria can supply her with coal, oil and iron. The economic advantages, however, of such supplies are uncertain. For coal, only a comparatively small part of the production is utilised in Japan; oil is extracted from shale only in very limited quantities, while it would appear that iron is definitely produced at a loss. But economic considerations are not the only ones which influence the Japanese Government. The resources of Manchuria are intended to assist the development of an independent metallurgic system. In any case, Japan must seek abroad a great part of her coke and certain non-siliceous ores. The Three Eastern Provinces may ensure greater security in the supplies of certain products which are

indispensable for her national defence, but heavy financial sacrifices may be involved in obtaining them. The strategic interests of Japan in Manchuria involved in this question have been mentioned elsewhere.

Further, Manchuria is not likely to supply Japan with those raw materials which she needs most for her textile industries.

The Three North-Eastern Provinces provide a regular market for Japanese manufactured goods ; and the importance of this market may even increase with their growth in prosperity. But Osaka, in the past, has always depended more on Shanghai than on Dairen. The Manchurian market may perhaps offer more security, but it is more restricted than the Chinese market.

**Manchuria as a
market for
Japanese
products.**

The idea of economic " blocs " has penetrated to Japan from the West. The possibility of such a bloc comprising the Japanese Empire and Manchuria is often found in the writings of Japanese statesmen, professors and journalists. In an article written shortly before he took office, the present Minister of Commerce and Industry pointed to the formation in the world of such economic blocs, American, Soviet, European and British, and stated that Japan should also create with Manchuria such a bloc.

There is nothing at present to show that such a system is practicable. Some voices have recently been raised in Japan to warn their compatriots against dangerous illusions. Japan depends for the bulk of her commerce far less on Manchuria than she does on the United States of America, China proper and British India.

Manchuria may become, in the future, of great assistance to an over-populated Japan, but it is as dangerous not to discern the limitations of its possibilities as it is to under-estimate their value.

When studying the economic relations of the rest of China with her Three Eastern Provinces, it will be apparent that, contrary to what we have seen in the case of Japan, her chief earlier contribution to their development consisted in the sending of seasonal workers and permanent settlers, to whom the great agricultural development of the country is due. More recently, however, particularly in the last decade, her participation in railway construction, in industry, trade and banking, and in the development of mineral and forestry resources, has also shown a marked progress the extent of which cannot be adequately shown due to lack of data. On the whole, it may be said that the principal ties between Manchuria and the rest of China are racial and social rather than economic. It has been recalled in Chapter II that the present population of Manchuria is, in the main, drawn from recent immigrations. The spontaneous character of these immigrations show clearly how they have fulfilled a real need. They have been a consequence of famine, although they were encouraged to some extent by both the Japanese and Chinese.

**China's
economic
relations with
Manchuria.**

The Japanese have for a number of years recruited Chinese labour for the Fushun mines, for the Dairen harbour works and for the construction of railway lines. But the number of Chinese thus recruited has always been very limited and this recruitment ceased in 1927, when it appeared that the local supplies of labour were sufficient.

The Provincial authorities in Manchuria have also on several occasions assisted the settlement of Chinese immigrants, although in practice these activities of the authorities of the Three Eastern Provinces have only had a limited influence on immigration. The authorities in North China, and the charitable societies, have also in certain periods endeavoured to encourage the settlement of families in Manchuria.

The principal assistance received by the immigrants has been the reduced rates offered by the South Manchuria Railway, the Chinese lines, and the Chinese Eastern Railway. These encouragements given to newcomers showed that, at least until the end of 1931, the South Manchuria Railway, the Manchurian provincial authorities and the Chinese Government regarded

this exodus with favour ; all of them profited by the peopling of the Three Eastern Provinces, although their interests in the movement were not always identical.

Emigrants, once settled in Manchuria, maintain their relations with their province of origin in China proper. This is best shown by a study of the remittances that the emigrants sent back to their families in the villages of their birth. It is impossible to estimate the total of these remittances, which are effected through banks, through the post and through money taken back by returning emigrants. It is believed that twenty million dollars are so taken annually into Shantung and Hopei, while the Post Office statistics showed in 1928 that the Provinces of Liaoning and Kirin remitted to the Province of Shantung by money orders a sum equal to the amount remitted to that province by all the other provinces in China. There is no doubt that these remittances form an important economic link between Manchuria and China proper. They are the index of the contact maintained between the emigrants and their families in the provinces of their origin. This contact is all the easier because conditions on either side of the Great Wall do not greatly differ. The produce of the soil is in the main the same and the agricultural methods identical. The most pronounced variation between agricultural conditions in Manchuria and in Shantung are caused by differences of climate, varying density of population and different states of economic development. These factors do not prevent the agriculture of the Three Eastern Provinces from tending to resemble more and more the agricultural conditions in Shantung. In Liaoning, a long-settled territory, rural conditions resemble more closely those in Shantung than do those in Heilungkiang, a territory more recently opened up.

The organisation of direct trade with the agriculturists in Manchuria resembles also the conditions in China proper. In the Three Provinces, such commerce is in the hands of Chinese, who alone buy directly from the farmers. Similarly, in the Three Provinces, as in China proper, credit performs an important function in such local trade. One can even say that the resemblance in commercial organisation in Manchuria and China proper is found not only in local countryside trade, but also in trade in the towns.

In fact, the social and economic Chinese organisation in Manchuria is a transplanted society which has kept the customs, dialect and activities of its home. The only changes necessary are those required to meet the conditions of a land more vast, less inhabited and more open to outside influences.

The question arises whether this mass migration has been merely an episode or whether it will continue in the future. When account is taken of the areas in South Manchuria and certain valleys in the south and east, such as the Sungari, Liao and Mutan Valleys, it is clear that, from the purely agricultural point of view, Manchuria can still absorb numerous colonists. According to one of the best experts on the staff of the Chinese Eastern Railway, the population of Manchuria could reach in forty years a figure of 75,000,000.

But economic conditions may in the future limit the rapid growth of the population of Manchuria. Economic conditions in fact alone render the future of soya-bean farming uncertain. On the other hand, crops recently introduced into Manchuria, especially rice-farming, may develop there. The hopes which some Japanese have placed in the development of cotton-growing seem to be subject to certain limitations. Consequently, economic and technical factors may to some extent limit the entry of newcomers into the Three Provinces.

The recent political events are not the only cause of the decline of Chinese migration into Manchuria. The economic crisis had already, in the first six months of the year 1931, diminished the importance of the seasonal migration. The world depression added to the effect of an unavoidable

local crisis. Once this economic crisis is over and order has been re-established, Manchuria may once more serve as an outlet for the population of China proper. The Chinese are the people best adapted for the colonisation of Manchuria. An artificial restriction of this migration by arbitrary political measures would be prejudicial to the interests of Manchuria, as it would be to the interests of Shantung and Hopei.

The ties between Manchuria and the rest of China remain chiefly racial and social. At the same time, economic ties are continuously becoming stronger, which is shown by the growing commercial relations between Manchuria and the rest of China. Nevertheless, according to Customs returns, Japan remains the best customer and chief supplier of Manchuria, China proper occupying the second place.

The chief imports from Manchuria into the rest of China are the soya bean and its derivatives, coal and small amounts of groundnuts, raw silk, miscellaneous cereals and a very limited amount of iron, maize, wool, and timber. The chief exports to Manchuria from China proper are cotton piece-goods, tobacco preparations, silken and other textiles, tea, cereals and seeds, raw cotton, paper and wheat flour.

Consequently, China proper relies on Manchuria for certain foodstuffs, most important of which is the soya bean and its derivatives, but her imports of minerals, with the exception of coal and her imports of timber, animal products and raw materials for manufacturing purposes have in the past been slight. Furthermore, China proper is able to use only a portion of Manchuria's favourable balance to offset its own unfavourable balance. It is able to do this, not by virtue of its political affiliation as such, as is generally thought, but chiefly because the Manchurian Post Offices and Customs have been highly profitable institutions and because of the substantial remittances of Chinese settlers to their families in Shanghai and Hopei.

The resources of Manchuria are great and as yet not fully ascertained. For their development they require population, capital, technical skill, organisation and internal security. The population is almost entirely supplied by China. Large numbers of the existing population were born in provinces of North China, where their family ties are still very close. Capital, technical skill and organisation have hitherto chiefly been provided by Japan in South Manchuria and by Russia north of Changchun. Other foreign countries to a much smaller degree have interests throughout the Three Provinces, but principally in the large cities. Their representatives have exercised a conciliatory influence in the recent years of political tension, and will continue to do so, provided that Japan, as the dominating economic Power, does not attempt to monopolise the field. The all-important problem at the present time is the establishment of an administration acceptable to the population and capable of supplying the last need — namely, the maintenance of law and order.

No foreign Power could develop Manchuria or reap any benefit from an attempt to control it without the good-will and wholehearted co-operation of the Chinese masses which form the bulk of the population, tilling its soil, and supplying the labour for practically every enterprise in the country. Neither will China ever be free from anxiety and danger unless these Northern Provinces cease to afford a battleground for the conflicting ambitions of neighbouring Powers. It is as necessary, therefore, for China to satisfy the economic interests of Japan in this territory as for Japan to recognise the unalterably Chinese character of its population.

Parallel to an understanding of this kind and in order to allow all interested Powers to co-operate in the development of Manchuria, it seems essential that the principle of the Open Door should be maintained, not only from the legal point of view, but also in the actual practice of trade, industry and banking. Amongst foreign business-men in Manchuria other than Japanese, there is a fear that Japanese business concerns will try to

Comment.

**Maintenance of
the Open Door.**

reap benefit from the present political position by other means than those of free competition. If this fear came to be justified, foreign interests would be discouraged and the population of Manchuria might be the first to suffer. The maintenance of a real Open Door, manifested by free competition in the field of trade, investment and finance, would be in the interests of both Japan and China. ¹

Chapter IX.

PRINCIPLES AND CONDITIONS OF SETTLEMENT.

Review of
previous
chapters.

In the previous chapters of this Report, it has been shown that, though the issues between China and Japan were not in themselves incapable of solution by arbitral procedure, yet the handling of them by their respective Governments, especially those relating to Manchuria, had so embittered their relations as sooner or later to make a conflict inevitable. A sketch has been given of China as a nation in evolution with all the political upheavals, social disorders and disruptive tendencies inseparable from such a period of transition. It has been shown how seriously the rights and interests claimed by Japan have been affected by the weakness of the authority of the Central Government in China, and how anxious Japan has shown herself to keep Manchuria apart from the government of the rest of China. A brief survey of the respective policies of the Chinese, Russian and Japanese Governments in Manchuria has revealed the fact that the administration of these Provinces has more than once been declared by their rulers to be independent of the Central Government of China, yet no wish to be separated from the rest of China has ever been expressed by their population, which is overwhelmingly Chinese. Finally, we have examined carefully and thoroughly the actual events which took place on and subsequent to September 18th, 1931, and have expressed our opinion upon them.

Complexity of
the problem.

A point has now been reached when attention can be concentrated on the future, and we would dismiss the past with this final reflection. It must be apparent to every reader of the preceding chapters that the issues involved in this conflict are not as simple as they are often represented to be. They are, on the contrary, exceedingly complicated, and only an intimate knowledge of all the facts, as well as of their historical background, should entitle anyone to express a definite opinion upon them. This is not a case in which one country has declared war on another country without previously exhausting the opportunities for conciliation provided in the Covenant of the League of Nations. Neither is it a simple case of the violation of the frontier of one country by the armed forces of a neighbouring country, because in Manchuria there are many features without an exact parallel in other parts of the world.

¹ In this connection, it is necessary to mention the extraordinary extent to which goods are being smuggled into Manchuria, especially over the Korean border and through Dairen. Not only is this practice detrimental to the Customs revenue, but it disorganises trade, and rightly or wrongly gives rise to the belief that the Power which has virtual control over the Customs Administration might discriminate against the trade of other Powers.

The dispute has arisen between two States, both Members of the League, concerning a territory the size of France and Germany combined, in which both claim to have rights and interests, only some of which are clearly defined by international law ; a territory which, although legally an integral part of China, had a sufficiently autonomous character to carry on direct negotiations with Japan on the matters which lay at the root of this conflict.

Japan controls a railway and a strip of territory running from the sea right up into the heart of Manchuria, and she maintains for the protection of that property a force of about 10,000 soldiers, which she claims the right by treaty to increase, if necessary, up to 15,000. She also exercises the rights of jurisdiction over all her subjects in Manchuria and maintains consular police throughout the country.

These facts must be considered by those who debate the issues. It is a fact that, without declaration of war, a large area of what was indisputably the Chinese territory has been forcibly seized and occupied by the armed forces of Japan and has, in consequence of this operation, been separated from and declared independent of the rest of China. The steps by which this was accomplished are claimed by Japan to have been consistent with the obligations of the Covenant of the League of Nations, the Kellogg Pact and the Nine-Power Treaty of Washington, all of which were designed to prevent action of this kind. Moreover, the operation which had only just begun when the matter was first brought to the notice of the League was completed during the following months and is held by the Japanese Government to be consistent with the assurances given by their representative at Geneva on September 30th and December 10th. The justification in this case has been that all the military operations have been legitimate acts of self-defence, the right of which is implicit in all the multilateral treaties mentioned above, and was not taken away by any of the resolutions of the Council of the League. Further, the administration which has been substituted for that of China in the Three Provinces is justified on the ground that its establishment was the act of the local population, who, by a spontaneous assertion of their independence, have severed all connection with China and established their own Government. Such a genuine independence movement, it is claimed, is not prohibited by any international treaty or by any of the resolutions of the Council of the League of Nations, and the fact of its having taken place has profoundly modified the application of the Nine-Power Treaty and entirely altered the whole character of the problem being investigated by the League.

It is this plea of justification which makes this particular conflict at once so complicated and so serious. It is not the function of our Commission to argue the issue, but we have tried to provide sufficient material to enable the League of Nations to settle the dispute consistently with the honour, dignity and national interest of both the contending parties. Criticism alone will not accomplish this : there must also be practical efforts at conciliation. We have been at pains to find out the truth regarding past events in Manchuria and to state it frankly ; we recognise that this is only part, and by no means the most important part, of our work. We have throughout our mission offered to the Governments of both countries the help of the League of Nations in composing their differences, and we conclude it by offering to the League our suggestions for securing, consistently with justice and with peace, the permanent interest of China and Japan in Manchuria.

It must be clear from everything that we have already said that a mere restoration of the *status quo ante* would be no solution. Since the present conflict arose out of the conditions prevailing before last September, to restore these conditions would merely be to invite a repetition of the trouble. It would be to treat the whole question theoretically and to leave out of account the realities of the situation.

Conditions in Manchuria unparalleled elsewhere.

Diversity of interpretations.

**Unsatisfactory suggestions of settlement :
(1) RESTORATION OF THE *status quo ante*.**

(2) THE
MAINTENANCE
OF
"MANCHUKUO"

From what we have said in the two preceding chapters, the maintenance and recognition of the present regime in Manchuria would be equally unsatisfactory. Such a solution does not appeal to us compatible with the fundamental principle of existing international obligations, nor with the good understanding between the two countries upon which peace in the Far East depends. It is opposed to the interests of China. It disregards the wishes of the people of Manchuria, and it is at least questionable whether it would ultimately serve the permanent interests of Japan.

About the feelings of the people of Manchuria towards the present regime there can really be no doubt; and China would not voluntarily accept as a lasting solution the complete separation of her Three Eastern Provinces. The analogy of the distant province of Outer Mongolia is not an entirely pertinent one, as Outer Mongolia is bound to China by no strong economic or social ties, and is sparsely inhabited by a population which is mainly non-Chinese. The situation in Manchuria is radically different from that in Outer Mongolia. The millions of Chinese farmers now settled permanently on the land have made Manchuria in many respects a simple extension of China south of the Wall. The Three Eastern Provinces have become almost as Chinese in race, culture and national sentiment as the neighbouring Provinces of Hopei and Shantung, from which most of the immigrants came.

Apart from this, past experience has shown that those who control Manchuria have exercised a considerable influence on the affairs of the rest of China — at least of North China — and possess unquestionable strategic and political advantages. To cut off these provinces from the rest of China, either legally or actually, would be to create for the future a serious irredentist problem which would endanger peace by keeping alive the hostility of China and rendering probable the continued boycott of Japanese goods.

The Commission received from the Japanese Government a clear and valuable statement of the vital interests of their country in Manchuria. Without exaggerating the economic dependence of Japan on Manchuria beyond the limits ascribed to it in a previous chapter, and certainly without suggesting that economic relationship entitles Japan to control the economic, still less the political, development of those provinces, we recognise the great importance of Manchuria in the economic development of Japan. Nor do we consider unreasonable her demand for the establishment of a stable Government which would be capable of maintaining the order necessary for the economic development of the country. But such conditions can only be securely and effectively guaranteed by an administration which is in conformity with the wishes of the population and which takes full account of their feelings and aspirations. And equally is it only in an atmosphere of external confidence and internal peace, very different from that now existing in the Far East, that the capital which is necessary for the rapid economic development of Manchuria will be forthcoming.

In spite of the pressure of increasing over-population, the Japanese have not as yet fully utilised their existing facilities for emigration, and the Japanese Government has not hitherto contemplated a large emigration of their people to Manchuria. But the Japanese do look to further industrialisation as a means to cope with the agrarian crisis and with the population problem. Such industrialisation would require further economic outlets and the only large and relatively sure markets that Japan can find are in Asia and particularly in China. Japan requires, not only the Manchurian, but the whole Chinese market, and the rise in the standard of living which will certainly follow the consolidation and modernisation of China should stimulate trade and raise the purchasing power of the Chinese market.

This economic *rapprochement* between Japan and China, which is of vital interest to Japan, is of equal interest to China, for China would find that a closer economic and technical collaboration with Japan would

assist her in her primary task of national reconstruction. China could assist this *rapprochement* by restraining the more intolerant tendencies of her nationalism and by giving effective guarantees that, as soon as cordial relations were re-established, the practice of organised boycotts would not be revived. Japan, on her side, could facilitate this *rapprochement* by renouncing any attempt to solve the Manchurian problem by isolating it from the problem of her relations with China as a whole, in such a way as to make impossible the friendship and collaboration of China.

It may, however, be less economic considerations than anxiety for her own security which has determined the actions and policy of Japan in Manchuria. It is especially in this connection that her statesmen and military authorities are accustomed to speak of Manchuria as “the life-line of Japan”. One can sympathise with such anxieties and try to appreciate the actions and motives of those who have to bear the heavy responsibility of securing the defence of their country against all eventualities. While acknowledging the interest of Japan in preventing Manchuria from serving as a base of operations directed against her own territory, and even her wish to be able to take all appropriate military measures if in certain circumstances the frontiers of Manchuria should be crossed by the forces of a foreign Power, it may still be questioned whether the military occupation of Manchuria for an indefinite period, involving, as it must, a heavy financial burden, is really the most effective way of insuring against this external danger; and whether, in the event of aggression having to be resisted in this way, the Japanese troops in Manchuria would not be seriously embarrassed if they were surrounded by a restive or rebellious population backed by a hostile China. It is surely in the interest of Japan to consider also other possible solutions of the problem of security, which would be more in keeping with the principles on which rests the present peace organisation of the world, and analogous to arrangements concluded by other great Powers in various parts of the world. She might even find it possible, with the sympathy and good-will of the rest of the world, and at no cost to herself, to obtain better security than she will obtain by the costly method she is at present adopting.

Apart from China and Japan, other Powers of the world have also important interests to defend in this Sino-Japanese conflict. We have already referred to existing multilateral treaties, and any real and lasting solution by agreement must be compatible with the stipulations of these fundamental agreements, on which is based the peace organisation of the world. The considerations which actuated the representatives of the Powers at the Washington Conference are still valid. It is quite as much in the interests of the Powers now as it was in 1922 to assist the reconstruction of China and to maintain her sovereignty and her territorial and administrative integrity as indispensable to the maintenance of peace. Any disintegration of China might lead, perhaps rapidly, to serious international rivalries, which would become all the more bitter if they should happen to coincide with rivalries between divergent social systems. Finally, the interests of peace are the same the world over. Any loss of confidence in the application of the principles of the Covenant and of the Pact of Paris in any part of the world diminishes the value and efficacy of those principles everywhere.

The Commission has not been able to obtain direct information as to the extent of the interests of the U.S.S.R. in Manchuria, nor to ascertain the views of the Government of the U.S.S.R. on the Manchurian question. But, even without sources of direct information, it cannot overlook the part played by Russia in Manchuria nor the important interests which the U.S.S.R. have in that region as owners of the Chinese Eastern Railway and of the territory beyond its north and north-east frontiers. It is clear that any solution of the problem of Manchuria which ignored the important

**International
Interests.**

**Interests of
U.S.S.R.**

interests of the U.S.S.R. would risk a future breach of the peace and would not be permanent.

Conclusions.

These considerations are sufficient to indicate the lines on which a solution might be reached if the Governments of China and Japan could recognise the identity of their chief interests and were willing to make them include the maintenance of peace and the establishment of cordial relations with each other. As already stated, there is no question of returning to the conditions before September 1931. A satisfactory regime for the future might be evolved out of the present one without any violent change. In the next chapter, we offer certain suggestions for doing this, but we would first define the general principles to which any satisfactory solution should conform. They are the following :

**Conditions of
a satisfactory
solution.**

1. *Compatibility with the interests of both China and Japan.*

Both countries are Members of the League and each is entitled to claim the same consideration from the League. A solution from which both did not derive benefit would not be a gain to the cause of peace.

2. *Consideration for the interests of the U.S.S.R.*

To make peace between two of the neighbouring countries without regard for the interests of the third would be neither just nor wise, nor in the interests of peace.

3. *Conformity with existing multilateral treaties.*

Any solution should conform to the provisions of the Covenant of the League of Nations, the Pact of Paris, and the Nine-Power Treaty of Washington.

4. *Recognition of Japan's interests in Manchuria.*

The rights and interests of Japan in Manchuria are facts which cannot be ignored, and any solution which failed to recognise them and to take into account also the historical associations of Japan with that country would not be satisfactory.

5. *The establishment of new treaty relations between China and Japan.*

A re-statement of the respective rights, interests and responsibilities of both countries in Manchuria in new treaties, which shall be part of the settlement by agreement, is desirable if future friction is to be avoided and mutual confidence and co-operation are to be restored.

6. *Effective provision for the settlement of future disputes.*

As a corollary to the above, it is necessary that provision should be made for facilitating the prompt settlement of minor disputes as they arise.

7. *Manchurian autonomy.*

The government in Manchuria should be modified in such a way as to secure, consistently with the sovereignty and administrative integrity of China, a large measure of autonomy designed to meet the local conditions and special characteristics of the Three Provinces. The new civil regime must be so constituted and conducted as to satisfy the essential requirements of good government.

8. *Internal order and security against external aggression.*

The internal order of the country should be secured by an effective local gendarmerie force, and security against external aggression should be provided by the withdrawal of all armed forces other than gendarmerie, and by the conclusion of a treaty of non-aggression between the countries interested.

9. *Encouragement of an economic rapprochement between China and Japan.*

For this purpose, a new commercial treaty between the two countries is desirable. Such a treaty should aim at placing on an equitable basis the commercial relations between the two countries and bringing them into conformity with their improved political relations.

10. *International co-operation in Chinese reconstruction.*

Since the present political instability in China is an obstacle to friendship with Japan and an anxiety to the rest of the world (as the maintenance of peace in the Far East is a matter of international concern), and since the conditions enumerated above cannot be fulfilled without a strong Central Government in China, the final requisite for a satisfactory solution is temporary international co-operation in the internal reconstruction of China, as suggested by the late Dr. Sun Yat-sen.

If the present situation could be modified in such a way as to satisfy these conditions and embody these ideas, China and Japan would have achieved a solution of their difficulties which might be made the starting-point of a new era of close understanding and political co-operation between them. If such a *rapprochement* is not secured, no solution, whatever its terms, can really be fruitful. Is it really impossible to contemplate a new relationship even in this hour of crisis? Young Japan is clamorous for strong measures in China and a policy of thoroughness in Manchuria. Those who make these demands are tired of the delays and pin-pricks of the pre-September period; they are impetuous and impatient to gain their end. But, even in Japan, appropriate means must be found for the attainment of every end. After making the acquaintance of some of the more ardent exponents of this "positive" policy, and those especially who, with undoubted idealism and great personal devotion, have constituted themselves the pioneers of a delicate undertaking in the "Manchukuo" regime, it is impossible not to realise that, at the heart of the problem for Japan, lies her anxiety concerning the political development of modern China, and the future to which it is tending. This anxiety has led to action with the object of controlling that development and steering its course in directions which will secure the economic interests of Japan and satisfy strategic requirements for the defence of her Empire.

Japanese opinion is nevertheless vaguely conscious that it is no longer practicable to have two separate policies, one for Manchuria and one for the rest of China. Even with her Manchurian interests as a goal, therefore, Japan might recognise and welcome sympathetically the renaissance of Chinese national sentiment, might make friends with it, guide it in her direction and offer it support, if only to ensure that it does not seek support elsewhere.

In China, too, as thoughtful men have come to recognise that the vital problem, the real national problem, for their country is the reconstruction and modernisation of the State, they cannot fail to realise that this policy of reconstruction and modernisation, already initiated with so much promise of success, necessitates for its fulfilment the cultivation of friendly relations with all countries, and above all with that great nation which is their nearest neighbour. China needs, in political and economic matters, the co-operation of all the leading Powers, but especially valuable to her would be the friendly attitude of the Japanese Government and the economic co-operation of Japan in Manchuria. All the other claims of her newly awakened nationalism — legitimate and urgent though they may be — should be subordinated to this one dominating need for the effective internal reconstruction of the State.

Results which
would follow
from the
fulfilment of
these
conditions.

Chapter X.

CONSIDERATIONS AND SUGGESTIONS TO THE COUNCIL.

**Suggestions to
facilitate a
final solution.**

It is not the function of the Commission to submit directly to the Governments of China and Japan recommendations for the solution of the present dispute. But, in order "to facilitate the final solution of existing causes of dispute between the two countries", to quote the words used by M. Briand when explaining to the Council the text of the resolution which originated the Commission, we now offer to the League of Nations, as the result of our studies, suggestions designed to help the appropriate organ of the League to draw up definite proposals for submission to the parties to the dispute. It should be understood that these suggestions are intended as an illustration of one way in which the conditions we have laid down in the preceding chapter might be met. They are mainly concerned with broad principles; they leave many details to be filled in and are susceptible of considerable modification by the parties to the dispute if they are willing to accept some solution on these lines.

Even if the formal recognition of "Manchukuo" by Japan should take place before our Report is considered in Geneva — an eventuality which we cannot ignore — we do not think that our work will have been rendered valueless. We believe that, in any case, the Council would find that our Report contains suggestions which would be helpful for its decisions or for its recommendations to the two great Powers concerned, with the object of satisfying their vital interests in Manchuria.

It is with this object that, whilst bearing in mind the principles of the League of Nations, the spirit and letter of the Treaties concerning China and the general interests of peace, we have not overlooked existing realities, and have taken account of the administrative machinery existing and in process of evolution in the Three Eastern Provinces. It would be the function of the Council, in the paramount interest of world peace, whatever may be the eventuality, to decide how the suggestions made in our Report may be extended and applied to events which are still developing from day to day, always with the object of securing a durable understanding between China and Japan by utilising all the sound forces, whether in ideals or persons, whether in thought or action, which are at present fermenting in Manchuria.

**Invitation to
the parties
to discuss
settlement.
An Advisory
Conference.**

We suggest, in the first place, that the Council of the League should invite the Governments of China and Japan to discuss a solution of their dispute on the lines indicated in the last chapter.

If the invitation is accepted, the next step would be the summoning as soon as possible of an Advisory Conference, to discuss and to recommend detailed proposals for the constitution of a special regime for the administration of the Three Eastern Provinces.

Such conference, it is suggested, might be composed of representatives of the Chinese and Japanese Governments and of two delegations representing the local population, one selected in a manner to be prescribed by the Chinese Government and one selected in a manner to be prescribed by the Japanese Government. If agreed by the parties, the assistance of neutral observers might be secured.

If the conference were unable to reach agreement on any particular point, it would submit to the Council the point of difference, and the Council would then attempt to secure an agreed settlement on these points.

Simultaneously with the sitting of the Advisory Conference, the matters at issue between Japan and China relating to respective rights and interests

should be discussed separately, in this case also, if so agreed, with the help of neutral observers.

Finally, we suggest that the results of these discussions and negotiations should be embodied in four separate instruments :

1. A Declaration by the Government of China constituting a special administration for the Three Eastern Provinces, in the terms recommended by the Advisory Conference ;
2. A Sino-Japanese Treaty dealing with Japanese interests ;
3. A Sino-Japanese Treaty of Conciliation and Arbitration, Non-Aggression and Mutual Assistance.
4. A Sino-Japanese Commercial Treaty.

It is suggested that, before the meeting of the Advisory Conference, the broad outlines of the form of administration to be considered by that body should be agreed upon between the parties, with the assistance of the Council. Among the matters to be considered at that stage are the following :

The place of meeting of the Advisory Conference, the nature of the representation, and whether or not neutral observers are desired ;

The principle of the maintenance of the territorial and administrative integrity of China and the grant of a large measure of autonomy to Manchuria ;

The policy of creating a special gendarmerie as the sole method of maintaining internal order ;

The principle of settling the various matters in dispute by means of the separate treaties suggested ;

The grant of an amnesty to all those who have taken part in the recent political developments in Manchuria.

When once these broad principles have been agreed upon beforehand the fullest possible discretion as regards the details would be left to the representatives of the parties at the Advisory Conference or when negotiating the treaties. Further reference to the Council of the League of Nations would only take place in the event of failure to agree.

Among the advantages of this procedure, it is claimed that, while it is consistent with the sovereignty of China, it will enable effective and practical measures to be taken to meet the situation in Manchuria as it exists to-day and, at the same time, allow for such modifications hereafter as the changes in the internal situation in China may warrant. Notice, for instance, has been taken in this Report of certain administrative and fiscal changes which have either been proposed or actually carried out in Manchuria recently, such as the re-organisation of provincial governments, the creation of a central bank, the employment of foreign advisers. These features might be retained with advantage by the Advisory Conference. The presence at the conference of representatives of the inhabitants of Manchuria, selected in some such way as we have suggested, should also facilitate the passage from the present to the new regime.

**Advantages
claimed for
the procedure.**

The autonomous regime contemplated for Manchuria is intended to apply to the three provinces of Liaoning (Fengtien), Kirin and Heilungkiang only. The rights at present enjoyed by Japan in the province of Jehol (Eastern Inner Mongolia) would be dealt with in the treaty on the subject of Japanese interests.

The four Instruments can now be considered *serialim* :

1. THE DECLARATION.

The final proposals of the Advisory Conference would be submitted to the Chinese Government, and the Chinese Government would embody them in a Declaration, which would be transmitted to the League of Nations and

to the signatory Powers of the Nine-Power Treaty. The Members of the League and the signatory Powers of the Nine-Power Treaty would take note of this Declaration, which would be stated to have for the Chinese Government the binding character of an international engagement.

The conditions under which subsequent revision of the Declaration, if required, might take place would be laid down in the Declaration itself, as agreed to in accordance with the procedure suggested hereabove.

The Declaration would distinguish between the powers of the Central Government of China in the Three Eastern Provinces and those of the autonomous local Government.

It is suggested that the powers to be reserved to the Central Government should be the following :

Powers to be reserved to the Central Government.

1. The control of general treaty and foreign relations not otherwise provided for ; it being understood that the Central Government would not enter into any international engagements inconsistent with the terms of the Declaration.

2. The control of the Customs, the Post Office, and the Salt Gabelle, and possibly of the administration of the stamp duty and the tobacco and wine taxes. The equitable division, between the Central Government and the Three Eastern Provinces, of the net income from these revenues would be determined by the Advisory Conference.

3. The power of appointment, at least in the first instance, of the Chief Executive of the Government of the Three Eastern Provinces in accordance with the procedure to be laid down in the Declaration. Vacancies would be filled in the same way, or by some system of selection in the Three Eastern Provinces, to be agreed upon by the Advisory Conference and inserted in the Declaration.

4. The power of issuing to the Chief Executive the carrying out of the international engagements entered into by the Central Government of China in matters under the administration of the autonomous Government of the Three Eastern Provinces.

5. Any additional powers agreed upon by the Conference.

All other powers would be vested in the autonomous Government of the Three Eastern Provinces.

Powers of the local government.

Expression of local opinion.

Some practical system might be devised to secure an expression of the opinion of the people on the policy of the Government, possibly through the traditional agency of the Chambers of Commerce, Guilds and other civil organisations.

Minorities.

Some provision should also be made to safeguard the interests of White Russians and other minorities.

Gendarmerie.

It is suggested that a special gendarmerie should be organised, with the collaboration of foreign instructors, which would be the only armed force within the Three Eastern Provinces. The organisation of the gendarmerie should either be completed within a period to be specified in advance, or the time of its completion should be determined in accordance with a procedure to be laid down in the Declaration. As this special corps would be the only armed force in the territory of the Three Eastern Provinces, its organisation, when completed, should be followed by the retirement from this territory of all other armed forces, including any special bodies of police or railway guards, whether Chinese or Japanese.

Foreign advisers.

An adequate number of foreign advisers would be appointed by the Chief Executive of the autonomous Government, of whom a substantial proportion should be Japanese. The details would be worked out by the procedure described above and would be stated in the Declaration. Nationals of small States, as well as of the Great Powers, would be eligible.

The appointment of two foreigners of different nationalities to have supervision of (1) the constabulary and (2) the fiscal administration would

be made by the Chief Executive from a panel submitted by the Council of the League. These two officials would have extensive powers during the period of organisation and trial of the new regime. The powers of the advisers would be defined in the Declaration.

The appointment of one foreigner as a general adviser to the Central Bank of the Three Eastern Provinces would be made by the Chief Executive from a panel submitted by the Board of Directors of the Bank for International Settlements.

The employment of foreign advisers and officials is in conformity with the policy of the founder of the Chinese Nationalist Party and with that of the present National Government. It will not, we hope, be difficult for Chinese opinion to recognise that the actual situation and the complexity of the foreign interests, rights and influences in those provinces require special measures in the interests of peace and good government. But it cannot be too strongly emphasised that the presence of the foreign advisers and officials here suggested, including those who, during the period of the organisation of the new regime, must exercise exceptionally wide powers, merely represents a form of international co-operation. They must be selected in a manner acceptable to the Chinese Government and one which is consistent with the sovereignty of China. When appointed, they must regard themselves as the servants of the Government employing them, as has always been the case in the past with the foreigners employed in the Customs and Postal administration or with the technical organisations of the League that have collaborated with China. In this connection, the following passage in the speech of Count Uchida in the Japanese Diet on August 25th, 1932, is of interest :

“ Our own Government, since the Meiji Restoration, has employed many foreigners as advisers or as regular officials ; their number, for instance, in the year 1875 or thereabout exceeded 500. ”

The point must also be stressed that the appointment of a relatively large number of Japanese advisers, in an atmosphere of Sino-Japanese co-operation, would enable such officials to contribute the training and knowledge specially suited to local conditions. The goal to be kept in view throughout the period of transition is the creation of a civil service composed of Chinese, who will ultimately make the employment of foreigners unnecessary.

2. THE SINO-JAPANESE TREATY DEALING WITH JAPANESE INTERESTS.

Full discretion would of course be left to those who will negotiate the three suggested treaties between China and Japan, but it may be useful to indicate the matters with which it is suggested they should deal.

The treaty dealing with Japanese interests in the Three Eastern Provinces and with some Japanese interests in the Province of Jehol would have to deal principally with certain economic rights of Japanese nationals and with railway questions. The aims of this treaty should be :

**Aims of the
Treaty.**

- (1) The free participation of Japan in the economic development of Manchuria, which would not carry with it a right to control the country either economically or politically ;
- (2) The continuance in the Province of Jehol of such rights as Japan now enjoys there ;
- (3) An extension to the whole of Manchuria of the right to settle and lease land, coupled with some modification of the principle of extra-territoriality ;
- (4) An agreement regarding the operation of the railways.

**Japanese
rights of
settlement.**

Hitherto, the rights of settlement of Japanese nationals have been confined to South Manchuria, though no definite boundary line between North and South Manchuria has ever been fixed, and to Jehol. These rights have been exercised under conditions which China found unacceptable and this caused continued friction and conflicts. Extra-territorial status as regards taxation and justice was claimed both for the Japanese and the Koreans, and in the case of the latter there were special stipulations which were ill-defined and the subject of disputes. From evidence given before the Commission, we have reason to believe that China would be willing to extend to the whole of Manchuria the present limited right of settlement, provided it was not accompanied by extra-territorial status, the effect of which, it was claimed, would be to create a Japanese State in the heart of a Chinese territory.

It is obvious that the right of settlement and extra-territoriality are closely associated. It is, however, equally clear that the Japanese would not consent to abandon their extra-territorial status until the administration of justice and finance had reached a very much higher standard than has hitherto prevailed in Manchuria.

Two methods of compromise have suggested themselves. One is that the existing rights of settlement, accompanied by extra-territorial status, should be maintained, and that such rights should be extended both to Japanese and Koreans in North Manchuria and Jehol without extra-territorial status. The other is that the Japanese should be granted the right to settle anywhere in Manchuria and Jehol with extra-territorial status, and that the Koreans should have the same rights without extra-territorial status. Both proposals have some advantages to recommend them and both have rather serious objections. It is obvious that the most satisfactory solution of the problem is to make the administration of these Provinces so efficient that extra-territorial status will no longer be desired. It is with this object that we recommend that at least two foreign advisers, one of whom should be of Japanese nationality, should be attached to the Supreme Court, and other advisers might with advantage be attached to other Courts. The opinions of these advisers might be made public in all cases in which the Courts were called upon to adjudicate on matters in which foreign nationals were involved. We also think that, in the period of re-organisation, some foreign supervision of the administration of finance is desirable and, in dealing with the Declaration, we have presented some suggestions to that effect.

A further safeguard would be provided by the establishment, under the treaty of conciliation, of an arbitration tribunal to deal with any complaints which the Chinese or Japanese Governments might bring in their own names or in those of their nationals.

The decision of this complicated and difficult question must rest with the parties negotiating the treaty, but the present system of foreign protection, when applied to a minority group as numerous as the Koreans, who are, moreover, increasing in number and who live in such close touch with the Chinese population, is bound to produce many occasions of irritation, leading to local incidents and foreign intervention. In the interests of peace, it is desirable that this fruitful source of friction should be removed.

Any extension of the rights of settlement in the case of Japanese would apply on the same conditions to the nationals of all other Powers which enjoy the benefits of a "most-favoured-nation" clause, provided that those Powers whose nationals enjoy extra-territorial rights enter into a similar treaty with China.

Railways.

As regards railways, it has been pointed out in Chapter III that there has been little or no co-operation in the past between the Chinese and Japanese railway builders and authorities directed to achieving a

comprehensive and mutually beneficial railway plan. It is obvious that, if future friction is to be avoided, provisions must be made in the treaty at present under discussion for bringing to an end the competitive system of the past, and substituting a common understanding as regards freights and tariffs on the various systems. The subject is discussed in the special study No. 1 annexed to this Report. In the opinion of the Commission, there are two possible solutions, which could be considered either as alternatives or as stages to one final solution. The first, which is the more limited in scope, is a working agreement between the Chinese and Japanese railway administrations, which would facilitate their co-operation. China and Japan might agree to manage their respective railway systems in Manchuria on the principle of co-operation, and a joint Sino-Japanese Railway Commission, with at least one foreign adviser, might exercise functions analogous to those of boards which exist in some other countries. A more thorough remedy would be provided by an amalgamation of the Chinese and Japanese railway interests. Such an amalgamation, if it could be agreed upon, would be the true mark of that Sino-Japanese economic collaboration to secure which is one of the objects of this Report. While safeguarding the interests of China, it would place at the disposal of all the railways in Manchuria the benefit of the great technical experience of the South Manchuria Railway and could be evolved without difficulty from the system which has been applied to the railways of Manchuria in the last few months. It might even pave the way in the future to some wider international agreement which might include the Chinese Eastern Railway. Though a fairly detailed description of such an amalgamation is to be found in the annex as an example of the sort of thing that might be done, only direct negotiations between the parties could evolve a detailed scheme. Such a solution of the railway question would make the South Manchuria Railway a purely commercial enterprise, and the security provided by the special corps of gendarmerie, when once this body was fully organised, would enable the Railway Guards to be withdrawn, thus saving a considerable item of expense. If this is done, it would be well that special land regulations and a special municipal administration should previously be instituted in the railway area in order to safeguard the vested interests of the South Manchuria Railway and of Japanese nationals.

If a treaty on these lines could be agreed upon, a legal basis for Japanese rights in the Three Eastern Provinces and in Jehol would have been found which would be at least as beneficial to Japan as the present treaties and agreements, and one which would be more acceptable to China. China might then find no difficulty in recognising all the definite grants made to Japan by such treaties and agreements as those of 1915, unless abrogated or modified by the new treaty. All minor rights claimed by Japan, the validity of which may be open to dispute, should be the subject of agreement. In case of disagreement, resort should be made to the procedure outlined in the treaty of conciliation.

3. THE SINO-JAPANESE TREATY OF CONCILIATION AND ARBITRATION, NON-AGGRESSION AND MUTUAL ASSISTANCE.

It is not necessary to describe in any detail the subject-matter of this treaty, of which there are many precedents and existing examples.

Such a treaty would provide for a board of conciliation, whose functions would be to assist in the solution of any difficulties as they arise between the Governments of China and Japan. It would also establish an arbitration tribunal composed of persons with judicial experience and the necessary knowledge of the Far East. This tribunal would deal with any disputes

between the Chinese and Japanese Governments regarding the interpretation of the declaration or of the new treaties, and with such other categories of disputes as might be specified in the treaty of conciliation.

Finally, in conformity with the provisions for non-aggression and mutual assistance inserted in the treaty, the contracting parties should agree that Manchuria should gradually become a demilitarised area. With this object, it would be provided that, after the organisation of the gendarmerie had been effected, any violation of the demilitarised territory by either of the parties or by a third party would constitute an act of aggression entitling the other party, or both parties in the case of a third-party attack, to take whatever measures might be deemed advisable to defend the demilitarised territory, without prejudice to the right of the Council of the League to take action under the Covenant.

If the Government of the U.S.S.R. desired to participate in the non-aggression and mutual assistance section of such a treaty, the appropriate clauses could be embodied in a separate tripartite agreement.

4. THE SINO-JAPANESE COMMERCIAL TREATY.

The commercial treaty would naturally have as its object the establishment of conditions which would encourage as much as possible the exchange of goods between China and Japan, while safeguarding the existing treaty rights of other countries. This treaty should also contain an undertaking by the Chinese Government to take all measures within its power to forbid and repress organised boycott movements against Japanese trade, without prejudice to the individual rights of Chinese consumers.

* * *

The above suggestions and considerations regarding the objects of the proposed Declaration and treaties are submitted for the consideration of the Council of the League. Whatever may be the details of future agreements, the essential point is that negotiations should be begun as soon as possible and should be conducted in a spirit of mutual confidence.

Our work is finished.

Manchuria for a year past has been given over to strife and turmoil.

The population of a large, fertile and rich country has been subjected to conditions of distress such as it has probably never experienced before.

The relations between China and Japan are those of war in disguise, and the future is full of anxiety.

We have reported the circumstances which have created these conditions.

Everyone is fully aware of the gravity of the problem which confronts the League of Nations and of the difficulties of the solution.

At the moment of concluding our Report, we read in the Press two statements by the Foreign Ministers of China and Japan, from each of which we would extract one point of the utmost importance.

On August 28th, Mr. Lo Wen Kan declared at Nanking :

“ China is confident that any reasonable proposal for the settlement of the present situation will necessarily be compatible with the letter and spirit of the Covenant of the League of Nations and the anti-war Pact, and the Nine-Power Treaty, as well as with China's sovereign power, and will also effectively secure a durable peace in the Far East. ”

On August 30th, Count Uchida is reported to have declared at Tokyo :

“ The Government considers the question of Sino-Japanese relations as more important than the question of Manchuria and Mongolia. ”

We cannot close our Report more appropriately than by reproducing here the thought underlying these two statements: as exactly does it correspond with the evidence we have collected, with our own study of the problem, and consequently with our own convictions, so confident are we that the policy indicated by these declarations, if promptly and effectively applied, could not fail to lead to a satisfactory solution of the Manchurian question in the best interests of the two great countries of the Far East and of humanity in general.

Signed at Peiping, September 4th, 1932.

LYTTON.
ALDROVANDI.
H. CLAUDEL.
Frank McCOY.
SCHNEE.

APPENDIX.

**ITINERARY IN THE FAR EAST OF THE
LEAGUE OF NATIONS COMMISSION OF ENQUIRY.**

(Council Resolution of December 10th, 1931.)

(See also Maps Nos. 13 and 14.)

| Date | Arrived or departed | Place | Means of travel | Remarks | Map symbol | Personnel |
|----------------------------|--|---|---------------------|--------------------------------|------------|---|
| February 29th | Arr. | Yokohama | Water | S.S. <i>President Coolidge</i> | 1 | Commissioners, Pelt, von Kotze, Pastuhov, Astor, Jouvelet, Biddle. Joined by Haas (arrived February 25th, from Shanghai). |
| | Left Arr. | Yokohama Tokyo | Rail | | | |
| February 29th to March 8th | | Tokyo | | | 1 | Joined by Aoki (February 29th). Dropped Haas (March 8th, followed party to Osaka, March 9th). |
| March 8th 9th 10th | Left Arr. Left Arr. Left Arr. | Tokyo Kyoto " Nara " Osaka | Rail | | 1 | Rejoined by Haas (from Tokyo). |
| 11th | Left | Osaka | Motor and cable car | Via Mt. Rokko | | |
| | Arr. Left | Kobe " | Water | S.S. <i>President Adams</i> | | |
| 14th | Arr. | Shanghai | | | | |
| 14th to 26th | | Shanghai | | | 1 | Joined by Charrère, Wou (March 14th) and Young (March 18th, from Peiping). Dropped Aoki (March 25th, returned to Tokyo) and Haas (March 26th; followed party to Nanking, March 28th). |

| Date | Arrived or departed | Place | Means of travel | Remarks | Map symbol | Personnel |
|-------------------------|--------------------------------------|---|-----------------|-------------------------------|------------|---|
| March 26th | Left | Shanghai | Rail | | 1 | Claudel, McCoy, Schnee, Young, Blakeslee, von Kotze, Jouvelet, Biddle. |
| 27th | Arr. Left Arr. Left Arr. | Hangchow " Ihsing " Nanking | Motor | | | |
| 26th | Left | Shanghai | Water | S.S. <i>Toongwo</i> | 1 | Lytton, Aldrovandi, Pelt, Pastuhov, Astor, Charrère, Wou. |
| 27th | Arr. | Nanking | | | | |
| March 27th to April 1st | | Nanking | | | 1 | Rejoined by Haas (March 29th, from Shanghai). Dropped Young and Astor (April 1st ; see A, below). |
| April 1st | Left | Nanking | Air | | A | Young, Astor. |
| 2nd | Arr. | Hankow | | | | |
| 3rd | Left | " | | | | |
| 3rd | Arr. | Chungking | | | | |
| 4th | Left | " | | | | |
| 4th | Arr. | Ichang | | | | |
| 4th | Left | " | | | | |
| 4th | Arr. | Hankow | | | | Rejoined main party. |
| 1st | Left | Nanking | Water | S.S. <i>Loongwo</i> | 1 | Commissioners, Haas, Blakeslee, Pelt, von Kotze, Pastuhov, Jouvelet, Charrère, Wou, Biddle. |
| 3rd | Arr. | Kiukiang | | | | |
| 4th | Left | " | | | | |
| 4th | Arr. | Hankow | | | | Rejoined by Young and Astor (See A, above). |
| 5th | Left | Hankow | | | | |
| 6th | Arr. | Kiukiang | | | | |
| 6th | Left | " | | | | |
| 7th | Arr. | Pukow | | | | |
| 7th | Left | " | Rail | | | |
| 8th | Arr. | Tsinan | | | | |
| 9th | Left | " | | | | |
| 9th | Arr. | Tientsin | | | | |
| 9th | Left | " | | | | |
| 9th | Arr. | Peiping | | | | |
| 9th to 19th | | Peiping | | | 1 | Joined by Angelino (April 14th, from Java). |
| 19th | Left | Peiping | | | | |
| 20th | Arr. | Chinwangtao | | | | |
| 20th | Left | Chinwangtao | Water | Chinese and Japanese warships | 2 | Lytton, Claudel, Schnee, Pelt, Pastuhov, Astor, Jouvelet, Wou. |
| 21st | Arr. | Dairen | | | | |
| 21st | Left | " | Rail | | | |
| 21st | Arr. | Mukden | | | | |

| Date | Arrived or departed | Place | Means of travel | Remarks | Map symbol | Personnel |
|-----------------------|--|--|-----------------|---------|------------|---|
| April 20th | Left | Chinwangtao | Rail | | 2 | Aldrovandi, McCoy, Haas, Angelino, Young, Blakeslee, von Kotze, Charrère, Biddle. |
| 21st | Arr. Left Arr. Left Arr. Left Arr. | Shanhalkwan " Chinwangtao " Shanhalkwan " Mukden | | | | |
| April 21st to May 2nd | | Mukden | | | 2 | Joined by Hiam (April 21st ; arrived April 16th, from Canada), Moss (May 1st, from Weihaiwei) and de Peyre (May 1st, from Kobe). |
| May 2nd | Left | Mukden | Rail | | 2 | Commissioners, Haas, Angelino, Hiam, Young, Blakeslee, Pelt, von Kotze, Pastuhov, Astor, Jouvelet, Moss, de Peyre, Charrère, Wou, Biddle |
| | Arr. Left Arr. | Kungehullig Kungehullig Changehun | | | | |
| 2nd to 7th | | Changehun | | | | |
| 7th | Left Arr. Left Arr. | Changehun Kirin " Changehun | | | | |
| 7th to 9th | | Changehun | | | | |
| 9th | Left Arr. | Changehun Harbin | | | | |
| 9th to 21st | | Harbin | | | 2 | Joined by Dennery (May 9th ; arrived May 6th, from Paris), Dorfman (May 10th ; arrived May 9th, from Tokyo). Dropped : von Kotze, Hiam, Astor, Moss, Biddle (May 21st ; see B, below) ; Young (May 21st ; followed to Mukden, May 23rd) ; Pelt, Dennery, Dorfman (May 21st ; followed to Changchun and Mukden (May 23rd). |

| Date | Arrived or departed | Place | Means of travel | Remarks | Map symbol | Personnel |
|--------------|--------------------------------------|---|-----------------|---------|------------|--|
| May 21st, | Left | Harbin | Rail | | 2 | Commissioners, Haas, Angelino, Blakeslee, Pastuhov, Jouvelet, Charrère, Wou, de Peyre. |
| | Arr. Left Arr. | Changechun " Mukden | | | | |
| 22nd | Left Arr. | Harbin Tsitsihar | Air | | B | |
| 22nd to 24th | | Tsitsihar | | | | |
| 24th | Left Arr. | Tsitsihar Taonan | Rail | | | |
| 25th | Left Arr. | " Mukden | | | | |
| 21st to 25th | | Mukden | | | 2 | Departed : de Peyre (May 21st, for Kobe). Rejoined by : Young (May 24th, from Harbin) ; Pelt, Dennery, Dorfman (May 25th, from Harbin and Changchun) ; von Kotze, Hiam, Astor, Moss, Biddle (May 25th ; see B, above). |
| 25th | Left | Mukden | Rail | | 2 | Commissioners, Haas, Angelino, Hiam, Young, Blakeslee, Pelt, Dennery, Dorfman, von Kotze, Pastuhov, Astor, Jouvelet, Moss, Charrère, Wou, Biddle. |
| 26th 27th | Arr. Left Arr. Left Arr. | Dairen " Port Arthur " Dairen | Motor | | | |
| 26th to 30th | | Dairen | | | | |
| 30th | Left | Dairen | Rail | | 2 | Commissioners, Haas, Hiam, Blakeslee, Pelt, Dennery, Dorfman, von Kotze, Astor, Jouvelet, Moss, Charrère, Wou, Biddle Dropped Dennery (followed to Mukden, May 31st). |
| 30th | Arr. Left Arr. | Anshan " Mukden | | | | |

| Date | Arrived or departed | Place | Means of travel | Remarks | Map symbol | Personnel |
|----------------------|----------------------|------------------------------|-----------------|-------------------------|------------|---|
| May 30th to June 4th | | Mukden | | | 2 | Rejoined by Dennery (May 31st, from Anshan). Dropped : Dennery (June 1st, preceded party to Fushun); Haas, Hiam (June 1st; preceded party to Peiping, via Shanhaikwan); Pelt, Dorfman (June 2nd; see C, below). |
| June 1st | Left | Mukden | Rail | | 2 | Commissioners, von Kotze, Blakeslee, Pelt, Dennery, Dorfman, Astor, Jouvelet, Moss, Charrère, Wou, Biddle. Rejoined by Dennery (preceded party from Mukden). Dropped Dennery (preceded to Dairen). |
| | Arr. | Fushun | | | | |
| | Left | " | | | | |
| | Arr. | Mukden | | | | |
| 2nd 3rd | Left Arr. | Mukden Dairen | Rail | | C | Pelt, Dorfman. Rejoined by Dennery (arrived June 2nd, from Fushun). |
| 3rd to 6th | | Dairen | | | | |
| 6th | Left | Dairen | Water | S.S. <i>Saitsu Maru</i> | | |
| 7th | Arr. Left Arr. | Tangku " Peiping | Rail | | | |
| 4th | Left | Mukden | Rail | | 2 | Commissioners, von Kotze, Blakeslee, Astor, Jouvelet, Moss, Charrère, Wou, Biddle. |
| | Arr. Left Arr. | Chinchow " Shanhaikwan | | | | |
| | Left Arr. | " Peltaiho Beach | | | | |
| 5th | Left Arr. | " Peiping | | | | |
| 5th to 28th | | Peiping | | | 3 | |

| Date | Arrived or departed | Place | Means of travel | Remarks | Map symbol | Personnel |
|------------------------|---------------------|-------------|-----------------|-------------------------|------------|---|
| June 8th | Left | Peiping | Rail | | 3 | Lytton, Aldrovandi, Schnee, Charrère, Biddle. |
| 9th | Arr. | Tsingtao | | | | |
| 10th | Left | " | | | | |
| 11th | Arr. | Taian | | | | |
| 12th | Left | " | | | | |
| | Arr. | Peiping | | | | |
| 27th | Left | Peiping | Rail | | D | Dorfman. |
| 29th | Arr. | Nanking | | | | |
| 30th | Left | " | | | | |
| | Arr. | Shanghai | | | | |
| June 30th to July 15th | | Shanghai | | | | |
| July 15th | Left | Shanghai | | | | |
| 17th | Arr. | Peiping | | | | |
| June 28th | Left | Peiping | Rail | | 4 | Commissioners, Haas, Young, Blakeslee, Pelt, Astor, Jouvelet, Charrère, Biddle. Rejoined by Dennery (arrived June 25th, from Peiping). |
| | Arr. | Tientsin | | | | |
| 29th | Left | " | | | | |
| | Arr. | Shanhaikwan | | | | |
| 30th | Left | " | | | | |
| | Arr. | Mukden | | | | |
| | Left | " | | | | Dropped Pelt (see G, below). |
| | Arr. | Antung | | | | |
| July 1st | Left | " | | | | |
| 2nd | Arr. | Keijo | | | | |
| | Left | " | | | | |
| | Arr. | Fusan | Water | S.S. <i>Shokei Maru</i> | | |
| | Left | " | | | | |
| 3rd | Arr. | Shimonoseki | | | | |
| 4th | Left | " | Rail | | | |
| | Arr. | Tokyo | | | | |
| June 28th to July 20th | | Peiping | | | E | Angelino, Hiam, Dorfman, von Kotze, Pastuhov, Wou. Dropped Hiam (June 29th; see F, below), von Kotze (July 2nd, see H, below), Pastuhov (July 4th, followed main party to Tokyo). Rejoined by Pelt (July 10th; see G, below). Dropped Pelt (July 19th, proceeded to Tsinan by air). |

| Date | Arrived or departed | Place | Means of travel | Remarks | Map symbol | Personnel |
|-------------|---------------------|--------------|-----------------|------------------------------|------------|---|
| June 29th | Left | Pel ping | Rail | | F | Hiam. |
| July 1st | Arr. | Shanghai | | | | |
| 4th | Left | " | Water | S.S. <i>Empress of Japan</i> | | |
| 6th | Arr. | Kobe | | | | |
| | Left | " | Rail | | | |
| | Arr. | Tokyo | | | | Rejoined main party. |
| June 30th | Left | Mukden | Rail | | G | Pelt. |
| July 1st | Arr. | Changehun | | | | |
| 2nd | Left | " | | | | |
| | Arr. | Harbin | | | | |
| 2nd to 7th | | Harbin | | | | |
| 7th | Left | Harbin | | | | |
| 8th | Arr. | Mukden | | | | |
| 9th | Left | " | | | | |
| 10th | Arr. | Pel ping | | | | |
| 2nd | Left | Pel ping | Air | | H | von Kotze. |
| | Arr. | Shanghai | | | | |
| 2nd to 6th | | Shanghai | | | | |
| 6th | Left | Shanghai | | | | |
| | Arr. | Pel ping | | | | |
| 4th to 16th | | Tokyo | | | 4 | Rejoined by Aoki (July 4th; arrived March 30th, from Shanghai), Hiam (July 6th; see F, above), Pastuhov (July 8th, from Pel ping). Departed: Hiam (July 8th, for Canada). Dropped Lytton (July 15th; preceded party to Kobe, by water from Yokohama), Haas (July 15th, preceded party to Kyoto), Young (July 15th; see I, below). |
| 9th | Left | Tokyo | Rail and motor | | | Aldrovandi, Claudel, McCoy, Schnee, Young, Blakeslee, Pastuhov, Jouvelet, Biddle. |
| | Arr. | Miyano-shita | | | | |
| 9th to 11th | | Miyano-shita | | | | |
| 11th | Left | Miyano-shita | | | | |
| | Arr. | Tokyo | | | | |

| Date | Arrived or departed | Place | Means of travel | Remarks | Map symbol | Personnel |
|--------------|------------------------|-----------------------------------|-----------------|---------------------------|------------|---|
| July 14th | Left Arr. | Tokyo | Rail and motor | | | Aldrovandi, McCoy, Schnee, Biddle. |
| 15th | Left Arr. | Nikko Tokyo | | | | |
| 15th | Left Arr. | Tokyo | Rail | S.S. | I | Young. |
| 16th | Left Arr. | Shimono- seki | Water | | | |
| 17th | Left Arr. Left Arr. | Fusan " Keijo | Rail | | | |
| 17th to 20th | | Keijo | | | | |
| 20th | Left Arr. | Keijo | Rail | | | |
| 21st | Left Arr. | Kwainei | | | | |
| | Left Arr. | Lungching- tsun | | | | |
| 21st to 23rd | | Lungching- tsun | | | | |
| 23rd | Left Arr. | Lungching- tsun | Air | | | |
| | Left Arr. | Kirin | | | | |
| | Left Arr. | Changehun | Rail | | | |
| 24th | Left Arr. | Dairen | | | | |
| 25th | Left Arr. | Peiping | Water | <i>S.S. Chohei Maru</i> | | |
| 26th | Left Arr. | Tangku | Rail | | | |
| | Left Arr. | Peiping | | | | Rejoined party. |
| 16th | Left Arr. | Tokyo | Rail | | 4 | Aldrovandi, Claudel, McCoy, Schnee, Dennery, Pastuhov, Astor, Jouvelet, Charrère, Aoki, Biddle. |
| 17th | Left Arr. | Kyoto | | | | Rejoined by Haas (arrived July 16th, from Tokyo). |
| | Left Arr. | Kobe | | | | Rejoined by Lytton (arrived July 16th, from Tokyo). |
| | Left Arr. | Peiping | Water | <i>S.S. Chichibu Maru</i> | | |
| 19th | Left Arr. | Tsingtao | Rail | | | |
| 20th | Left Arr. | Tsinan | | | | Rejoined by Pelt (arrived July 19th; by air, from Peiping). |
| 20th | Left Arr. | Tsinan | Rail | | | Aldrovandi, McCoy, Schnee, Haas, Pelt, Pastuhov, Charrère, Biddle. |
| | Left Arr. | Peiping | | | | |

| Date | Arrived or departed | Place | Means of travel | Remarks | Map symbol | Personnel |
|----------------------------|---------------------|-------------------|-----------------|---------|------------|---|
| July 20th | Left Arr. | Tsinan Peiping | Air | | 4 | Lytton, Claudel, Dennery, Astor, Jouvelet. |
| July 20th to September 4th | | Peiping | | | 4 | Rejoined by : Angelino, Dorfman, von Kotze, Wou (July 20th ; see E, above) ; Young (July 26th ; see I, above). Departed : Dennery (August 26th, for Paris via U.S.A.) ; Blakeslee (August 31st, for U.S.A.) ; Lytton, Aldrovandi, McCoy, von Kotze, Astor, Biddle (September 4th for Geneva, via Shanghai and Suez) ; Claudel, Schnee, Jouvelet (September 5th, for Geneva, via Siberia). |

[Communicated to the Council
and the Members of the
League.]

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[C.E.U.E./6th Session/P.V.]

Geneva, October 15th, 1932.

LEAGUE OF NATIONS

COMMISSION OF ENQUIRY
FOR EUROPEAN UNION

13

MINUTES
OF THE
SIXTH SESSION OF THE COMMISSION

Held at Geneva on September 30th and October 1st, 1932.

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VII. POLITICAL
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LIST OF MEMBERS.

Chairman : His Excellency M. Edouard HERRIOT (France).

- Albania* : M. Lec KURTI, Permanent Delegate accredited to the League of Nations.
- Austria* : His Excellency M. Emerich PFLÜGL, Envoy Extraordinary and Minister Plenipotentiary, Permanent Representative accredited to the League of Nations.
His Excellency M. Max HOFFINGER, Envoy Extraordinary and Minister Plenipotentiary accredited to the Swiss Confederation.
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M. Fernand J. VAN LANGENHOVE, Secretary-General of the Ministry for Foreign Affairs.
- United Kingdom of Great Britain and Northern Ireland* : Mr. Anthony EDEN, M.C., M.P., Parliamentary Under-Secretary for Foreign Affairs.
- Bulgaria* : His Excellency M. Nicolas MOUCHANOFF, Prime Minister, Minister for Foreign Affairs and Religion.
M. Dimitri MIKOFF, Chargé d'Affaires in Switzerland, Permanent Representative accredited to the League of Nations.
M. Nicolas STOYANOFF, Director of the Public Debt.
- Czechoslovakia* : His Excellency M. Stefan OSUSKÝ, Envoy Extraordinary and Minister Plenipotentiary at Paris.
His Excellency M. František PEROUTKA, former Minister of Commerce, Director at the Ministry of Commerce.
His Excellency M. Ludvík PAZDERKA, Envoy Extraordinary and Minister Plenipotentiary, Director at the Ministry for Agriculture.
M. Jaroslav SKORKOVSKÝ, Counsellor at the Ministry for Foreign Affairs.
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- Estonia* : His Excellency M. Auguste SCHMIDT, Envoy Extraordinary and Minister Plenipotentiary, Permanent Delegate accredited to the League of Nations.
- Finland* : His Excellency Baron A. S. YRJÖ-KOSKINEN, Minister for Foreign Affairs.
His Excellency Dr. Rudolf HOLSTI, Envoy Extraordinary and Minister Plenipotentiary at Berne, Permanent Delegate accredited to the League of Nations, former Minister for Foreign Affairs.
Dr. Ensio HUITONEN, Head of the League of Nations Office at the Ministry for Foreign Affairs.
- France* : His Excellency M. Edouard HERRIOT (*Chairman*), Prime Minister, Minister for Foreign Affairs.
His Excellency M. Georges BONNET, Member of the Chamber of Deputies, former Minister.
M. AMÉ-LEROY, Consul-General at Geneva.
- Germany* : Herr Frederic Hans VON ROSENBERG, Envoy Extraordinary and Minister Plenipotentiary at Stockholm.
- Greece* : His Excellency M. A. MICHALAKOPOULOS, Vice-President of the Council of Ministers, Minister for Foreign Affairs.
His Excellency M. Nicolas POLITIS, former Minister for Foreign Affairs, Envoy Extraordinary and Minister Plenipotentiary in Paris.
His Excellency M. R. RAPHAËL, Permanent Delegate accredited to the League of Nations.
M. B. P. PAPADAKIS, "Chef de Cabinet" to the Minister for Foreign Affairs, Head of the League of Nations Office at the Ministry for Foreign Affairs.
- Hungary* : Baron Georges PRONAY, former Secretary of State to the Ministry of Agriculture.
- Irish Free State* : Mr. Joseph CONNOLLY, Minister for Posts and Telegraphs.
Mr. Sean LEYDON, Secretary of the Ministry for Industry and Commerce.
- Italy* : His Excellency M. Giuseppe DE MICHELIS, Senator, Ambassador.
- Latvia* : His Excellency M. Jules FELDMANS, Minister Plenipotentiary, Permanent Delegate accredited to the League of Nations.
His Excellency M. Ludwig EKIS, Minister Plenipotentiary, Head of the Western Section at the Ministry for Foreign Affairs.
- Lithuania* : His Excellency Dr. Dovas ZAUNIUS, Minister for Foreign Affairs.
His Excellency M. Petras KLIMAS, Envoy Extraordinary and Minister Plenipotentiary in Paris.
- Luxemburg* : His Excellency M. Joseph BECH, Minister of State, Prime Minister, Minister for Foreign Affairs.
M. Albert WEHRER, Doctor of Law, Governmental Adviser.
- Netherlands* : His Excellency Jonkheer F. BEELAERTS VAN BLOKLAND, Minister for Foreign Affairs.
- Norway* : His Excellency M. Birger BRAADLAND, Minister for Foreign Affairs.
M. Rolf O. ANDVORD, Head of Division at the Ministry for Foreign Affairs.

- Poland* : His Excellency M. Auguste ZALESKI, Minister for Foreign Affairs.
His Excellency M. Joseph TARGOWSKI, Senator, Minister Plenipotentiary and Envoy Extraordinary.
M. Antoni ROMAN, Head of the Economic Bureau at the Ministry for Foreign Affairs.
- Portugal* : His Excellency Dr. Augusto DE VASCONCELLOS, former Prime Minister, former Minister for Foreign Affairs, Envoy Extraordinary and Minister Plenipotentiary, Director-General of the Portuguese Secretariat accredited to the League of Nations.
- Roumania* : His Excellency M. Virgile MADGEARU, Minister for Industry and Commerce.
His Excellency M. Jean LUGOSIANO, former Minister of Commerce, Member of the Chamber of Deputies.
His Excellency M. Savel RADULESCO, Minister Plenipotentiary, Director of the Economic Division at the Ministry for Foreign Affairs.
- Spain* : His Excellency M. Luis DE ZULUETA Y ESCOLANO, Minister for Foreign Affairs.
- Sweden* : His Excellency M. Richard Johannes SANDLER, Minister for Foreign Affairs.
M. N. R. WOHLIN, Member of the First Chamber of the Riksdag.
His Excellency M. Karl Ivan WESTMAN, Envoy Extraordinary and Minister Plenipotentiary at Berne.
- Switzerland* : His Excellency M. Giuseppe MOTTA, President of the Confederation, Head of the Political Department.
M. Camille GORGÉ, Head of Section at the Political Department.
- Turkey* : His Excellency Dr. Tevfik RÜSTÜ Bey, Minister for Foreign Affairs.
His Excellency Cemal HÜSNÜ Bey, Envoy Extraordinary and Minister Plenipotentiary at Berne.
KEMAL Bey, " Chef de Cabinet " to the Minister for Foreign Affairs.
- Yugoslavia* : His Excellency M. Bogolioub YEVTICH, Minister for Foreign Affairs.
His Excellency M. Constantin FOTITCH, Envoy Extraordinary and Minister Plenipotentiary, Secretary-General of the Ministry for Foreign Affairs.

GOVERNMENTS INVITED

Free City of Danzig :

Iceland :

Union of Soviet Socialist Republics : M. Maxime LITVINOFF, People's Commissar for Foreign Affairs.

OBSERVERS.

Canada : Mr. Walter A. RIDDELL, M.A., Ph.D., Advisory Officer accredited to the League of Nations.

China : Dr. Hoo Chi-Tsai, Director of the Permanent Office of the League of Nations.

Japan : His Excellency M. Massa-aki HOTTA, Envoy Extraordinary and Minister Plenipotentiary at Prague.

FIRST MEETING (PUBLIC).

Held on Friday, September 30th, 1932, at 5.30 p.m.

Chairman : M. MOTTA, Vice-Chairman (Switzerland), then M. HERRIOT (France).

1. Tribute to the Memory of M. Aristide Briand.

M. MOTTA (Switzerland), Vice-Chairman of the Commission, asked the Commission to turn its thoughts for a few moments towards the man whose place as Chairman he had taken temporarily — he referred to Aristide Briand.

M. Briand was twice elected Chairman by unanimous votes. He it was who had taken the initiative in proposing the formation of a Commission of Enquiry for European Union. It had always been his idea that this organ should be placed within the framework and under the direct guidance of the League of Nations. Aristide Briand had conceived a special fondness for this idea. He thought it was capable of great development and of the most fertile activity.

M. Motta then recalled the moment, which he remembered so well, when M. Briand spoke for the last time in that Commission. He had suddenly been overcome with emotion, and that profound expression "pilgrim of peace", which would always be connected with his memory, fell from his lips. Although his body now lay in the sleep of the tomb, his spirit still continued that pilgrimage, which he had undertaken and proclaimed.

It was not for M. Motta to try to indicate what Briand was for his country. Unhappily, controversy around his name was not yet entirely stilled, but M. Motta was confident that for all delegates, to whatever country they belonged, or whatever their origin or political ideas, Briand was the prototype of his country in all its lofty mysticism and constructive idealism. He was not only the most eloquent of men, but one of the greatest hearted. He created sympathy around him. To create sympathy is to give oneself, and what better thing can any man do in this world than to give himself to others in order to raise and strengthen them in their search after good?

Aristide Briand would never be forgotten. He had left behind him a heritage of ideas, of moral conceptions and methods to which the Commission would be faithful.

(M. Motta then asked the members of the Commission to rise from their seats in honour of the memory of Aristide Briand.)

M. HERRIOT (France) thanked M. Motta on behalf of the French delegation for the noble and touching words which he had devoted to the memory of Aristide Briand.

He also thanked the Commission, which, by its spontaneous gesture, had associated itself with this tribute. It was a just tribute. It was right to feel affection for the memory of Aristide Briand, as it had been felt for his person, since he had been deeply attached, not only to a great number of delegates whom he liked to meet and speak of, but also to the very idea of the League of Nations, and he was a great believer in everything that idea represented, not only for the present, but still more for the future.

Aristide Briand was one of those who had desired the League and had contributed towards its establishment. In France, as in Geneva, he had worked and fought for this idea. With reference to a few discreet but touching words in M. Motta's speech, it might be said that at times Aristide Briand had suffered for the League. But neither his work nor his struggles nor his sufferings had ever weakened his profound conviction. It was the strength of this lofty devotion which gave so much persuasion and charm to his utterances, the echoes of which had not yet died away.

2. Election of a Chairman.

M. MOTTA (Switzerland) pointed out that, while the Vice-Chairmen (M. Politis and himself) were still in office, the chairmanship was vacant since the death of M. Briand. He proposed that M. Herriot should be appointed Chairman.

This proposal was adopted by acclamation.

M. MOTTA (Switzerland), before leaving the chair, stated that he had asked M. Georges Bonnet, President of the Stresa Conference, to submit an oral report on the work of the Conference.

(M. Herriot then took the chair.)

The CHAIRMAN, after thanking the Commission for the honour which it had conferred upon him, requested M. Georges Bonnet to make his statement.

3. **Work of the Stresa Conference for the Economic Restoration of Central and Eastern Europe** (document C.666.M.321.1932.VII): **Statement by the President of the Conference.**

M. Georges BONNET, President of the Stresa Conference. — You will remember that, when the Lausanne Conference met in June last, it had a twofold aim — in the first place, to settle the problem of international debts, and, in the second place, to study suitable means for the economic restoration of Europe and, in particular, of the nations of Central and Eastern Europe.

The Lausanne Conference had fortunately been able to settle the first point on its agenda ; for lack of time, it had been obliged to postpone the study of the second question and to entrust it to a Special Committee. Such were the circumstances under which the Conference had entrusted to the Committee, which was to meet at Stresa, the task of submitting to the Commission of Enquiry for European Union proposals for the restoration of the countries of Central and Eastern Europe, comprising, in particular, measures to overcome the present transfer difficulties of those countries, to revive the activity of trade, both among those countries themselves and between them and other States, and to overcome the difficulties caused to the agricultural countries by the low price of their products.

This was the wording of the recommendation made by the Lausanne Conference, which gave rise to the Stresa Conference. The latter met on September 16th, so that it might transmit the result of its work in good time to the Commission of Enquiry for European Union.

During a general discussion, the Stresa Conference heard statements made in public by the delegates of the various nations. After four days of public discussion, it resolved itself into two Committees, one over which I had the honour of presiding, and which devoted itself particularly to agricultural and economic problems, and the other presided over in a masterly fashion by M. Bachmann, President of the Swiss National Bank. These two Committees held long meetings daily and reached a number of conclusions and recommendations, which were unanimously adopted by the delegations present.

As President of the Stresa Conference, it is my duty to endeavour to summarise the result of this work as completely and briefly as possible. This work included, as regards the Economic and Agricultural Committee, a very detailed report by M. Richard Schüller, Head of the Economic Section of the Austrian Ministry for Foreign Affairs, together with definite recommendations and a draft Convention. The Financial Committee only submitted a report and recommendations.

If you will permit me, I will endeavour to make clear the main ideas laid down by the Economic Committee. They are of three kinds. In the first place, the Conference declared unanimously that, though the crisis from which Central and Eastern Europe are suffering is undoubtedly a consequence of the world crisis, it has nevertheless been peculiarly aggravated by the obstacles and restrictions of all kinds imposed on the commercial relations of the Central and Eastern European countries whether among themselves or with other countries. It is pointed out that the restrictions which are to-day hindering international trade are dictated partly by economic considerations and partly by the need to protect the currencies and by difficulties of transfer.

The Stresa Conference studied in detail the various restrictions, such as prohibitions, licences, indirect and administrative protection and quotas. These restrictions are, moreover, closely interconnected.

The Conference made a solemn declaration regarding the grave danger to Europe if it continues to maintain these hindrances to the freedom of trade. The Stresa Conference was so unanimous and so firmly convinced on this point that in the report, as finally adopted after careful consideration, it exceeded the strict limits of its powers and stated that, not only the countries of Central and Eastern Europe, but all European countries should gradually return to a system of liberty with the adjustments which would no doubt be necessary.

This forms the first part of the recommendations of the Conference which are submitted for your approval. By these recommendations, the Conference provides for the establishment of a rational contractual policy by the negotiation and conclusion of commercial agreements of a nature to permit of the normal development of the trade of the countries of Central and Eastern Europe both among themselves and between them and other countries ; the removal as rapidly as possible of the restrictions placed on dealings in foreign exchange ; the progressive abolition of restrictions on trade ; pending the abolition of these restrictions — in the first place, by autonomous measures, an increase in unduly restrictive quotas and the abolition of unnecessary quotas ; by means of bilateral agreements, the adjustment and extension of the quotas in such a way as to maintain or restore, in general, the normal movement of trade ; particularly in the case of the States of Central and Eastern Europe, the introduction of greater elasticity in the methods of application, so as to attenuate to the greatest extent compatible with international agreements the effects which the quota system may have on their economic development.

These are the recommendations corresponding to the first principle solemnly enunciated at Stresa, and which, moreover, are embodied in the documents distributed to you.

The second idea expressed on economic questions by the Stresa Conference is that one of the essential causes of the crisis in Central and Eastern Europe is the disastrous drop in the prices of agricultural products, amounting in some cases to 70 per cent of the prices ruling three years ago, so that the agricultural countries have been gradually deprived of their customary purchasing power.

The agricultural countries which discussed this question at Warsaw towards the end of August adopted resolutions which — in the actual terms of those resolutions — were to be developed at the Stresa Conference, and subsequently at the World Conference.

These agricultural countries which met at Stresa under the able Chairmanship of M. Madgearu, Roumanian Minister for Commerce, expressed vigorously — and, I must admit, unanimously — the wishes of the people of Central and Eastern Europe. Their cry of distress was heard by the Conference, which drew up a draft Convention for the revalorisation of cereals. This draft Convention is one of the most important parts of the work of the Conference and should be the first to be put into application.

Its object may be expressed in a few words. It will enable the nations of Central and Eastern Europe to sell the whole of their cereals, and to sell abroad above the world price, thus revalorising internal prices.

The Stresa Conference naturally took note of the fact that certain bilateral agreements had already been concluded between various States in order to reach this result. But, even if these agreements were very numerous, and even if they were all in force, they would probably fail to achieve the most important result — namely, an increase in the home price in the producing countries.

The Conference established the fact that this result can only be attained by a method aiming at revalorising, to a certain extent, all the exportable surpluses of the various cereals. If a higher price is obtained for all exports, home prices will follow such a rise in export prices.

These bilateral treaties enable good but fragmentary results to be obtained. In order to attain the desired aim of revalorising cereals, the Conference considered that collective European action was necessary, and this is the object of the draft Convention which it adopted after prolonged discussion.

Permit me to explain its essential principles in detail.

In the first place, the draft limits the advantages to the average quantities exported during the last three years. This limitation — and I should like to emphasise this fact — is of great importance both to the European countries taking part in the action contemplated and also for oversea countries. As far as the European countries are concerned, it lays down limits, which they can accept, to the concessions asked of them. It gives the other countries an assurance that the production of cereals in Central and Eastern Europe will not increase behind the shelter of an unlimited preferential regime, and will thus not be likely to have a prejudicial effect on their own exports.

The Stresa Conference therefore expressed the hope that the oversea countries, which have so great an interest in the reconstruction of European economy, realising that the action suggested is intended to bring about that reconstruction and is of such a nature as not to injure their interests, will give it favourable consideration and, by not placing any obstacle in its way, will take part in the movement.

How can the countries concerned grant advantages enabling the price of cereals to be revalorised? The Convention provides for two possible procedures: either each country will grant a sort of premium by the payment of a financial contribution, or it will proceed by means of negotiations and treaties providing special advantages in respect of cereals.

It should be borne in mind that bilateral treaties granting preferential advantages result, in fact, in an actual contribution being made by one of the parties. This is too often forgotten. I therefore venture to give an example. Suppose that Germany concludes a bilateral treaty with a certain country of Central Europe; she undertakes to grant privileged treatment to a specified quantity of cereals imported from that country. How will Germany do this? Instead of imposing on these cereals the same Customs duty as on cereals coming from other exporting countries, she will grant a considerable reduction to the country in question. Instead of levying a duty of, say, 40 francs, she will impose a duty of, for instance, 30 francs. This means that she will agree to decrease her Customs receipts to a considerable extent; she will thus grant a real subsidy to the country in question. Conceivably, too, importing countries will receive the whole of the Customs duty; but they will then hand on part of it to the agricultural countries of Central and Eastern Europe from which they buy cereals. In any case, an actual subsidy is granted and paid by the operation of bilateral treaties.

The Convention you have to consider provides for this method of payment with a view to the revalorisation of cereals. There is another method, however, which consists in the payment of a real contribution. Let us see under what conditions this may be done.

The original proposal submitted by certain delegations did not contemplate contributions; it simply provided for bilateral treaties and preferential tariffs. The idea of contributions was added at the request of various other delegations. And for what reason? It is important that this should be fully understood.

Some States do not levy any Customs duty on foreign cereals. Consequently, they cannot grant preferential tariffs to the Danubian countries. On the other hand, if these countries of Central and Eastern Europe recover their prosperity, the other States will benefit in the same way as those which impose Customs duties on cereals and which, by means of the operation of preferential tariffs, are to make substantial sacrifices — as I have shown — for the benefit of the Danubian countries. In these circumstances, is it not fair that these States, which levy no Customs duty but will benefit by an economic recovery, should help in some

other way to promote the action to be taken on behalf of the countries of Central and Eastern Europe? Hence the idea of a special contribution.

Accordingly, the Conference provided for the formation of a fund, amounting to 75 million Swiss francs, to be used specifically to promote the revalorisation of cereals. The fund would be maintained by contributions from States, which would arrange payment either by means of bilateral treaties or by a special contribution.

Article 3 of the Convention provides for the setting up of a Committee composed of one delegate of each beneficiary country, one delegate of each cereal-purchasing country and two representatives of the non-importing European countries. This Committee would have important duties. It would determine the share of the aggregate sum, to which I referred just now, to be allotted to each of the beneficiary countries. It would be able to grant advances to the beneficiary countries. It would keep itself informed and would give information regarding the effects of agreements concluded with agricultural countries and the use made by the various States of the sums they received.

Such are the advantages which the agricultural countries of Central and Eastern Europe will receive through the draft Convention, and in return they will enter into certain undertakings. Thus, they affirm their desire to co-operate with the other countries in introducing a liberal commercial policy and a moderate tariff policy. They also undertake to grant adequate concessions to the contributing countries by bilateral agreements.

The draft Convention will remain in force until 1935, unless world prices have reached a remunerative level before that date. In that case, the exceptional situation having come to an end, the Convention would serve no further purpose.

In point of fact, other agricultural products have fallen very considerably in price, particularly in the countries of Central and Eastern Europe. Among them should be mentioned timber, live-stock and tobacco; but, on these various points, in view of the difficulties already encountered in regard to cereals, the Committee could do no more than make recommendations.

The third part of the recommendations which you will find in the report relates to a number of measures which, though not of such fundamental importance as the restoration of freedom of trade and the revalorisation of cereals, may nevertheless have highly desirable effects. Among them should be mentioned first the improvement of the transport system — both railway and waterway — in the States of Central and Eastern Europe. Secondly, there is the adoption of a programme of European public works, which was prepared by the International Labour Office and in which the late M. Albert Thomas took a particular interest. Thirdly, it is recommended that the International Convention of 1931 on the establishment of an International Agricultural Mortgage Credit Company should be put into force quickly and that the International Institute of Agriculture should pursue its efforts with a view to the creation of an International Short-term Agricultural Credit Bank.

In addition to the economic recommendations, of which I have tried to give you as complete a summary as possible, there are the financial and monetary questions. They were fully examined by the Financial Committee of the Conference. Its Rapporteur, M. van Zeeland, Director of the National Bank of Belgium, in co-operation with M. Bruins, Royal Commissioner of the Netherlands Bank, drew up a report and recommendations which, with certain reservations, were unanimously adopted by the Stresa Conference.

These recommendations may be classified as follows: (1) general principles; (2) short-term debts; (3) long-term debts; (4) currency normalisation fund.

The general principles laid down by the Stresa Conference cannot give rise to any serious objection. The financial experts of each of the countries unanimously supported them. The financial and monetary situation of the several countries of Central and Eastern Europe admittedly differs in many fundamental respects. The acuteness of the crisis may vary in different countries. Some have been able to fulfil all their undertakings, while others have partially suspended their payments. The general recommendations of the Stresa Conference, however, may really be applied without distinction by any country, not merely in Central and Eastern Europe, but I would say almost anywhere in the world.

No one can question the soundness of the recommendations made by the Stresa Conference to the effect that States should strictly maintain a budgetary equilibrium; that, while decisions relating to currency fall exclusively within the sovereignty of the individual States, the Central Banks of Issue should enforce a strict credit policy; and, lastly, that in each country the national life should be adapted to the new conditions resulting from the drop in prices and the withdrawal of capital.

As regards debts, the Conference distinguishes between short-term and long-term debts. As regards short-term debts, it recognises, in the first place, that short-term credits are immobilised into long-term investments and that short-term credits which remain liquid cannot be refunded abroad for lack of means of transfer. It notes that the existing "standstill" agreements present serious drawbacks. In certain cases, they have lumped together the sums falling due, further increased by arrears, and have fixed the same date of payment for all of them, thus intensifying the difficulty of a solution.

In order to terminate this abnormal situation, the Conference suggested direct contact between debtors and creditors, taking into account the real value of the credits and making the necessary adjustments. It advised debtor countries to proceed as soon as possible to effect the progressive transfer of foreign short-term capital. Lastly, it recommends that short-term foreign credits may gradually, but as rapidly as possible, be utilised within the countries as freely as national capital.

The application of these measures seemed to the Conference essential for the abolition of the restrictions on exchange and on trade, which were unanimously condemned.

As regards long-term debts, the Conference also laid down various essential rules. No credit should be granted, and consequently no permanent recovery would be possible, unless each State convinces all those to whom it has appealed in time of difficulty that it has neglected no effort to keep its word. If, however, despite all internal efforts, and on account of causes beyond its control, a debtor — whether a State, public body or private individual — is incapable of meeting its obligations, it must communicate with its creditors directly and without delay, since they alone are entitled to grant adjustments (which would be doubtless of a provisional character), and it must be understood that the treatment of foreign creditors must not be more unfavourable either in law or in fact than that of national creditors.

The recommendations of the Stresa Conference, which I have tried to summarise for you, form a single whole. The Conference considered that the application of the economic and financial measures should protect the balances of the countries concerned from any serious unexpected developments. But when there is a definite movement towards economic recovery, when the measures of budgetary financial restoration have been applied, there will still probably be numerous cases in which a contribution, even though small, from external sources will prove indispensable for currency purposes.

Hence the idea of instituting a fund for the purpose of assisting, at the opportune moment, the regularisation of currency conditions in Central and Eastern Europe. The immediate object of this fund would be to assist Central Banks with repayable advances to increase their reserves at the opportune moment. The assistance to be rendered by this common fund should, as it were, crown the edifice raised by the interested parties themselves. Although the use of a currency fund cannot be contemplated immediately, the large majority of members of the Stresa Conference recommended that the idea should be suggested and steps taken immediately to organise such a fund, as its value in stimulating confidence might be immense. In the countries of Eastern and Central Europe, the psychological factor is of considerable importance.

In a word, all the nations represented at Stresa expressed their desire to collaborate in the reconstruction of Central and Eastern Europe, some of them being prepared to co-operate actively on the agricultural side and others to co-operate in the currency problem.

The Stresa Conference expressly left it to the Commission of Enquiry for European Union to determine the details of the functioning of the organisation for which it had provided.

There are three main questions affecting the common fund.

First, there is the question how the contribution of each State shall be fixed. The Stresa Conference contemplated a kind of statistical duty on the foreign trade of each nation. This duty, however small, not to say insignificant, would, if generally collected, produce a working fund of a substantial importance.

The second question is how these common funds shall be administered. The Conference unanimously considered that the question of the fund and its administration should be removed from all political influence. It seemed to be the general opinion that the working fund should be deposited with the Bank for International Settlements, which some thought should be exclusively entrusted with the administration of the fund, while others were of opinion that the Bank should receive the necessary instructions from another entirely impartial legal body, which would be guided by purely financial considerations.

Finally, the third question on which the Stresa Conference desired merely to throw out suggestions on which you would decide is whether there should be a separate fund divided into two distinct parts, one for agricultural purposes, and the other for currency purposes, or whether there should be a single fund.

There again, the Stresa Conference desired to leave matters to the decision of the Commission of Enquiry for European Union. The constitution of a single fund might appear the more attractive solution, as the delegations represented at the Stresa Conference seemed unanimous in agreeing, some to collaborate in the revalorisation of the agricultural products of Central and Eastern Europe, and others to co-operate in a fund to be constituted for financial purposes. The constitution of a single fund would certainly appear to give European co-operation much wider scope.

However, technical objections were raised against such a scheme. It was pointed out that the nature of the resources which would be called upon in order to constitute the common fund would not be the same in both cases. In the case of revalorisation of agricultural products, the States would be asked to make irrecoverable payments amounting to subsidies, while, in the case of the currency side of the work, the advances accorded would be repayable. Is it possible to combine these two in the same common fund without running the risk of thereby holding up the work of agricultural reconstruction, the need for which and the urgency of which are recognised by all and for which it now seems possible to obtain in the near future an agreement between all the Governments concerned?

These are the questions relating to the common fund which the Stresa Conference asks the Commission of Enquiry for European Union to examine.

I have endeavoured to give as objective an account as possible of our work at Stresa. I have, however, been unable to convey to you in this necessarily dry statement the sentiments which inspired the delegations when they unanimously approved the whole of their recommendations, and the profound emotion with which the Conference heard the dramatic

relation of the victims of a crisis which is condemning so many human beings to abject poverty. The impression is unanimous that the evil is contagious and that no nation, however strong, can maintain or regain its equilibrium so long as there exist in the very heart of Europe more than sixty million people in the grip of economic and financial disorder. There is further a general conviction that, so long as we are content merely — as has so often been done up to now — to bring eleventh-hour assistance to this or that particular State, the remedy will prove to be but temporary and, shortly after its application, the evil will recur in a more aggravated form than before.

In a word, the work which we have attempted to carry out at Stresa is wholly founded on the vast and fruitful idea of solidarity. All States should be present and collaborate. If they act alone, their sacrifices, as shown by past experience, may be vast, but will be vain. United, on the other hand, a slight effort, freely accepted by one and all, will render reconstruction certain and inevitable. Who can question the material and moral value of this European co-operation ?

Such is, if I may say so, the philosophy of the Stresa agreements. The various delegates, without exception, emphasised this in their closing speeches : “ This is a historic moment ”, said M. Posse, the German delegate. “ The Stresa Conference has sounded the tocsin, summoning Europe to the urgent task of presenting a united front ”, said M. de Michelis, the Italian delegate. “ We have drawn up a vast and detailed plan, which bodes well for the future ”, said M. Madgearu, speaking on behalf of the agrarian States.

Will these promises be fulfilled ? To achieve this end, the enlightened aid of the Commission of Enquiry for European Union is essential. We know that we have your co-operation.

Having made this objective statement, it is not for me to guide your discussions. If I may, however, express a wish in conclusion, it is that the Commission of Enquiry for European Union, after itself examining the Stresa texts, should without delay endorse them with its authority. I realise that some of them may raise objections, some may be criticised ; but I, present throughout the long discussions which they involved, feel that for the moment they represent the maximum possible degree of conciliation. If, at the same time as it endorsed this effort, your Commission would, after receiving the opinion of a special committee of experts, definitely settle the precise technical problem of the organisation of the common fund which is submitted for its consideration, I feel confident that the Commission of Enquiry for European Union would give a decisive impetus to the work we carried out at Stresa.

SECOND MEETING (PUBLIC).

Held on Saturday, October 1st, 1932, at 4 p.m.

Chairman : M. HERRIOT (France).

4. Work of the Stresa Conference for the Economic Restoration of Central and Eastern Europe : Draft Resolution submitted by the Chairman.

The CHAIRMAN called upon M. Georges Bonnet to comment on the draft resolution submitted to the Commission (document C.E.U.E.78).¹

M. Georges BONNET, President of the Stresa Conference, wished to explain the idea of the authors of this draft and the scope of the undertakings required under its terms.

There were two categories of States Members of the Commission of Enquiry for European Union : first, those who took part in the Stresa Conference and, secondly, those who did not take part in the Conference.

What undertakings had been given by these two categories ?

As regards the first, the statements made by those present at the Conference were still valid ; the recommendations made on that occasion retained their scope in the draft submitted to the Commission, while the reservations made by these States at the last meetings of the Conference and annexed to the Conference Minutes were maintained in full.

With regard to the other States that were not present at that Conference, M. Georges Bonnet asked the members of the Commission carefully to read the draft resolution in order to understand its scope. These States were not at present asked to give definite undertakings. If they ratified the draft resolution, this merely meant that, subject to any special remarks which might be made, they approved the general guiding principles laid down by the Stresa Conference.

¹ For the text of the resolution as adopted, see page 24.

He had explained these principles very fully on the previous day in the statement which he had had the honour to make. In the first place, they consisted in the gradual return to freedom of trade, the application of sound financial rules — that was to say, balanced budgets and rigidly supervised expenditure. Furthermore, they laid down the necessity for agreement and co-operation between the nations in order to overcome the present crisis.

Consequently, the States not represented at the Stresa Conference, in approving the draft resolution submitted to the Commission of Enquiry, merely stated their approval of the general guiding principles to which he had just referred and which he thought, moreover, would not present any difficulties. He wished to make clear that their approval extended no further than this.

Lastly, with regard to the further question contained in the draft resolution — namely, the problem of the common fund — he had explained on the previous day that three questions were still before the Commission of Enquiry for European Union; the draft resolution proposed to refer them to a committee of experts so that the Commission of Enquiry might deal with them at its next meeting. In other words, the idea of the authors of the draft resolution had been that, without asking anyone to give rash undertakings, there should be no delay and that the result of the discussions at the Stresa Conference, which had been approved by a certain number of States, might be applied as rapidly as possible.

Mr. EDEN (United Kingdom) was glad to be able to state that His Majesty's Government in the United Kingdom had noted with very great interest the important and valuable recommendations made by the recent Conference at Stresa which had met under the distinguished chairmanship of M. Georges Bonnet. He would like, on behalf of the British delegation, to congratulate M. Bonnet on the very able manner in which he had conducted the Conference, and on the gratifying results which had rewarded his truly arduous labours. It was a matter for real satisfaction that such a measure of agreement should have been reached by the representatives of fifteen countries on issues which had during past years caused so many difficulties.

As regards the detailed recommendations of the Conference, set forth in the draft resolution, His Majesty's Government was in complete agreement with the broad principles laid down both in respect of the financial policy to be followed by the States of Central and Eastern Europe and also in respect of the burden of external indebtedness now being carried by those States.

These principles were, in brief, that a strict budgetary and credit policy should be followed by the States which had been compelled to impose restrictions on exchange transactions; that they should arrive at a position of equilibrium between their internal price level and the level of prices ruling elsewhere, whether by a policy of deflation or by a change of monetary policy; and that, in general, all questions which might arise concerning their external indebtedness should be settled by direct negotiation between debtor and creditor.

On the economic side he would, on behalf of His Majesty's Government in the United Kingdom, draw particular attention to the most satisfactory resolutions passed by the Conference emphasising the necessity of a return to normal commercial relations between States and the desirability of the suppression, as soon as possible, of exchange restrictions and of the progressive abolition of barriers to trade, such as prohibitions, licences, indirect protection and quotas. In the view of His Majesty's Government in the United Kingdom, the increase in international trade which was so heartily desired, and which was indispensable to the re-establishment of the economy of Europe and of the world, could best be attained by measures of this character such as were suggested in the report of the Stresa Conference.

In general, it was to be hoped that the report of the Stresa Conference would form an encouraging prelude to the work of the forthcoming Economic and Financial Conference and would point the way to a renewal of prosperity throughout the world.

As regards participation by His Majesty's Government in the funds contemplated in the report of the Conference, and also in respect of certain other proposals involving financial contributions or guarantees, he thought the position of his Government was fully understood here and he need not explain at length the particular situation created for the United Kingdom by its special interests overseas and by the fact that its own currency was at present unbalanced in terms of gold.

There was one other fact to which he might be excused for drawing particular attention — namely, that import duties on cereals imported into the United Kingdom were either non-existent or negligible, whereas, in several of the important consuming countries of the Continent, the import duties on cereals, including cereals produced in Central and Eastern Europe, had for a number of years been very high and were now in certain instances as high as 200 or 300 per cent *ad valorem*. Further, the United Kingdom had no quota restrictions on wheat, whereas the quota restrictions of certain continental countries were extreme. For purposes of record, therefore, he thought it right to read the terms of the statement which the delegates of the United Kingdom at the Stresa Conference were instructed to make, and which was in the following terms:

“The United Kingdom delegates reaffirm that their country attaches the greatest importance to the work of reconstruction of Central and Eastern Europe, especially by the removal of existing obstacles to trade, and welcomes the collaboration of the countries assembled here with that object. While, in general, approving the recommend-

ations made in the report of the Conference and, in particular, those recommendations which represent a step in this direction, the United Kingdom delegates desire to draw attention to the special position of those countries, including the United Kingdom, whose commercial policy does not include the imposition of quotas or heavy import duties on cereals and to state that they must make reserves on behalf of His Majesty's Government in the United Kingdom in regard to participation in proposals involving financial contributions or guarantees."

M. LITVINOFF (Union of Soviet Socialist Republics) said that, if he intervened in this discussion, it was partly owing to the fact that representatives of the Soviet Union had had no opportunity of expressing their views upon the Stresa decisions at Stresa itself. The Stresa Conference was supposed to consist of delegates from exporting and importing countries, especially from the East and the Centre of Europe, and it was apparently assumed that the Soviet Union had neither imports nor exports, while as to its eastern situation, the points of the compass at international conferences would appear to show political rather than geographical direction. Soon, perhaps, the organisers of conferences might find it convenient to discover that the world itself did not contain all the countries marked on the map. But he would leave this aspect of the problem for the moment.

In the interests of brevity, he would not dwell upon the variety of proposals and suggestions contained in the report of the Stresa Conference, especially as they were more in the nature of pious hopes than of schemes capable of realisation. The most that could be said of them was that, good as they might be in themselves, they ran counter to recent practice in the majority of the States represented at Stresa. It might, of course, be a good thing for the Governments concerned to bear in mind the Stresa recommendations — it might serve as a reminder that, in their everyday economic and legislative practice, they were doing precisely the opposite to what they themselves acknowledged at international conferences to be right. The impossibility of putting into practice these recommendations would emphasise the fact that conflicts of interest, both between nations and within nations, could not nowadays be overcome in the interests of international solidarity.

But among the proposals there was one which, if it was not fated to join the limbo of pious hopes, did call forth certain considerations, and even apprehensions, on account of the principle underlying it. He referred to what was called the scheme for the "revalorisation of cereals". This measure was obviously prompted by the consideration that, owing to the drop in the price of cereals, the exporting countries were experiencing difficulties in covering their payments abroad for their own imports, past and present. Hence a diminution in imports, reacting upon the industrial countries and creating a factor in the general economic crisis. The drop in the price of cereals impoverished the agricultural population and lowered its purchasing capacity, thus leading to the same results — that was to say, to the restriction of industrial production, with all its consequences. It was therefore proposed to establish a fund to provide premiums for grain-exporting countries, by way of compensation for the drop in prices. There could be no doubt that the agricultural countries would profit by this scheme, and from this point of view there could be no objection to it — unless it were from the contributors to such a fund. But, in connection with the question whether it could lead to a recovery of industry and to alleviation of the crisis, many doubts were bound to arise.

In the first place, what guarantees were there that the grain-exporting countries, in their competition with each other and with extra-European countries, in their fight for markets, would not further lower prices, counting upon the premiums? Moreover, how would privileges accorded to some agricultural countries react upon the rest of European grain-exporting countries? After all, the establishment of premiums amounted to preferential treatment, and to the circumvention of the principle of the most favoured nation. The Rapporteur himself had practically admitted this. All the objections raised here or elsewhere to preferential treatment and the infringement of the long-established principle of the most favoured nation applied therefore, more or less, to the scheme before the Commission.

M. Litvinoff was naturally concerned with the effect the scheme might have upon the foreign trade of his own country, which exported certain cereals in larger quantities than all the countries mentioned in the report together. He did not raise this question in the name of either justice or equality, but from the point of view of the economic crisis and of the interest of the industrial countries of Europe. He had already had occasion to refer in the Commission of Enquiry to the economic interdependence of the Soviet Union and the rest of the world. He would not burden the Commission with statistics, but would merely say that the Soviet Union now occupied the first place in the import of machinery, absorbing one-fourth of world machinery exports. Certain branches of industry in such countries as Germany, Great Britain, Sweden, Poland and others, were largely kept going by Soviet orders. He had read, for instance, that, in Germany alone, not less than three hundred thousand industrial workers were employed in carrying out Soviet orders. In normal circumstances this interdependence was not likely to be weakened. The term "autarchy", so popular in some countries, was not used or thought of in the Soviet Union. But the imports of his country, like those in other countries — indeed, more than in most — depended very largely upon its exports. Any

diminution in receipts from exports, whether owing to reduction in volume or a drop in prices, must necessarily entail a corresponding diminution in imports. It was therefore obvious that, should the realisation of this scheme bring about such results for the Soviet Union, European industry as a whole might suffer more than it would gain by the total increase of the purchasing power of some countries, by 75 million francs, which would, after all, have to come out of its own pocket.

These were the considerations which he hoped the various bodies dealing with the scheme for the revalorisation of cereals would bear in mind. For his own part, he sincerely believed that the present crisis could be neither cured nor alleviated by any measures amounting to discrimination and the intensification of economic strife between countries. He took that opportunity to remind the Commission that nearly a year had elapsed since he had submitted a proposal for the conclusion of an economic pact of non-aggression. After passing through a series of committees, that proposal had found lasting peace in one of them. He did not think present economic relationships justified such an attitude towards the Soviet proposal. If it were not clear a year ago, it should be clear by now, that international economic war existed and was spreading, and that discrimination was eating into international and economic life. He ventured, therefore, to express the hope that the Commission would realise that the time had come to disinter the Soviet draft Convention for a non-aggression pact.

M. MICHALAKOPOULOS (Greece) wished to associate himself with the expressions of appreciation for the work accomplished at the Stresa Conference. He expressed this appreciation, not only to the delegates who had taken part in the work, but also to the distinguished President of the Conference under whose direction really practical results had been achieved. Without wishing to belittle the importance of the work done by conferences and commissions prior to the Stresa Conference, it might be said that, for the first time, practical conclusions had been reached and, in particular, a draft international Convention.

As regards Greece, he wished to make a reservation and at the same time to express a wish. Moreover, a year ago he had already had occasion to express the same view.

The Stresa Conference had taken measures regarding cereals, but the countries of Central and Eastern Europe did not all produce cereals; not that they did not desire to produce them, but merely because their geological or climatic conditions or their geographical position did not permit them to do so. Thus, Greece was not a producer of cereals, but, on the other hand, she produced and exported tobacco. Bulgaria was practically in the same position; he used the word "practically" because Bulgaria also produced cereals. He thought the position was the same in Turkey.

He quite understood that it would be difficult to consider all the problems at once. In the words of the proverb, "*Qui trop embrasse, mal étreint*". But would it not be possible to study the conditions for the export and production, if not of all agricultural products — M. Michalakopoulos had in view timber, currants, oil, wine, etc. — at least of tobacco in particular, and to carry out that study in as much detail as had been done in the case of cereals? Were not the conditions identical? In the first place, this industry suffered from competition with the production in the New World. The crop of the three countries mentioned — Turkey, Bulgaria and Greece — did not represent more than 3 per cent of the world production and consumption. The tobacco of the New World was preferred in the same way as its cereals.

As far as Greece was concerned, it was not sufficient to protect cereals, and he did not think it would be sufficient for Turkey and Bulgaria. How could the purchasing power of three countries with more than twenty-five million inhabitants be increased to such an extent that they could, in turn, increase the consumption of industrial products?

The question of the debts had been raised. How could these countries pay their external debts? They had no Alaska mines to produce gold with which to meet their commitments. In ordinary law, any creditor could seize the yield of the capital and the proceeds of the work of his debtor. It was true that, under primitive legislative systems, the creditors could even divide between them the body of the debtor according to their respective shares. Some years ago, practically the same principle existed in international law. Fortunately, the position was now quite different, and no one could occupy the territory of his debtor in order to obtain payment.

Moreover, the debtor countries were anxious to pay in full. They had already conferred with their creditors and had reached a friendly agreement, because it had been realised that they were unable to meet their liabilities, in view of the fact that the value of gold had doubled and that their products were neither exported nor consumed.

Obviously, one product at any rate should be taken into consideration. He did not think all agricultural products should be discussed, since, by trying to deal with everything, there was a danger of failing to reach a result. He did not ask for an immediate decision which, moreover, would not be within the competence of this Commission.

Almost a year ago he had made the same request. A special Committee had recommended that the producing States should enter into negotiations with a view to concluding bilateral agreements with the importing States. He proposed that the experts who were to examine

these reports should be requested to make a fresh study of the tobacco question. That would not prevent them from adopting the draft Convention for cereals without delay. But why not believe that, when once the question of cereals had been settled in one way or another, a further step forward could be made? M. Michalakopoulos asked the Commission of Enquiry to make this suggestion to the experts. He thought this would be in accordance with the spirit of solidarity which, as M. Bonnet had said on the previous day, had inspired the work of the Stresa Conference. This solidarity would thus apply fully to all. There would be no nations which, on account of their poverty, would be treated as poor relations.

Tevfik RÜSTRÜ Bey (Turkey) said he appreciated at their full value the work of the Stresa Conference and its wise recommendations. One of the most striking features of the results of this Conference was the recognition that the economic restoration of Central and Eastern Europe, while it was of interest to the whole world, was primarily of importance to Europe and European solidarity, and was not a purely regional question. It was the first time that this truth had been so forcibly stated. In this connection, he would like to pay a tribute to the distinguished President of the Conference and to the members of the delegations who had taken part in this work, and he associated himself with this truth.

On this occasion, it might serve the aim of the Conference to point out — although the Commission could not be unaware of the fact — that Turkey, by its economic structure and position, presented a complete analogy with the countries of the eastern region of Europe in which it was situated.

Lastly, he would be glad if this happy agreement reached at Stresa might form a prelude to the World Economic Conference. Before concluding, he would like to thank his friend M. Michalakopoulos, who, in defending the interests of Greece, had at the same time upheld the interests of her neighbours, and, in particular, those of Turkey — interests which, as regards the matter with which his colleague had dealt in such a masterly fashion, were identical.

M. DE MICHELIS (Italy) pointed out that M. Georges Bonnet had concluded his report of the previous day on the results of the Stresa Conference by a statement in which he had shown with admirable clearness the value of the work over which he had presided in such a masterly fashion.

M. de Michelis, for his part, could have wished that the Commission should have been content with the further progress made in the question referred by the Lausanne Conference to the Stresa Conference; he would have been glad if the documents published by the Secretariat could have been submitted for the careful examination of the Governments for a few more weeks. In such a complicated question, which called — it must be stated frankly — for a sentiment of solidarity and confidence which had not yet been put to the test, there was perhaps a greater need for reflection than for rapidity. A contrary decision had, however, been taken, and he was therefore compelled to make some remarks on the Stresa decisions in their connection with the present meeting. He was especially glad to do so after hearing certain pessimistic forecasts as to the possibility of carrying out the suggestions embodied in the Stresa decisions.

The work at Stresa brought out one main idea, regarding which it was necessary to be clear. The principle laid down by the Stresa Conference as the basis of any subsequent action was that of the participation of the whole of Europe in any given action. This principle could be adopted or rejected; but, if it were rejected, it could be concluded that the Stresa Conference had to a great extent built on sand.

On the other hand, the Conference had done work which might have profound and durable effects. In the first place, it had widened its horizon by establishing a number of guiding principles which might serve for the reconstruction, not only of a part, but of the whole of Europe. The spirit of solidarity on which all reconstructive action must be based, the necessity for taking a wide view of this action which should embrace at once the monetary, financial and economic spheres, the inevitable tendency towards a liberal policy in commercial relations and a moderate policy in respect of Customs duties, were so many landmarks firmly established along the road of progress in international activity.

In this way, the Stresa Conference would be described in the annals, if not in history, as the United Kingdom representative had stated, as a welcome prelude to the World Conference, which, amongst other things, would have to re-examine, revise and supplement in a wider framework the ideas and suggestions already established in their main lines.

A further undoubted advantage of the last Conference was that it had definitely cleared up a misunderstanding which had subsisted for three years and which threatened to cause any action for assisting the countries of Central and Eastern Europe to fail. Hitherto, no remedy had been found for their ills except the grant of preferential Customs treatment by States purchasing cereals, such preference being naturally restricted, temporary and specific; this measure would, however, run counter to the customary procedure which had for a century regulated the economic relations of the world.

It was true that, under a system of restrictions, quotas and prohibitions of all kinds — which Italy, however, had taken care not to apply — preferential treatment might have hoped to find a place; experience had, however, been adverse to it. The special characteristic of this remedy was that it only involved four countries on one side and four countries on the other. It was based on the assumption that the consuming countries could make a sacrifice in money by purchasing certain goods in a particular country at a price higher than that of

the world market. The Stresa Conference had kept this particular system in the background, and countries desiring to do so might have recourse to it, the rights of third parties being reserved.

On this subject, the Stresa Conference raised two questions : in the first place, whether this limited sacrifice would be sufficient to restore normal conditions in the countries of Central and Eastern Europe, and, in the second place, why only four States should be asked to bear the privilege and the burdens of special generosity.

The reply to these two questions at one and the same time solved the general problem and disposed of the misunderstanding which had subsisted for three years. The decisions of the Conference established the principle that the crisis from which Europe was suffering and which was particularly acute in the Central and Eastern countries could only be overcome by the active co-operation of all European States without exception. The Conference also laid down the principle that the reconstruction of these countries could not be brought about by half-measures, but should cover all aspects, the monetary as well as the agrarian sphere. Lastly, it had established the principle that, in order to remedy general evils, partial solutions should not be sought, since they would certainly be doomed to failure.

By this it was meant — and this was the spirit which animated the entire work of the Conference — that the whole of Europe must take generous and rapid action in order to find means for placing the Central and Eastern States on a sound basis and ensuring their complete and durable reconstruction.

There was no doubt that this operation would be to the advantage of the whole of Europe ; by restoring one of the parties, Europe would be working for her own good. It was therefore quite natural that all the States of Europe — creditors, purchasers, their neighbours and customers — should endeavour to intervene in good time at points where the crisis was the most cruel and most acute. This was in the interest of Europe. It was to the credit of the Stresa Conference that it had drawn attention to this fact in a number of remarkable resolutions and documents.

M. de Michelis thought the draft resolution was drawn up with the necessary elasticity and prudence so as not to bind immediately the responsible authorities of each State beyond what was possible for it to decide and useful for it to do.

On the other hand, it was easy to understand the scruples which had been expressed and the care with which everyone concerned, while taking into consideration his own interests, was examining the resolutions of the Conference. There were, however, grounds for hoping that, if reservations were expressed, their effect would not be to condemn the Stresa discussions, but that it might still be hoped that unanimous co-operation would be possible.

It was desirable that all the European countries should feel equally the importance of the measures they were asked to take, in order that no hindrances should be placed in the way of the proposed co-operation. It would appear to be of the highest importance that the task of reconstruction should be equitably distributed among all the other countries, so that the sacrifice would be scarcely felt by each of the States.

Some countries might, it was true, continue to do all they could — he could speak in any case for his own country — with a view to improving trade relations with Central and Eastern Europe ; in particular, they might continue (as Italy had done up to the present) to be a widely open and active market for this region. But the political and moral questions nevertheless remained and should not be allowed to increase. This was the task before the Commission of Enquiry for European Union — namely, to take effective action so that the States Members might not only undertake to conform, as soon as possible, to the general guiding principles laid down at Stresa, but might, in particular, be induced to associate themselves with the initiative taken and the drafts prepared by the Stresa Conference. This co-operation was indispensable in order to carry out the draft Convention resulting from the Conference.

The initiative taken provided for unanimous co-operation and positive intervention with a view to ensuring the restoration of Central and Eastern Europe. The Commission should strongly insist on this principle of solidarity, since the effort of each one, in this particular problem, might give rise to and strengthen the spirit of union necessary for the reconstruction of Europe.

M. WOHLIN (Sweden) said that his country was not represented at the Stresa Conference. Under these circumstances, the Swedish Government had not been able, during the short time that had elapsed since the Conference, to define its attitude towards the interesting proposals which were the outcome of that Conference. There was no doubt that these proposals represented the result of a serious and praiseworthy effort to find solutions for the very important and complicated problems connected with the economic position of the Danubian countries.

As regards the draft resolution submitted to the Commission, he wished to state immediately that certain points in it aroused scruples in the minds of the Swedish delegation.

He would not enter into a discussion on the various points in the draft, but would like to say that, as regards preferential treatment, Sweden had always been one of the countries to point out the disadvantages which might result from any exception to the most-favoured-nation clause and that, in its opinion, the League of Nations should not approve the grant of advantages or special privileges to particular groups of nations.

In general, he wished to state that present circumstances would not appear to call for decisions on questions of principle in the sphere of commercial policy which might prejudice the results of the World Economic Conference.

In view of these remarks, he must therefore state that he could not vote for the draft resolution in its present form. He would prefer that the Commission should merely take note of the resolutions and reports of the Stresa Conference and should decide, in accordance with the proposals expressed in part 3 of the draft resolution, to bring them to the notice of the competent authorities of the League of Nations so that the above-mentioned resolutions might subsequently be examined.

M. SCHMIDT (Estonia) recalled that his country had not been represented at the Stresa Conference. It had nevertheless followed the work with the keenest interest. Estonia also was suffering from the consequences of the economic depression, which had unfortunately become more and more general. Estonia also was encountering ever-increasing difficulties in her commercial relations with a number of foreign countries.

He had noted with pleasure that the Economic Committee of the Conference had voted a recommendation in favour of gradually abolishing the restrictions on trade, such as prohibitions, licences, quotas, etc. As a result of the increasing obstacles in the way of Estonian exports, that country had been obliged to take protective measures which it would have preferred to avoid. Estonia would therefore be glad if greater liberty of international trade could be established, and it was to be hoped that the Stresa recommendation to which he had referred would not remain a dead letter.

Some of the questions dealt with at Stresa were of the greatest interest to Estonia, but, as the report of the Conference had only been distributed at Geneva a few days previously, his Government had not yet been able to study it. He would, therefore, not go into these questions for the moment and would reserve the right, on behalf of his Government, to return to them, if necessary, in order to make clear its point of view. Estonia would continue to follow with keen interest the results of the work done by the Stresa Conference, and he associated himself with the congratulations addressed to its distinguished President and his collaborators.

M. VON ROSENBERG (Germany) said it was with keen satisfaction that the German Government had taken note of the happy agreement reached at Stresa and the efforts to be made for putting it into force at an early date.

Within the limits of existing possibilities, the German Government was prepared to cooperate to the best of its ability in assisting the countries of Central and Eastern Europe, and considered that the most practical method of contributing to this important work lay in the conclusion of bilateral preferential agreements. The German Government thought this was the only effective means of ensuring to agricultural countries an outlet for their exportable surplus at remunerative prices.

For this reason and in view of the special situation in Germany, the German Government keenly regretted that it could not, in present circumstances, make any pecuniary contribution or assume any guarantees apart from the burdens resulting from the bilateral preferential agreements already concluded or to be concluded.

This was the reservation which he was obliged to make and which had, moreover, already been expressed by the German delegation during the negotiations at Stresa.

M. BEELAERTS VAN BLOKLAND (Netherlands) said that, as the delegates of the Netherlands Government had taken part in the work of the Stresa Conference and in the agreement which, thanks to the wise guidance and conciliatory spirit of its President, M. Georges Bonnet, had been reached at the end of its work, he need only make a short declaration.

As M. Bruins had already stated at Stresa on September 20th last, the Netherlands Government would, in all probability, not be able to accept the draft Convention for the revalorisation of cereals in the agricultural countries of Central and Eastern Europe. It was unable to grant them preferential duties, as cereals were admitted duty-free into the Netherlands.

Moreover, the Netherlands Government, which always considered it to be of the greatest importance for it to be able to collaborate in the removal of existing barriers to trade, was inspired by the firm desire to take part in the examination of any proposal calculated to favour closer international co-operation with a view to the economic restoration of Europe.

M. HYMANS (Belgium), like all the speakers who had preceded him, paid a sincere tribute to the work done at the Stresa Conference under the presidency of his distinguished colleague, M. Georges Bonnet. M. Bonnet's statement of the previous day had thrown much light on the recommendations of the Conference. M. Hymans hoped that those recommendations would give practical results and relieve the economic disorder from which the States of Eastern and Central Europe were suffering.

The Belgian delegates to the Stresa Conference had explained the circumstances which made it difficult for Belgium to take part in a fund for the revalorisation of cereals. He did not need, therefore, to return to that point.

Subject to this reservation, Belgium felt keen sympathy for the work undertaken and would take part in it to the utmost of her ability, thus showing the spirit of co-operation and solidarity by which she was animated.

M. BRAADLAND (Norway) desired to express his admiration for the assiduous work done by the Stresa Conference. He had read the report of the Conference with great interest, and

had listened with particular attention to the admirable speech made by M. Georges Bonnet on the previous day. He felt bound, however, to make certain reservations regarding the resolution proposed.

The first of his reservations was that the questions that had been discussed at the Conference were so extensive and complicated that it was quite impossible to form any opinion upon them without studying them very thoroughly. For that reason he was unable to adopt any very definite attitude as regards the Conference's proposals, because he had not had time to study them.

His second reservation was that the solution of the problem raised by the very grave crisis prevailing in the countries of Central and Eastern Europe would depend very largely on the development of the world situation — as, indeed, the Stresa Conference itself had pointed out. If the world continued to follow its present road — the policy of self-sufficiency, of barriers against the free movement of goods and capital — then it would probably be much more difficult than might at present be imagined to adapt the economic life of the countries in question.

He was therefore inclined to think that certain of the Stresa Conference's proposals would be valueless unless the world crisis were finally and satisfactorily resolved — that was to say, unless the obstacles that had been set up during the crisis could be removed; or, if it were preferred, unless political and financial foundations could be laid on which the economic life of the world could be developed and the barriers between the countries destroyed. For that reason, the proposals of the Stresa Conference ought to be referred to the Preparatory Committee of the Economic and Financial Conference.

Although he made these reservations regarding the premises, he wished to associate himself with part 3 of the proposals in the draft resolution.

M. MADGEARU (Roumania) said that, after M. Georges Bonnet's brilliant survey of the proceedings and results of the Stresa Conference, it only remained for the representatives of the agricultural countries of Central and Eastern Europe to make a strong appeal to the Commission of Enquiry for European Union to accept unanimously the text of the resolutions proposed.

That action would be adequately justified in the eyes of all who knew in what hope the Stresa Conference had met, in that it would give proof of a desire to arrive at practical solutions that could be promptly put into effect.

In view of the grave and menacing influence of the world economic crisis on the agricultural countries of Europe, it was reasonable to hope — at all events this time, after so many international conferences had failed — that words would give place to action.

In adding a few words to that appeal, his intention was not to reply to the reservations that had been made, but to emphasise the fact that, since it was realised that the crisis prevailing in Europe, which was painfully acute in the Central and Eastern European countries, could not be surmounted without the active co-operation of the European States, it was essential that those reservations should be withdrawn, if the way was not to be left free for the destructive forces of the crisis by one more postponement of the essential measures.

Moreover, the text of the proposed resolutions did not embody a single obligation that would require one group of European countries to sacrifice their interests for the benefit of another group. Unfortunately, only one immediate measure was for the moment proposed. He referred to the declaration of the States which accepted the idea of bilateral treaties whereby they would grant preferential treatment to cereals from the agricultural countries in question, within the narrow limits laid down by the draft Convention for the revalorisation of cereals — to the declaration of those States that they would pursue and promote the conclusion of such agreements without delay.

It had been unanimously acknowledged at Stresa that the matter in which action was most urgently necessary was the revalorisation of cereals. The conclusion of preferential agreements would be only a beginning, which would have to be supplemented without delay by the establishment of the fund for the revalorisation of cereals, the object of which was to bring about the revalorisation of cereals within the countries in question, and thereby to enable the farmers of Central and Eastern Europe to obtain remunerative prices.

Apart from that, the draft resolutions embodied no measure involving immediate action, or, at all events, none that entailed sacrifices. In saying this, it was not his wish to depreciate the importance of the idea of the Currency Normalisation Fund. All that was proposed for the moment, however, was that a committee of experts should be appointed to examine the problem and elaborate in detail the scheme for a currency fund, which would have to be submitted to the Commission of Enquiry for European Union at its next meeting.

The other Stresa resolutions which the Commission was asked to endorse were merely in the nature of recommendations, some relating directly to the economic and financial policy of the agricultural countries of Central and Eastern Europe, while the others were of a European or universal character, and must therefore be discussed and decided upon at the Economic and Financial Conference.

At the close of the Stresa Conference, the representatives of the agricultural countries of Central and Eastern Europe had said that their hopes had only been partially realised. None the less, in appealing to the Commission to approve unanimously the draft resolutions submitted, they implicitly accepted those resolutions in full. They did so because they realised that, in the present state of the spirit of international co-operation, what had been done at Stresa

represented practical and positive solutions. Another reason for their acceptance of the resolutions was that they were convinced that circumstances which were developing more and more rapidly under the pressure of the crisis would soon make a series of acts of co-operation among the European countries necessary, and that Europe would then realise the need for solidarity notwithstanding divergences of interests and ideals.

Their confidence was also inspired by the personality of the man who was being asked to follow the execution of the Stresa decisions — M. Georges Bonnet. As President of the Stresa Conference, M. Bonnet had exhibited, not merely a wide comprehension of the problems to be dealt with and a truly European spirit of conciliation, but also a profound conviction of the absolute necessity for European collaboration in surmounting the dangerous crisis through which Europe, and especially the agricultural region of Europe, was passing.

Baron PRONAY (Hungary) said that, after a fortnight's hard work and careful study, the Stresa Conference had laid down the principles which should govern the financial and economic reconstruction of the countries of Central and Eastern Europe. The importance of the Stresa Conference could not at present be judged, since it was not yet known when these principles would be put into practice. It was true, as the President had said, that the Stresa Conference only constituted the preliminaries of the much more extensive work which the World Economic Conference would have to do. Hungary warmly welcomed the results achieved at Stresa. This Conference had cleared up the situation by showing that an improvement in the deplorable economic and financial state of the countries of Central and Eastern Europe could only be brought about by international co-operation. The Stresa Conference had also fixed the economic principles the application of which might improve the situation of the countries in question.

Baron Pronay thought that the principal task of this Commission should be to take a step forward in the practical application of what had been approved in principle. In this connection — without going into questions of detail — he would venture to draw the Commission's attention to the following three principal points :

(1) The Stresa Conference had drawn up a draft Convention for the revalorisation of cereals. It would be most important to establish a single group with a view to the application of this Convention and that this group should use all its authority to urge upon third States the absolute necessity of this application.

(2) This draft Convention stipulated (in Article 3) that, in certain circumstances, countries exporting cereals should receive — in order to assist in the revalorisation of cereals — from the international fund provided for in the Convention an allowance of 2 gold francs for each quintal of wheat and of 1.50 gold franc for each quintal of maize and barley fodder. He desired to stress the fact that only theoretical importance could be attached to these subsidies if the importing countries maintained the barriers of all kinds which rendered exports impossible. The chief of these barriers were (a) prohibitive duties, (b) measures under which the flourmills were, in certain countries, obliged to utilise home wheat to the extent of 80 or 90 per cent, (c) the measures taken by certain importing countries, which only permitted the entry of barley fodder, and also ground barley, weighing from 60 to 61 kilogrammes per hectolitre.

Should these barriers and similar measures be maintained, any financial assistance given with a view to the revalorisation of cereals would be of purely theoretical value.

(3) It was undoubtedly true that, in theory, the debtor countries could only meet their obligations to foreign creditors if their balance of payments was in equilibrium. As the balances of payments of the countries of Central and Eastern Europe comprised no invisible assets, the said balances could only attain equilibrium when the balance of foreign trade was on the right side.

The achievement of this favourable balance of trade was hampered, not only by the low prices of agricultural products on the world market, but also by the innumerable restrictions and prohibitions introduced by certain countries solely for purposes of economic protection. He thought that these restrictions, prohibitions and quotas were not only not diminishing, but were being still further increased. The prohibitive duties imposed on agricultural products, the system of quotas which was every day becoming more severe, unjustified measures for the protection of animals and plants and a whole series of other barriers which did not even respect the exports of the Western countries, rendered exportation impossible, brought about a fall in domestic prices and lowered the purchasing power of the population of agricultural countries. The logical consequence was a decrease in imports of industrial products.

While it was true that Hungary's exports had not diminished in quantity in 1931 to such an alarming extent as in value, he was obliged to confess that he thought the outlook was very gloomy. He did not wish to take up too much of the Commission's time and would therefore only quote a few examples. A country to which Hungary in a normal year exported 42,000 head of cattle had applied a quota of 150 head a week, or 7,800 head a year. Another country had completely stopped Hungarian exports of sheep and had reduced by 80 per cent Hungarian exports of goats' meat and mutton. A third country intended to limit Hungarian exports of butter by fixing an annual quota of 25 instead of 250 to 350 wagons. In certain countries, Hungary was exposed to the arbitrary caprice of the organs for the purchase of cereals which enjoyed a monopoly and determined when and at what price Hungarian cereals could be purchased.

In referring again to the fact that certain countries were planning to introduce measures for the slaughter of domestic live-stock in a proportion of 80 to 90 per cent, he had tried to give, if not a true picture of the measures hampering the trade of exporting countries, at any rate an idea of their untenable position. He had to add that the obstacles in question made exports difficult, not only from Hungary, but from all the Danubian States. For that reason he insisted on the abolition, as soon as possible, of these restrictions, as Hungary's theoretical share of the revalorisation fund of 75 millions would only have a small effect on her trade balance. The latter, he repeated, could only be improved by the gradual diminution or abolition of those restrictions.

Creditors appealed to the sanctity of contracts and called for payment, while Hungary was suffering privations, not only because of the disastrous drop in the world prices of agricultural produce, but also because of exchange difficulties resulting from a whole series of restrictions and obstacles. That was an untenable situation, a contradiction in terms which could only be remedied by international co-operation.

As regards the report and recommendations of the Stresa Conference, Baron Pronay was authorised by his Government to make the following declaration :

(1) Hungary's short-term liabilities abroad amounted to 1,360 million Swiss francs, which, compared with her economic capacity, constituted a burden involving very serious difficulties.

Without wishing to dispute the value of the conclusions drawn and the measures suggested regarding short-term debts in the report of the Financial Committee to the Stresa Conference, Baron Pronay must point out that they did not make sufficient allowance for Hungary's difficulties. If the measures proposed in the report were applied, this would entail serious consequences for the economic structure of Hungary — consequences which should at all costs be avoided in the interests of the creditors themselves. These measures, therefore, could only be carried out in Hungary with the greatest circumspection, under the effective control of the National Bank, in proportion as the country's financial situation improved and provided the agreements which Hungary hoped to be able to conclude with her creditors permitted.

(2) So far as her financial circumstances permitted, Hungary was prepared to contribute to the Currency Normalisation Fund and to the general fund for the economic and financial reconstruction of Central and Eastern Europe created to promote the revalorisation of cereals.

With the reservation mentioned, the Hungarian Government would accept the report and the recommendations of the Financial and Economic Committees of the Stresa Conference and the draft resolution proposed on the previous day for adoption by the Commission of Enquiry for European Union.

M. PFLÜGL (Austria) said he wished to take advantage of the opportunity to express his Government's appreciation of the great progress made at Stresa under the presidency of M. Georges Bonnet.

He would only add a few brief remarks, as Austria had been represented at the Stresa Conference. So long as the import quotas system was maintained, Austria would like to see quotas fixed reciprocally on more liberal lines and freed from all obstacles hindering their application. Austria herself was always prepared to grant preferential treatment to imports of a large quantity of wheat.

On the other hand, the deficit in the Austrian balance of payments forced Austria to increase her exports, and she was gratified to note the more favourable attitude she was now likely to find in several countries for negotiations on this subject. Austria was still continuing the commercial negotiations which she had opened during the summer on the lines of those recommended by the Economic and Agricultural Committee of the Conference, all the rights of third States being reserved.

M. MUNCH (Denmark) was obliged to make the same reservations as had been made by the United Kingdom delegate and others.

The problems raised in the report were of special interest to Denmark. He felt he should take the opportunity of emphasising that Denmark was also a country which lived on agriculture. True, the articles exported by Denmark differed from those which were being discussed, but he would point out that the animal products of special interest to Denmark were at present subject in almost all countries to very severe and very numerous restrictions, and to high duties which put Denmark in a very difficult position.

Denmark recognised the great importance of the work done by the Stresa Conference ; but, as the competent authorities, more particularly the Finance Ministry, had not had time to consider the proposals made by the Conference, the Danish Government could not at the moment assume the obligations which seemed to figure more particularly in paragraphs 1 and 2 of the draft resolution now before the Commission. It would require time to study more thoroughly the Conference's proposals. He thought, therefore, that it would be wise, for the time being, to amend the draft resolution on the lines suggested by the Swedish delegation.

M. TARGOWSKI (Poland) said that his country fully accepted the Stresa resolutions. He wished to pay a tribute once more to all who had taken part in the Conference and especially

to its President, M. Georges Bonnet. The work done by the latter in preparing the Conference and promoting the conclusion of a comprehensive agreement would, he hoped, mark a new era in the history of international economic co-operation.

M. Madgearu had explained the general view taken by the agrarian countries of the problems studied at Stresa. M. Targowski had, therefore, nothing to add on this subject. He would merely draw the Commission's attention to the fact that several agrarian countries were in a very serious situation and that prompt action was indispensable.

Agrarian countries — the point had already been made several times at Stresa — could only pay their debts with their produce and, if the value of the latter were not sufficient to cover the cost of their production, all the transfers made would be detrimental to the value of the workman and his work. The very heavy fall in the standard of living in those countries was proof of this.

The Commission of Enquiry, therefore, had to solve, not merely a financial and economic problem, but also, and mainly, a social problem. That was why he asked, on his country's behalf, for immediate action. The work of the Stresa Conference, he thought, gave an idea of what had to be done generally for the economic reconstruction of Central and Eastern Europe. It would, however, be well, in the coming international conferences which were to deal with the reconstruction of agricultural countries, to have the participation of those Central and Eastern European countries which had not been represented at Stresa, and to know their point of view. He had in mind, for example, the Baltic States, particularly Latvia and Estonia. He trusted that, at the further conferences, it would be possible to consummate this task.

Baron YRJÖ-KOSKINEN (Finland) said the Finnish delegation accepted broadly the principles laid down in the draft resolution submitted, but had some hesitation on certain points. He could not, therefore, commit himself finally before he had had an opportunity of referring the draft resolution to his Government.

M. ZAUNIUS (Lithuania) associated himself with the tribute paid by preceding speakers to the valuable and difficult work accomplished by the Stresa Conference, which had tackled exceptionally delicate and complicated problems. Not having shared in the work of the Conference, Lithuania was unable to give her opinion forthwith, or define her attitude to the proposed resolution. He could, however, say that his Government fully supported the principles contained in the resolution and agreed, more particularly, that all restrictions on imports, whether in the nature of Customs measures, quotas, currency or other restrictions, should be abolished. It would only be by the most rigorous policy of economy that it would be possible to achieve economic equilibrium. Lithuania was one of the few countries which had so far successfully refrained from embarking on this dangerous path of restriction.

He had risen to speak because the draft resolution before the Commission invited it to agree, forthwith and without any reservations other than those formulated before the Commission, to follow as far as possible and without delay the general guiding rules laid down by the Stresa Conference.

So far as the principles to which he had just referred were concerned, M. Zaunius could assure the Commission of his Government's full agreement. The Stresa Conference, however, had drawn up a document which called for detailed examination, and his Government had, so far, not been able to give it this examination. He referred to the draft Convention, particularly the scheme for the revalorisation of cereals by the creation of a fund. Like other delegations, he was obliged to enter a reservation on this point on his Government's behalf. Lithuania was an agricultural country, but, like Denmark, did not export cereals. On the other hand, she was not an industrial country having a direct interest in the purchasing power of agricultural countries where markets could be found for such products. Nevertheless, it was not to her interest that the price of cereals should fall — quite the contrary.

In conclusion, he would assure the Commission that the Lithuanian Government would give every support, subject to the above reservations, to the work initiated.

M. MIKOFF (Bulgaria) heartily associated himself, on behalf of his country, with the applause which had, on the previous day, greeted the report on the Stresa Conference, and M. Georges Bonnet's statement.

The Bulgarian Government welcomed the Stresa resolutions with great hope. He had therefore only a few words to add. He accepted the draft resolution submitted by the Chairman and was entirely in agreement with the request made by the Greek delegation concerning tobacco.

Mr. CONNOLLY (Irish Free State) expressed his own and his Government's entire sympathy with the efforts that were being made to improve the economic conditions in Eastern Europe. He wished to pay a tribute to the work of the Stresa Conference, and particularly to M. Bonnet for his brilliant analysis at the previous meeting.

As had already been said by other delegates, the report had only recently been issued and his Government had not yet had an opportunity of considering it. He might, however, be

quite frank about the position in Ireland. Ireland, like most other countries, was at present facing difficulties in her economic life, and the Government had decided on an adjustment of her agricultural economy in order to encourage the production of cereals. Having regard to the position in Ireland, he felt that it was only right to state that, in view of the policy which the Irish Government was pursuing at present, it could not commit itself to the proposals. Ireland was mainly an agricultural State, and, despite that fact, her imports of cereals were very considerable. Owing to a steady fall in prices of live-stock and a shrinkage in exports, she had had no alternative but to devote a reasonable amount of her energy to cereal production.

He need hardly add that Ireland was very anxious to see economic recovery, not only in Eastern Europe, but elsewhere. Whether the proposals embodied in the Stresa report would lead to that recovery, he was not at the moment disposed to offer an opinion. The problem of world recovery would engage attention at the coming World Economic Conference. At the moment, he could only express frankly the position of his Government and his regret that the situation at the present time did not permit the Government to be more helpful.

M. OSUSKÝ (Czechoslovakia) stated that the Czechoslovak Government noted with intense satisfaction that the Stresa Conference had expressed certain feelings, thoughts and hopes which announced the early end of the intellectual and moral crisis, the source of the economic and financial evils which had fallen not only on the Danube valley but on the whole of Europe.

With regard to the resolutions of the Stresa Conference, he had nothing to add to the statements already made by his delegation at that Conference.

M. Georges BONNET (President of the Stresa Conference) first thanked the various speakers both for their kind words regarding himself and the support they had given to the whole work accomplished after fifteen days of patient discussion. Very great difficulties had had to be overcome. In this connection, he reminded the Commission of M. de Michelis' remark that at Stresa an end had been put, in the economic sphere, to a misunderstanding which had lasted for three years.

He was aware that certain reservations had been made by a number of countries which had not been represented at the Conference, and that other reservations had also been repeated in the same terms in which they had been put forward at Stresa. He wished to submit one or two very short comments on both categories of reservations.

There was, first, the proposal by certain delegations, and, in particular, the delegations of Greece, Turkey and Bulgaria. An amendment had been submitted on this subject. The question of tobacco (for that was the case in point) had been examined at considerable length at the Conference. For his part — and he thought he was expressing the opinion of the whole Stresa Conference — he saw no reason why an addition should not be made to the draft resolution.

Secondly, some anxiety had been expressed regarding the rights of third States, or on the part of other delegates, regarding the importance of submitting some of the decisions reached at Stresa to the World Conference.

He hoped he might be able in this respect also to allay this anxiety. In the first place, the Stresa agreements laid down at the very outset that all the rights of third States were reserved. Moreover, with regard to the World Conference, the draft resolution itself stated that the report's conclusions and drafts would be communicated to the Council of the League of Nations, to the Preparatory Commission of Experts for the World Conference, and to the Conference itself. Finally, the draft resolution — certain details of which would, as he had said on the previous day, have to be completed by a committee of experts — referred the question of the joint fund to a Committee of Experts, which would report to a later session of the Commission of Enquiry for European Union itself.

Under these circumstances, he thought that the draft resolution fully summarised the situation which had arisen as a result of the present discussions. A few minutes previously, in his brief but eloquent statement, M. Osuský had been good enough to say that the Stresa Conference warranted the hope that the end of Central and Eastern Europe's moral and material sufferings was in sight. The draft resolution submitted to the Commission would make it possible to take one further small step forward. He therefore hoped that the Commission would adopt this resolution unanimously.

The CHAIRMAN, noting that there were no further speakers, informed the Commission that the Bureau had received a proposed addition to the draft resolution. This addition had been submitted by the Greek delegation and was supported by the Bulgarian and Turkish delegations. It was worded as follows :

“(d) To request the Council further to undertake, with the help of the competent organs of the League of Nations and other qualified experts, a practical examination of the problem of tobacco, which concerns three countries of Eastern Europe and with regard to which the Stresa Conference adopted a recommendation.”

If the Commission saw no objection, this addition might be included in the draft resolution.

Agreed.

The CHAIRMAN noted that the following conclusions might be drawn from the discussion which had taken place : (1) in all circumstances the rights of third States were reserved ; (2) Governments would only have to give a final decision on the definite drafts after these drafts had been submitted to them for approval ; (3) all the reservations put forward during the present meeting would be set out in the Minutes and communicated to the Governments at the same time.

Subject to these reservations, he asked the members of the Commission of Enquiry whether the draft resolution might be regarded as adopted with the addition proposed by the Greek delegation.

The draft resolution was adopted in the following form :

“ The States Members of the Commission of Enquiry for European Union,

“ Having taken note of the decision of the Lausanne Conference that a Special Committee should draw up proposals with a view to the restoration of the countries of Central and Eastern Europe ;

“ Having considered the reports and conclusions of the Stresa Conference, convened under the Presidency of M. Georges Bonnet (France) in pursuance of this decision ;

“ Being convinced that the formidable crisis under which Europe labours, and which is to be found in its most acute form in Central and Eastern Europe, can be dissipated only by the active collaboration of the European States ;

“ Unreservedly affirming their determination to continue this indispensable collaboration by every means in their power :

“ (1) Consider that the reports, conclusions and drafts of the Stresa Conference contain the essential elements of a policy designed to restore the European economic and financial situation, and, in particular, that of the countries of Central and Eastern Europe ;

“ (2) Declare, each for its own part and subject only to the particular observations they may have had to make, that they are ready to apply, as far as may be possible and without delay, the general guiding principles which result therefrom ;

“ (3) Decide :

“ (a) To bring the said reports, conclusions and drafts to the notice of the Council of the League, of the Preparatory Commission of Experts for the Economic and Financial Conference and of the Conference itself ;

“ (b) To request the Council to arrange, with the help of the competent organs of the League and other qualified experts, for a detailed and thorough examination and elaboration of the draft Monetary Normalisation Fund mentioned in the resolutions of the Stresa Conference ; these experts would also have to examine whether and in what circumstances the Fund for the Revalorisation of Cereals might be combined with the Monetary Normalisation Fund ;

“ The draft drawn up by the experts should be communicated to the Governments concerned by November 15th, 1932, at the latest, and should be submitted to the Commission of Enquiry at its next meeting ;

“ (c) To request M. Georges Bonnet, President of the Stresa Conference, to take the necessary steps to ensure liaison between the Commission of Enquiry for European Union and the Committee mentioned in the preceding paragraph ;

“ (d) To request the Council further to undertake, with the help of the competent organs of the League of Nations and other qualified experts, a practical examination of the problem of tobacco, which concerns three countries of Eastern Europe and with regard to which the Stresa Conference adopted a recommendation.

“ Further, the States Members of the Commission of Enquiry for European Union which are in favour of bilateral agreements conforming to the principles established by the Stresa Conference declare that, henceforward, they are each individually ready to seek or to promote the conclusion of such agreements in such a way that they may enter into the framework of the Convention drawn up by the said Conference. In this connection, the Commission of Enquiry for European Union expects that, at its December session, it will be possible to take decisions on the question of the funds for the normalisation of exchanges and for the revalorisation of cereals, and so follow up the draft Convention by the most practical steps with the least delay.

“ The Commission of Enquiry for European Union will be glad to be informed at its December session of the measures which its Members have been able to take in the interval in carrying out the recommendations of the Stresa Conference.”

The CHAIRMAN said that he had been happy to preside over this meeting, which had done such useful work and at which a policy of European restoration had been endorsed and possibly even inaugurated.

If, after the various observations had been taken into account, this draft met with success, it represented a considerable effort, not only from the economic and financial standpoint, but, as various speakers had said, from a social standpoint as well. He, like all the other members of the Commission, was highly delighted at this result.

The work of the Commission would be resumed at the time of the Special Assembly — namely, in all probability at the beginning of December.

RESOLUTION ADOPTED BY THE COUNCIL ON OCTOBER 15TH, 1932.

1. The Council notes the resolution of the Commission of Enquiry for European Union.

2. It authorises its President, after consultation with its Rapporteurs on financial and economic questions and with the Chairmen of the Financial and Economic Committees, to proceed to the appointment of a committee of qualified experts to undertake the detailed and thorough examination and preparation of the Monetary Normalisation Fund Scheme mentioned in the resolutions of the Stresa Conference. The experts will also have to examine whether, and in what circumstances, the Fund for the Revalorisation of Cereals might be combined with the Monetary Normalisation Fund. According to the desire expressed by the Commission of Enquiry for European Union, the proposals of the experts should be submitted to the Governments on November 15th, 1932.

The proposals should likewise be transmitted to the Preparatory Commission for the Monetary and Economic Conference in good time before the completion of its work. The Committee of Experts can, moreover, establish such contact as may prove useful in the course of its work with the above-mentioned Preparatory Commission.

M. Georges Bonnet, President of the Stresa Conference, has been requested to take the necessary steps to ensure liaison between the Commission of Enquiry for European Union and the Committee of Experts.

3. The Council requests the Bureau of the Economic Committee of the League to lay proposals before it at its next session with regard to the composition of a committee to undertake the practical examination of the problem of tobacco, which concerns three countries of Eastern Europe.

[Communicated to the Council
and the Members of the League.]

Official No. : C. 663. M. 320. 1932. VII.
ANNEXES.

Geneva, November 15th, 1932.

LEAGUE OF NATIONS

APPEAL BY THE CHINESE GOVERNMENT

14

SUPPLEMENTARY DOCUMENTS

TO THE

REPORT OF THE COMMISSION OF ENQUIRY

Note by the Secretary-General :

The Secretary-General has the honour to circulate to the Council and Members of the League the documents supplementary to the Report of the Commission of Enquiry, which was distributed on October 1st, under No. C.663.M.320.1932.VII.

Series of League of Nations Publications

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(Mukden, April 29th, 1932.)

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Part I.

**PRELIMINARY REPORT OF THE COMMISSION
OF ENQUIRY**

Mukden, April 29th, 1932.

PRELIMINARY REPORT

I.

The Commission of Enquiry, appointed in conformity with paragraph 5 of the Council resolution of December 10th, arrived in Mukden on April 21st and is now occupied with its investigations on the spot. Since its arrival in the Far East, the Commission has investigated the general conditions prevailing in Japan and China in so far as these may affect its work. It visited Tokio, Osaka, Shanghai, Nanking, Hankow, Tientsin and Peiping, conferred with members of both Governments, and interviewed representatives of many interested groups and classes in both countries. In Peiping, it met representatives of the authorities who had been in charge of the Three North-Eastern Provinces prior to September 19th. Since arriving in Mukden, the Commission has interviewed, amongst others, the Acting Consul-General of Japan and General Honjo, Commander-in-Chief of the Japanese forces in Manchuria.

The declaration of the President of the Council with reference to the resolution of December 10th directed the Commission to submit to the Council as soon as possible after its arrival on the spot a preliminary report on the existing situation in so far as this affects the fulfilment or otherwise by the Governments of China and Japan of certain undertakings embodied in the resolution of September 30th and reiterated in the resolution of December 10th. These undertakings are :

(a) That the Japanese Government " will continue as rapidly as possible the withdrawal of its troops into the railway zone in proportion as the safety of the lives and property of Japanese nationals is effectively assured ".

(b) That the Chinese Government " will assume responsibility for the safety of the lives and property of Japanese nationals outside that zone as the withdrawal of the Japanese troops continues and the Chinese local authorities and police are re-established ".

(c) That both Governments " will take all necessary steps to prevent any extension of the scope of the incident or any aggravation of the situation ".

The Commission is not yet in a position to submit full information on these three points. It must reserve for a later report the consideration of the undertaking of both parties " to prevent any extension of the scope of the incident or any aggravation of the situation ", but as the Council is awaiting an early report on the existing situation in so far as it bears on the undertakings of Japan and China referred to above under (a) and (b), the following information is now transmitted.

II. ACTUAL SITUATION IN MANCHURIA.

Information regarding the military situation in the Three North-Eastern Provinces has been provided by the Japanese military authorities. It is given under five heads, the first three relating to the Japanese troops and other forces co-operating with them, the last two relating to forces opposed to them. Information with regard to (4) has also been obtained from a Chinese source.

It will be noted that, in the classification adopted, a new feature appears which was not contemplated by the Council in September last. In the course of the events which are the subject of the present enquiry, the local administration was transformed. " Committees for the Preservation of Peace and Order " were first established, with Japanese help, in the last months of 1931. These were subsequently superseded by an authority which was established on March 9th, 1932, as the " Manchukuo Government ". This explanation is necessary in order to account for the use of the expression " Manchukuo Army " by the Japanese military authorities.

1. *Japanese Regular Forces.*

On September 18th, the number of Japanese troops in the South Manchuria Railway zone is stated to have been 10,590.

The numbers given for the first part of December are : 4,000 inside and 8,900 outside the South Manchuria Railway zone, making a total of 12,900.

For the latter part of April, the numbers are given as 6,600 inside and 15,800 outside the South Manchuria Railway zone in the regions of Tsitsihar, Taonan-Liaoyuang Railway, the Mukden-Shanhaikwan Railway, the Chinese Eastern Railway east of Harbin, and the northern sector of the Kirin-Tunhua Railway, making a total of 22,400.

2. "Manchukuo Army".

The troops designated by the Japanese military authorities as the "Manchukuo Army" are said to have been formed partly of Chinese regular troops stationed in Manchuria before September 19th and subsequently reorganised, and partly of freshly recruited soldiers. This force has been created with the help of the Japanese military authorities. Many Japanese officers, either retired or still belonging to the Japanese Army, have been engaged as military advisers and their number is increasing. Contracts with some of these officers have been made for one year. A Japanese staff officer has been appointed adviser to the "Department of Defence of the Manchukuo Government" at Changchun.

These troops are stationed or operating chiefly in the regions of Mukden, Changchun, Taonan, Tsitsihar, Tunhua, and along the Chinese Eastern Railway, particularly on the eastern branch, where they are engaged against forces not recognising the authority of the "Manchukuo Government". The total number of the "Manchukuo Army" is stated to have been 85,000 men at the end of March. The actual number is not reliable, owing to the uncertainty of the information regarding these troops at the present time.

3. Local Police Force.

The number of this force is given as about 119,000, of whom 60,000 are local guards. This police force is stated to be in the main a continuation of that existing before September 19th. Its reorganisation is taking place with the help of Japanese officials.

4. Forces opposed to the Japanese Troops and the "Manchukuo Army".

The Commission was informed in Peiping by Marshal Chang Hsueh-liang that his forces outside the Great Wall on September 18th, including the non-fighting elements, numbered 60,000 for Fengtien province, 80,000 for Kirin province, and 50,000 for Heilungkiang, making a total of 190,000, of which about 50,000 from Fengtien province were subsequently withdrawn inside the Wall. This would leave 140,000 outside the Wall.

The Japanese military authorities give the number of troops now remaining outside the Wall as 110,000, of which they state that 60,000 joined the "Manchukuo Army", 30,000 remained in the north-east of Kirin in opposition to the Japanese troops and to the "Manchukuo Army", and about 20,000 may have joined the so-called volunteer corps. The situation is described by them as the following :

(a) Portions of the former Chinese army not recognising the authority of the "Manchukuo Government" :

(1) A force north-east of Harbin, estimated at 30,000 (stated officially by the Chinese to be composed of the Kirin Self-Defence Army under the command of General Li Tu and of the Chinese Eastern Railway Guards under the command of General Ting Chiao) ;

(2) A force under General Li Hui-cheng in the region north-west of Mukden, estimated at 10,000 ;

(3) Remnants of 9th Cavalry Brigade, on the north-eastern frontier of Jehol, estimated at 3,000.

b) Volunteers :

(1) The so-called North-Eastern Army of anti-Japanese volunteers in the western parts of Fengtien province, mainly south of Chinchow, estimated at between 15,000 and 25,000 men.

(2) The so-called National Volunteer Army of the North-East, under the command of Wu Chin-tsin, mainly operating around Mukden. The present strength of this force, which has had several encounters with the Japanese troops, is unknown.

(3) The Volunteer Army of Jehol. This comparatively well-disciplined body of some 3,000 men, under the command of Tang Yu-lin, which comprises remnants of the cavalry of Marshal Chang Hsueh-liang's 1st and 2nd Army, is reported to be active on the border of Jehol and Fengtien provinces.

(4) Several minor volunteer corps operating partly in the Shanhaikwan region, partly between Tunhua and Tienpaoshan, where they are in touch with regular forces hostile to the "Manchukuo Government".

The total strength of these irregular forces mentioned under paragraphs (1) to (4) is said to be about 40,000 men.

5. Bandits.

The bandits, who are not organised primarily for political purposes, appear to have increased in number, due to the disturbed conditions. They are reported by the Japanese to be scattered throughout Manchuria, especially in the part south of the Chinese Eastern Railway. The Japanese estimate their total number as 40,000. In addition to these, a special bandit force of 12,000 north and east of the town of Kirin is said to be co-operating with the Chinese forces north-east of Harbin mentioned under 4 (a) 1.

Armed conflicts between these various forces are frequent. There are bandit raids ; attempts of the Japanese soldiers and of the " Manchukuo " troops to suppress them ; and fighting between the various military forces attempting to maintain the new regime and those opposed to it. The result is loss of life, destruction of property, and general sense of insecurity.

III.

The Commission purposely refrains from commenting at this stage on the facts and figures above recorded. The Japanese authorities maintain that they cannot at present withdraw their troops without endangering " the safety of the lives and property of their nationals " outside the railway zone. They appear to consider that this withdrawal must depend on the progress of the reorganisation of the troops described as the " Manchukuo Army ". The Chinese Government does not now exercise authority in any part of Manchuria, and, as events have developed recently, the practical question of the fulfilment of its responsibility has not arisen. The possible and equitable measures which may restore peace and security and create a reasonable measure of goodwill throughout Manchuria will be considered by the Commission in its final report.

The Commission will visit Changchun next week, and then continue its investigation in other parts of Manchuria.

(Signed) LYTON.
ALDROVANDI.
H. CLAUDEL.
Frank R. McCoy.
SCHNEE.

Part II.

**APPENDIX TO THE REPORT OF THE COMMISSION
OF ENQUIRY.**

ANNEX A.

LIST OF DOCUMENTS SUBMITTED BY THE CHINESE ASSESSOR.

- Document No. 1. General Memorandum on the Sino-Japanese Dispute.
- „ No. 2. Memorandum on the Question of Parallel Railways and the so-called “ Protocols of 1905 ”.
- „ No. 3. Memorandum on the Japanese Invasion into the Three Eastern Provinces.
- „ No. 4. Memorandum on the Twenty-one Demands and the Agreements of May 25th, 1915.
- „ No. 5. Memorandum on the Status of Koreans in the Three Eastern Provinces.
- „ No. 6. Memorandum on the Kirin-Hueining Railway.
- „ No. 7. Memorandum on the “ Guards ” of the South Manchuria Railway.
- „ No. 8. Memorandum on the Wanpaoshan Case.
- „ No. 9. Memorandum on the Anti-Chinese Riots in Korea (July 1931).
- „ No. 10. Statistical Tables with Explanatory Notes showing that Japan does not rely upon the Three Eastern Provinces for the Supply of Raw Materials and Foodstuffs.
- „ No. 11. Refutation of Japan’s Claims based on the so-called Fifty-three Outstanding Cases.
- „ No. 12. Memorandum on Japan’s Plots and Schemes against the Unification of China.
- „ No. 13. Memorandum on the Provocative and Hostile Activities of the Japanese in Chinese Cities other than those in the Three Eastern Provinces, Shanghai and Tientsin.
- „ No. 14. Memorandum on the Boycott.
- „ No. 15. Memorandum on Japan’s Attempts to monopolise the Railways in the Three Eastern Provinces.
- „ No. 16. Memorandum on the so-called Anti-Foreign Teaching in Chinese School-books.
- „ No. 17. Memorandum on China’s Efforts in the Development of the Three Eastern Provinces.
- „ No. 18. Memorandum on Japan’s Violations of Treaties and Infringements of Chinese Sovereignty: Some Twenty-seven Representative Groups of Cases.
- „ No. 19. Memorandum on the Currency in the Three Eastern Provinces and its Relation to the Soya Bean.
- „ No. 20. Memorandum on the Decisions taken by the Chinese Government at the Beginning of the Shanghai Incident.
- „ No. 21. Memorandum on Outer Mongolia.
- „ No. 22. Memorandum on Banditry.
- „ No. 23. Memorandum on the Seizure of the Chinese Maritime Customs in the Three Eastern Provinces.
- „ No. 24. Memorandum on Communism in China.
- „ No. 25. Memorandum on Japan’s Seizure of the Salt Gabelle in the Three Eastern Provinces.
- „ No. 26. Memorandum on the so-called “ Independence ” Movement in the Three Eastern Provinces.
- „ No. 27. Memorandum on the Japanese Seizure of the Chinese Postal Administration in the Three Eastern Provinces.

- Document No. 28. Memorandum on Japanese Seizure of Salt Loan Funds in the Three Eastern Provinces.
- „ No. 29. Memorandum on the Sale and Smuggling of Narcotic Drugs in China by Japanese Subjects and Firms.
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LIST OF DOCUMENTS SUBMITTED BY THE JAPANESE ASSESSOR.

- Document A. The Present Condition of China.
- „ B. Relations of Japan with Manchuria and Mongolia.
- Protocols of the Sino-Japanese Conference concerning Manchuria (1905).
- History of the Independence of “Manchukuo”, and Annexes.
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ANNEX B.

LIST OF INTERVIEWS.¹

Tokio.

February 29th to March 8th, 1932.

- February 29th Interview between the Commission and M. Inukai, President of the Council of Ministers.
- March 2nd Interview between the Commission and the Association of Japanese Journalists.
- March 3rd Audience of His Majesty the Emperor of Japan.
Interview between the Commission and M. Yoshizawa, Minister for Foreign Affairs.
Interview between the Commission and members of the Japanese League of Nations Union.
- March 4th Interview between the Commission and M. Yoshizawa, Minister for Foreign Affairs.
Interview between the Commission and representatives of Japanese industry and commerce.
- March 5th Interview between the Commission and representatives of the Japanese Women's Associations.
Interview between the Commission and Lieut.-General Araki, Minister of War.
Interview between the Commission and M. Yoshizawa, Minister for Foreign Affairs.
Interview between the Commission and the Japanese Group of the Institute of Pacific Relations.
- March 7th Interview between the Commission and a deputation of Chinese students in Japan.
Interview between the Commission and Vice-Admiral Osumi, Minister of Navy.
Interview between the Commission and M. Yoshizawa, Minister for Foreign Affairs.
- March 8th Interview between the Commission and M. Yoshizawa, Minister for Foreign Affairs.

Osaka.

March 10th.

- March 10th Interview between the Commission and the Osaka Chamber of Commerce.

Shanghai.

March 14th to 26th.

- March 16th Interview with General MacNaghten, Chairman of the Shanghai Municipal Council.

¹ This list does not mention a large number of interviews between experts of the Commission and Chinese or Japanese experts.

- March 17th Interview between the Commission and Sir Frederick Maze, Inspector-General of the Chinese Maritime Customs.
- March 18th Interview between the Commission and Vice-Admiral Nomura and Rear-Admiral Shiozawa.
- March 19th Interview between the Commission and the principal officers of the gabelle.
- March 22nd Interview between the Commission and representatives of the Japanese Chamber of Commerce, Shanghai.
Interview between the Commission and representatives of Chinese industrialists and merchants.
Interview between the Commission and M. Matsuoka, personal representative at Shanghai of M. Yoshizawa, Japanese Minister for Foreign Affairs.
- March 23rd Interview between the Commission and representatives of Chinese banks.
- March 24th Interview between the Commission and representatives of the National Flood Relief Commission.
- March 25th Interview between the Commission and the representatives of the Chinese Chamber of Commerce, Shanghai.
Interview between the Commission and representatives of the War Refugees Relief Association, Shanghai.
Interview between the Commission and a deputation from the workers' organisations in the district of Shanghai.
Interview between the Commission and representatives of Chinese Christians.
Interview between the Commission and representatives of the Chinese Women's Association for the Protection of Women's Rights.
Interview between the Commission and representatives of the Canton Corporations at Shanghai.

Nanking.

March 26th to April 1st.

- March 29th Interview between the Commission and members of the Chinese Government.
- March 30th Interview between the Commission and M. S. G. Cheng, representative of the Chinese League of Nations Unions.
Interview between the Commission and members of the Chinese Government.
Interview between the Commission and representatives of the Chinese universities.
- March 31st Interview between the Commission and representatives of the Peoples' Foreign Affairs Association.
Interview between the Commission and representatives of the Chamber of Commerce, the Chamber of Agriculture, educational associations and workers' organisations.
Interview between the Commission and representatives of the Chinese Government.
- April 1st Interview with representatives of the Chinese Press.
Interview between the Commission and members of the Chinese Government.
Audience of the Commission by the President of the Chinese National Government.

Hankow.

April 4th and 5th.

- April 4th Interview between the Commission and representatives of Wuhan University.
Interview between the Commission and representatives of the Chamber of Chinese Commerce and Industry, Hankow.

Interview between the Commission and members of the Hankow Press.
Interview with representatives of the Hankow workers' organisations.
Interview with representatives of the British Chamber of Commerce, Hankow.
Interview with the Hupeh Post-Office Commissioner.
Interview with the Japanese Consul-General and representatives of the Chamber of Commerce and Municipality of the Japanese Concession at Hankow.

Nanking.

April 7th.

April 7th Interview between the Commission and M. Lo Wen-kan, Minister for Foreign Affairs.

Tientsin.

April 9th.

April 9th Interview between the Commission and prominent residents of Tientsin (representing Nankai university, the Press, commerce, banking, the teaching profession, women's associations, the Chamber of Commerce).
Interview between the Commission and prominent members of the Manchurian population.

Peiping.

April 9th to 19th.

April 11th Interview between the Commission and Mr. A. S. Kent, Director of the British-American Tobacco Company.
Interview between the Commission and M. Cheng-Fu Wang, Director-General of the North-East Mines Administration.

April 12th Interview between the Commission and Marshal Chang Hsueh-liang.
Interview between the Commission and ex-officials of the Manchurian Administration.

April 13th Interview between the Commission and General Yung Cheng, ex-Chief of Staff of the troops in the north-east, and General Wang Yi Chih, ex-Commandant, Northern Barracks, Mukden.
Interview between the Commission and M. Albert Londres, special correspondent of the *Paris Journal*.
Interview between the Commission and Marshal Chang Hsueh-liang.

April 14th Interview between the Commission and princes and representatives of the Manchu and Mongolian nobility.
Interview between the Commission and M. Yano, Japanese Chargé d'Affaires and Japanese military authorities and diplomatic representatives.
Interview between the Commission and Marshal Chang Hsueh-liang.

April 15th Interview between the Commission and a deputation from the north-eastern provinces at Peiping.
Interview between the Commission and Marshal Chang Hsueh-liang.
Interview between the Commission and representatives of professors and directors of Peiping educational and cultural institutions.
Interview between the Commission and representatives of the professoriate of the Peiping universities.

April 16th Interview between the Commission and Generals Chang Tso-hsiang and Wang Fu-ling.
Interview between the Commission and Lieut.-Colonel H. Nagatsu, Japanese Assistant Military Attaché at Peiping.

Interview between the Commission and representatives of the north-east refugees.

Interview between the Commission and a deputation of the professoriate of the North-East University.

April 19th

Interview with Admiral Hung Lieh-shen, Mayor of Tsingtao.

Interview with M. Meng Chao-tien, delegate of General Tang Yu-lin, President of Jehol Province, and M. Kwang Chin-pao, Director of Foreign Affairs, Jehol.

Mukden.

(First Visit), April 21st to May 2nd.

April 23rd

Interview between the Commission and M. Morishima, Japanese Acting Consul-General.

April 24th

Interview with representatives of the Korean Colony, Mukden.

Interview between the Commission and Lieut.-General Honjo, Commander-in-Chief of the Kwantung Army.

Interview between the President of the Commission and M. S. Kori, representative of the personnel of the South Manchuria Railway.

April 25th

Interview with the President of the Fengtien Province Agricultural Association.

Interview between the Commission and Lieut.-General Honjo, Commander-in-Chief of the Kwantung Army.

April 26th

Interview with the Director of the newspaper *Tosansho Minpo*.

Interview between the Commission and Lieut.-General Honjo, Commander-in-Chief of the Kwantung Army.

Interview with representatives of Korean residents at Tiehling, Changchun, Antung and Mukden.

April 27th

Interview with M. Kawamura, representing the Buddhist Association.

Interview between the Commission and Lieut.-General Honjo, Commander-in-Chief of the Kwantung Army.

April 28th

Interview with the President of the Mukden Educational Association.

April 30th

Interview between the Commission and Lieut.-General Honjo, Commander-in-Chief of the Kwantung Army.

May 1st

Interview between the Commission and Lieut.-General Honjo, Commander-in-Chief of the Kwantung Army.

Changchun.

May 2nd to 7th.

May 3rd

Interview between the Commission and Brig.-General Doihara.

Interview between the Commission and M. Shie Chie-hsi, "Manchukuo" Minister for Foreign Affairs.

May 4th

Interview between the Commission and M. Tashiro, Japanese Consul.

Interview between the Commission and M. Cheng Hsiaohsu, "Manchukuo" Prime Minister.

Interview with the Korean farmers.

Interview with representatives of the "Manchukuo" population.

Interview with representatives of Mongolia.

Visit of the Commission to M. Pu-yi, Chief Executive of "Manchukuo".

May 5th

Interview between the Commission and General Hashimoto, Chief of Staff of the Kwantung Army.

- Interview between the Commission and Dr. Chao Hsin-po, President of the " Manchukuo " Legislative Yuan.
- Interview with General Hsi-Hsia, Minister of Finance and Governor of the Province of Kirin.
- May 6th Interview with representatives of the Changchun Chamber of Commerce and Industry.
- Interview with the Mongolian Mohammedan delegate.
- Interview between the Commission and M. Komai, Secretary-General of the " Manchukuo " Council of State.
- Interview with the " Manchukuo " Minister of Communications.
- Interview between the Commission and M. Chang Yen-hing, " Manchukuo " Minister of Industry.
- Interview with representative of the Manchuria-Mongolia Youth Association.
- May 8th Interview with " Manchukuo " Minister of Communications.

Kirin.

May 7th.

- May 7th Interview between the Commission and M. Ishii, Japanese Consul-General.
- Interview between the Commission and General Tamon, General Officer Commanding 2nd Division, Kwantung Army.
- Interview with representatives of the Koreans.
- Interview between the Commission and delegates of the Kirin Provincial Government.
- Interview with representatives of the Japanese colony.

Harbin.

May 9th to 21st.

- May 10th Interview with thirty Korean refugees.
- May 11th Interview between the Commission and General Hirose, General Officer Commanding 10th Division, Kwantung Army.
- Interview between the Commission and M. Pao Kuan-chen, Mayor of Harbin.
- May 12th Interview between the Commission and M. Nagaoka, Japanese Acting Consul-General.
- Interview between the Commission and M. Li, President of the Eastern Chinese Railway.
- May 13th Interview between the Commission and Colonel Komatsubara, Chief of the Japanese Military Mission at Harbin.
- Interview with M. Yoshida, Chief of the branch of the Mitsui Company.
- May 14th Interview between the Commission and M. Takahashi, President of the Japanese colony and M. Kato, President of the Japanese Chamber of Commerce, Harbin.
- May 16th Interview between the Commission and Colonel Komatsubara, Chief of the Military Mission at Harbin.
- Interview between the Commission and General Chang Ching-hui, Governor of the Special District of Harbin.
- May 17th Interview with delegates of the Manchuria-Mongolia Association.
- Interview between the Commission and representatives of the Harbin White-Russian organisations.
- Interview with the staff of the South Manchuria Railway.

Tsitsihar.

May 22nd to 24th.

- May 22nd Interview with M. Shimizu, Japanese Consul.
- May 23rd Interview with delegates of the South Manchuria, Angangchi-Taonan and Ssupingkai-Taonan Railways.
- Interview with General Amano.
- Interview with delegates of the Manchus and Mongols.
- Interview with General Cheng Chih-yuan, Governor of the Province of Heilungkiang.

Mukden.

(Second Visit), May 21st to 25th.

- May 22nd Interview between the Commission and M. Morishima, Japanese Acting Consul-General.
- May 24th Interview between the Commission and M. Morishima, Japanese Acting Consul-General.

Dairen.

May 26th to 30th.

- May 26th Interview with the head managers of the South Manchuria Railway.
- Interview with lawyers, business men, etc.
- May 27th Interview with the Governor of Kwantung, M. Yamaoka.
- May 28th Interview with lawyers, business men, belonging to Kwantung Leased Territory.
- Interview between the Commission and Count Uchida, President of the South Manchuria Railway.
- Interview with the Chairman of the Chinchow Agricultural Association.
- May 30th Interview with the Director of Mines.

Mukden.

(Third Visit), May 30th to June 4th.

- May 31st Interview between the Commission and M. Fujita, President of the Chamber of Commerce, and M. Noguchi, Chairman of the Japanese Association.
- June 1st Interview with delegates of the Koreans.
- Interview with representatives of the Manchus.
- June 2nd Interview between the Commission and M. Tsang Shih-yi, Governor of the Province of Fengtien.
- Interview with General Ting.
- Interview between the Commission and Lieut.-General Honjo, Commander-in-Chief, Kwantung Army.
- Interview with representatives of the Manchu Hsieh Ho Hui (Manchuria Concordia Association).
- June 3rd Interview with delegates of the Manchuria Youth Association.
- Interview with the Mukden Women's Leagues.
- Interview between the Commission and Lieut.-Colonel Shimamoto and Lieutenant Kawamoto.

Chinchow.

June 4th.

June 4th Interview between the Commission and General Nishi, General Officer Commanding 8th Division, Kwantung Army.

Shanhaikwan.

June 5th.

June 5th Interview between the Commission and General Ho-Chu-Kou.

Peiping.

June 5th to 28th.

June 14th Interview between the Commission and General Wang I-cheh, ex-Commandant, Northern Barracks, Mukden.

June 15th Interview between the Commission and General Wang I-cheh, ex-Commandant, Northern Barracks, Mukden.

June 19th Interview between the Commission and members of the Chinese Government.

June 20th Interview between the Commission and members of the Chinese Government.

June 27th Interview with General Huang, ex-President of Police, Mukden.

Tsingtao.

June 9th.

June 9th Interview with representatives of workers' organisations.

Japan.

July 4th to 17th.

July 6th Interview between the Commission and Admiral Saito, President of the Council of Ministers.

July 9th Interview between the Commission and Lieut.-General Araki, Minister of War.

July 12th Interview between the Commission and Count Uchida, Minister for Foreign Affairs.

July 14th Interview between the Commission and Count Uchida, Minister for Foreign Affairs.

Kobe, July 17th Interview between the Commission and members of the Osaka Chamber of Commerce.

ANNEX C.

REPORT ON WRITTEN OR PRINTED STATEMENTS OR DECLARATIONS PRESENTED IN THE CHINESE LANGUAGE BY DELEGATES OF ASSOCIATIONS TO THE COMMISSION OF THE LEAGUE OF NATIONS IN MANCHURIA.

The statements and declarations in the Chinese language presented to the Commission while in Manchuria by the delegates of associations have been translated and analysed by a specialised staff under the supervision and responsibility of Mr. Moss, expert of the Commission. In the same way, about 1,600 letters or petitions in Chinese, received by the Commission by various means, have been translated and analysed. The originals, as well as the English translations of these statements, petitions and letters, are deposited in the archives of the Secretariat.

As a result of this work, the following report has been submitted to the Commission by its expert :

GENERAL.

During the tour of the League Commission in Manchuria, several delegations, representing public bodies and associations, were received. In most cases, the delegations presented written or printed statements or declarations to the Commission. These have been translated, and the following is a review of their purport :

In every single instance, the delegations were introduced by Japanese officials, and it may be confidently assumed that the statements presented were first scrutinised and passed by Japanese authorities. No statement was received from any delegation or association which was not introduced by Japanese officials, and officers of the Commission were informed that no independent delegation or persons were allowed access to the Commission — ostensibly because of the responsibility assumed by the authorities for the protection of members of the Commission against insult and assault.

Chinese, Manchus, Mongols and Koreans presented statements written in Chinese or Japanese ; the declarations of Japanese delegations were printed documents.

Only two statements in support of the "Manchukuo" were received through the post. The almost total absence of letters from private individuals in support of the "Manchukuo" may possibly be accounted for in part by the fact that it was known that the defence of the new State was being undertaken by its authorities and the representatives of its public associations who had free access to the Commission.

The declarations of the Japanese public bodies are composed in varied styles on western models. They are chiefly concerned with the relation of the accumulated provocations which led to Japanese military action in September 1931, the justification of their subsequent actions and their hopes for the future. In one case, the efforts being made by the younger Japanese to establish harmonious relations with the Chinese population are described.

The other statements are remarkable in that they touch but lightly on Japanese participation in the establishment and control of the "Manchukuo". They are chiefly concerned with the relation of the grievances against the former Chinese administration which led them to support the formation of the new State and of their hopes for its future. The apparent studied neglect to discuss or to be enthusiastic about the part played and being played by the Japanese is marked. It can hardly be accidental in view of the pervading influence of Japan ; it may be due to reluctance to deal with a dangerous topic ; it may be due to reluctance to write honest views. It seems more likely to have been dictated with a view to demonstrating the spontaneity of the "revolution" in Manchuria.

STATEMENTS OF CHINESE ASSOCIATIONS OF THE "MANCHUKUO".

A representative statement by Chinese citizens of the "Manchukuo" is that presented at Changchun by the People's Associations of the Three Provinces.

After an expression of welcome to the League Commission, the statement is made that the "Manchukuo" was constituted by the will of the people. It makes no mention of the part played by the Japanese, and is studiously vague on the subject of the inception of the new State. It then passes on to the safe ground of an indictment of Chang Hsueh-liang and the former military despotism. The disastrous debasement of the currency is dwelt on at some length. The oppressive taxes, the cost of civil wars, the needless participation of Chang Hsueh-liang in Chinese wars within the Great Wall, the former official profiteering and the consequent

misery of the people are stressed. Detestation of Chang's alliance with the Nanking Government and his introduction of Kuomintang party officials into Manchuria as causing such oppression as morally to justify a revolution, are insisted on in the Chinese manner. The vacillations of Chang and of the Nanking Government are represented as having led to the formation of robber bands which so harassed the people that they formed the new State in order to protect themselves. Again no word regarding the part played by the Japanese! The statement continues with a panegyric of the vast undeveloped resources of the "Manchukuo" which could be exploited with the aid of foreign capital under the policy of the "open door" and "equal opportunity for all". The abolition of the anti-foreign agitations inspired by the former military administration is prophesied and the statement concludes with an appeal for foreign support.

Another representative statement from Chinese in close touch with the Japanese is that presented at Changchun by the Associated Chambers of Commerce of the South Manchuria Railway Zone. After a denunciation of the former militarist administration, they welcome the return to Manchuria of their former Emperor, Pu-Yi. The programme of the new Government is hailed as being more truly in the interests of the people than that of the Nationalist Government at Nanking. The prospective advantages to be derived from the policy of the "open door" and "equal opportunities" are stressed. The action of the Japanese army in driving away the former despotic military governors is described as "fortunate". It is admitted that, since then, Manchuria is in disorder. No spontaneous opinion is expressed with regard to the future, but the Japanese opinion is cited that the disorders are only temporary and that peace and order will be shortly restored, bringing economic prosperity to the country. (Incidentally, the future economic prosperity of the merchants in question is obviously dependent on the future of the South Manchuria Railway.)

Another declaration of Chinese, introduced by Japanese on the day the Commission left Manchuria, is that presented at Chinchow by the Associated Benevolent Societies of Western Liaoning. It states that the "Manchukuo" is founded on the will of the people and relies for protection on the army of a friendly nation. It complains that the peace of the district is disturbed by incursions of agents of the Chinese militarists across the border, and appeals for foreign support of the "Manchukuo".

Another statement was presented at the same time by a delegation of women on behalf of the Family Tutors' Association. It contains a sweeping denunciation of the morals of the former army and an appeal to the women of the world to prevent their return by supporting the "Manchukuo". (In view of the fact that several thousands of Chinese soldiers were stationed in the surrounding villages throughout the winter, the violent repugnance of many women against a repetition of the visitation is natural.) The remedy is one which concerns army discipline rather than politics.

The other declarations by Chinese associations follow much the same lines, and seem to show that they were either inspired or censored by the authorities of the new State, as might be expected in the circumstances.

MANCHUS.

Only two written statements from Manchus were presented to the Commission by Manchus, and in neither is there any indication of any special racial feeling or of special Manchu grievances. One was a letter in support of the establishment of the "Manchukuo" with the former Emperor at its head, written by a Manchu editor and former President of the Association for Constitutional Monarchy. The other statement was one presented at Tsitsihar by two Manchus in conjunction with Mongol and Moslem members of the Committee for the Preparation of Autonomous Government in Heilungkiang and does not mention Manchu problems. The latter is remarkable in that it contains nothing but denunciations of the preceding Chinese regime. The delegates who presented it did not appear to have any precise knowledge of the Manchus as a people apart from the Chinese with political aspiration of their own. Such information as was obtained on this subject is contained in the notes of two conversations with Manchus and Mongols held at Harbin and Tsitsihar. Conversations with individual Manchus disclosed that they shared the opinion of Chinese interrogated on the subject that the Manchus have been almost completely assimilated into the mass of the Chinese population. It seems that it is only in Kirin and Heilungkiang that there still exist small but politically unimportant pockets of Manchus who, though bilingual, remain distinctly Manchu.

It is noteworthy that the only person heard to argue with any conviction that the Manchus are still racially a force to reckon with politically was M. Ilichun, the very forceful Mongol representative of the Manchu-Mongol League at Harbin. He presented the somewhat sensational argument that there are still in Manchuria between six and ten million people with Manchu blood, admittedly largely mixed with Chinese (other authorities think there are only one or two million Manchus of mixed blood). He claimed that these people were still loyal in spirit to the Manchu Imperial House and that when they were assured that the "Manchukuo" had freed them from Chinese oppression they would assert themselves and become a power in the land. He said they were intensely anti-Republican and wanted to sever connections with the Chinese Republic. It was obvious that M. Ilichun was working actively, probably with strong support from the "Manchukuo" authorities, to develop racial consciousness among the Manchus and to wean them from Chinese influences. Similar views were heard from Japanese in Manchuria, but the Manchus themselves were strangely silent about their alleged aspirations. Without dismissing them as altogether improbable, it must be concluded that hopes for a race-conscious Manchu movement are being entertained by interested quarters who are working for their development. The movement does not seem to exist as yet on an important scale. Its potentialities may, however, have to be taken into account.

MONGOLS.

The Mongols differ from the Manchus in having preserved strong race-consciousness, their tribal system, their aristocracy, their language, their dress, their special modes of life, manners, customs and religion. They are still mainly a pastoral people, though increasingly engaging in agriculture and the cart and animal transport business.

For a recent authoritative survey of present conditions among Manchus and Mongols, a study of Owen LATTIMORE's recent book "Manchuria: Cradle of Conflict" is recommended. He states (page 126) that the Manchus have been practically absorbed or *swamped* by a largely contemptuous, but at the same time largely tolerant, Chinese population, whilst the Mongols have been largely *extruded* (extrusion often amounting to gradual extermination) by the Chinese, between whom and the Mongols there is chronic and unavoidable ill feeling.

This ill feeling is given expression in the statement made by the representatives of the Mongols of Heilungkiang, which was presented at Tsitsihar. Self-determination, encouragement from the authorities of the new State, and resolution never again to be subjected to the domination of Chinese militarists are given as the main reasons for Mongol support of the "Manchukuo". In this declaration, it is stated that a group of young men at Budaha took advantage of the establishment of the "Manchukuo" to reunite all Mongolian independence organisations in support of the new State, and that young Mongols of Mukden and Liaoyang participated in the organisation of the "Manchukuo" army. The initiative appears to have been taken by young Mongols; but the support of Mongol leaders seems to have followed. The natural leaders of the Mongols are their princes and priests. It has been observed by Owen Lattimore that, as these personages are usually dependent for their wealth on fixed property, they often sacrifice the interests of the tribe to their own interest in special privileges and fixed revenues, naturally tending to become amenable to the *de facto* authorities. Most of the statements received from Mongols, however, contain only violent attacks against the former Chinese militaristic administration, resembling in this the majority of the statements received from delegations in Manchuria.

MOSLEMS.

The Moslems seem to have a tradition that they originated in Arabia and some seem to hold the belief that they are a separate race from the Chinese. A statement in this sense was presented to the Commission at Harbin. There seems to be, however, no warrant for admitting that the Moslems in Manchuria are a separate race or even separated from the Chinese population as they tend to be in parts of Kansu Province. The idea may be fostered in certain quarters with a view to getting the minorities to support the "Manchukuo" in combination against the Chinese sentiment of the majority. The declaration on question is a panegyric of the new State. Except as regards religion, there seems to be no difference between Chinese and Chinese Moslems in Manchuria, or reason to accept the Moslems as a separate political power in the land — at least, at present.

KOREANS.

The only statement translated was presented by Korean peasants and complains of exploitation by Chinese and oppressions and expulsions. It records murder and violation, extortion and robbery, and states that one million Korean immigrants into a land which was at one time a dependency of Korea had been reduced by the Chinese to a state of destitution. It prays the Commission to help to make the "Manchukuo" a happy land in which both Chinese and Koreans may live in peace.

As the position of Koreans in Manchuria will be made the subject of a separate report, it is only necessary to remark here that, under the Treaty arising out of the celebrated Twenty-One Demands of 1915, the Japanese acquired the right of unrestricted residence and trade in Manchuria; including the right to lease land; a special modification of the general restrictions on foreign enterprise. This right the Chinese have, in practice, consistently obstructed. They brought strong pressure to bear on Chinese who attempted to lease land to Japanese. This led to retaliatory outrages against Chinese in Korea.

Mr. Lattimore states that Koreans, even when naturalised as Chinese, show great resistance to absorption, and no tendency at all to consider themselves truly Chinese. They remain Korean in race, language and culture. They tend to settle in strong enough groups to prevent modification of this attitude even in the second generation. They have a technique of northern rice-culture which the Chinese themselves cannot rival, and are thus able to occupy land in important numbers and with a density of population which makes them practically immune to Chinese linguistic and cultural influences.

Many Koreans in Chientao and in the neighbouring Ussuri Primorsk Province of Siberia are the descendants of Koreans who had settled before the Chinese, Japanese or Russians, when Korean domination projected beyond the present borders of Korea. They look on the border regions as a kind of "Korea Irredenta". Moreover, there are, among the Koreans in Manchuria, besides many anti-Japanese revolutionaries, numbers of enthusiasts for the Russian type of revolution.

These are some of the many factors which explain how thorny and difficult is the problem of Koreans in Manchuria.

JAPANESE.

The Japanese statements are mostly in the form of printed pamphlets in English. They are listed and indexed in the Secretariat.

CONCLUSIONS.

When the statements and declarations presented by delegations of associations introduced to the League Commission by members of the Japanese Assessor's office or by officials of the "Manchukuo" are compared with the letters which reached the Commission from people in "Manchukuo" through the medium of the post or through foreign consulates or private sources, it is patent that the latter category represent the unconstrained and spontaneous expression of the ideas of citizens of all degrees, whereas the former category represent views which, although in part probably held honestly enough, obviously reflect the orthodox and approved official opinions of the "Manchukuo" authorities, who almost certainly inspired and reviewed them. It is equally patent that the statements all strongly support the "Manchukuo", whilst the letters all strongly condemn it and all its works. Another point which strikes one is that the statements were presented to the Commission by the different races and associations which, in any official purview, would appear to represent the responsible component elements of the State. Chinese, Manchus, Mongols, Moslems, Buddhists, Koreans, Japanese, political associations, chambers of commerce, farmers' associations, teachers, etc., are all represented. There is but one serious omission. The common citizen of Chinese race is not represented. The omission is the more glaring because the written protests all emanate from the common Chinese citizen or from his unofficial representatives — precisely those people and associations who were denied free access to the Commission. The silence of the common citizens of Manchu and Mongolian race is also noteworthy. The majority of the Mongols are illiterate. No strongly Mongol centres were visited by the Commission. The Manchus have a comparatively high proportion of literacy and are to be found in large numbers in Fengtien and Kirin, which were both visited by the Commission. The truth probably lies between the views presented by the statements and by the letters. An analysis of those people in the "Manchukuo" boundaries who support the establishment of the "Manchukuo" and those who condemn it, with an indication of some probable motives, may assist towards the formulation of judgment.

For the "Manchukuo".

The Japanese of mixed careerist origins (political visionaries, adventurers, retired military officers and civil servants, etc.) who hold appointments in the Administration, whether as officials or advisers, are probably imbued with the conviction that they are working for the enlargement and glory of Greater Japan and with the support of the "Imperialist and Expansionist" parties of their mother country. They are also most anxious to see the "Manchukuo" established and recognised internationally, in order that their own positions, salaries, etc., may be safeguarded.

Closely allied with these Japanese (who are identified with the "Manchukuo" to the point of being ready to take out papers of "Manchukuo" citizenship) may be classed certain Chinese officials who were either grievously wronged or punished by Chang Tso-lin or Chang Hsueh-liang. They want revenge and dread the return of the former Chinese officials. For this reason, they are prepared to work for the severance of all ties with Nationalist China.

In determined and close connection with the above are all the Japanese residents in the country and all Koreans identified with the Japanese and those who are not anti-Japanese revolutionists. Japanese semi-official business organisations, such as the Japanese railways, transportation companies, land and mortgage investment companies, banks, etc., and Japanese and Sino-Japanese business associations and companies may be included in this powerful group. Their motives are a combination of patriotism, self-interest and self-aggrandisement. They carry with them the interest of the Japanese national services in the "Manchukuo" (army, consular, etc.).

To these must be added the officials of the former Ch'ing dynasty and a minority group of Manchus who are working strenuously for the "Manchukuo" in the hope of restoring the former Manchu Emperor as a constitutional monarch, and for the restoration of their positions of privilege.

Associated with these is the small but growing Mongol minority who see in the "Manchukuo" a means of saving the Mongols of Inner Mongolia from gradual extrusion and extermination. These Mongols are trying to resuscitate a feeling of race-consciousness and nationalism among the Manchus. Their interests coincide with those of the Japanese supporters of the Manchukuo at the present, but their interests might diverge and there is a fundamental difference in the objects and interests of this Manchu-Mongol group which might later prove important.

The above people seem to be the strongest and staunchest supporters of the new State. Whatever its genesis, their true interests are bound up in it, and they may be expected to go to great lengths in support of it. They will probably seek to control it by supporting the minorities against the pro-Chinese majority. They will "divide to rule", and will probably organise the backbone of the eventual Manchukuo army. (A proposition has been made to General Honjo to raise a force of 20,000 cavalry to restore internal order, of which 6,000 are to be picked Mongols and the balance from all the various villages which are each to supply one man *and guarantee him*.)

The balance of the "pro-Manchukuo" factions may be summarised as consisting of :

Persons who seek revenge for grievous personal wrongs done to them by officials and soldiers of the former regime ;

Officials who cannot get jobs elsewhere ;

Some Manchus, especially of the Imperial clan, who seek positions for themselves or their relatives ;

A small minority of Chinese who consider the present political situation in China to be hopeless and want to work in a new country ;

Some Chinese and Mongolians bribed by the Japanese with money, positions or honours ;

Officials who have been coerced into working for the "Manchukuo" and whose positions are now hopelessly compromised ;

People — *e. g.*, troops and official underlings, who are dependent on the new State for their necessities of existence. (These people have no deep convictions or ideals. They are followers rather than leaders. Their allegiance is to their "rice-bowl".)

To set against this estimate of the "pro-Manchukuo" forces, I quote the opinion of a former Chinese general (who is a confidential agent of a Manchu prince and connected with the Imperial Household and with the Japanese through the Anfu Party). He naturally claimed that all the Manchus backed their former Emperor (*compare* his estimate of 2,000,000 Manchus with the Mongol leader Ilichun's estimate of 6 to 10 million Manchus of mixed blood in "Manchukuo", an obvious propagandist exaggeration). The General said that, in his opinion, the most that could be claimed was that there were in favour of the new State :

2,000,000 Manchu bannermen (including families) ;
2,000,000 Chinese bannermen (including families) ;
1,000,000 Mongols ;
900,000 Koreans ;
250,000 Japanese residents.

AGAINST THE "MANCHUKUO".

All the rest of the population, which is currently estimated at 30,000,000; say, well over 80 per cent at present. The Chinese civilian population is apparently overwhelmingly against the "Manchukuo". Their hearts are turned towards China and their deeper loyalties and ties are truly Chinese. They may perforce submit, but they are opposed strongly to any non-Chinese Government. (This does not necessarily mean that they wish for the return of their previous Chinese Governors. Their loyalties appear to be impersonal, and to China and Chinese culture rather than to Chinese personalities.)

* * *

As regards the Japanese contention that the masses of the Chinese population are passive and that they are grateful to Japan for having rid them of an oppressive and militarist administration, the place of which has been taken by an efficient Government which will rule in accord with the demands of justice and morality, the claim appears absurd to an independent observer of the conditions which actually obtain in the "Manchukuo" (where many of the former objectionable officials still function).

Quite apart from the question of deep-seated national loyalties and prejudices, it would be necessary for the mass of the population to receive many tangible benefits in the way of increased security, considerably reduced taxation, financial control and popular political representation, etc., before they could be expected to regard favourably a new State in whose formation they had no part. At present, they regard it as entirely alien in conception.

Time and material benefits may influence their feeling considerably. But at present the Chinese masses appear to be bitterly hostile in their feelings to the "Manchukuo".

* * *

From the foregoing, it seems clear that the present population of Manchuria is in a state of political ferment, and the ferment is growing and developing rapidly. Neither the "Manchukuo" in its present state, nor a return to the *status quo ante* will satisfy the native population, to say nothing of those outside forces which have injected the ferment and who seek to extend it. If left to develop along present lines of cleavage and minority rule, it will overrule the sentiments of the vast majority of the local population, who are Chinese and who will continue to remain loyal to China. Consequently, an agreement should be aimed at which would take into account the position of China and the Chinese Government. The "Manchukuo" must be recast.

ANNEX D.

NOTE ON A POSSIBILITY OF AMALGAMATION BETWEEN CHINESE AND JAPANESE RAILWAY INTERESTS.

The following example of amalgamation has been considered :

Exploitation for such time as may be agreed upon of all railways of the Three Eastern Provinces, except the Chinese Eastern Railway, by a single railway administration. This administration to issue shares of a nominal value, of which 51 per cent would be attributed to the railway administration of the Three Eastern Provinces and 49 per cent to the South Manchuria Railway Company. The Board of Directors of this organisation to be vested with full powers of administration : to be composed equally of Chinese and Japanese members, and to include also representatives of the foreign bondholders other than Japanese. Moreover, the Chinese Government to appoint the Chairman, who would have only a casting vote. (For example, one Chairman and six members designated by the Chinese authorities, six members designated by the South Manchuria Railway, two members representing the foreign bondholders.) The railway administration to exploit the railways on a purely economic basis with the assistance, in so far as necessary, of foreign experts. All existing loans and debentures of the various existing lines to be covered by the issue of bonds by the new administration. Any new capital expenditure necessary for the construction or exploitation of railways in the Three Eastern Provinces to be covered in the same way by a public issue of bonds. This arrangement to be subject to modification or revision in order to take account of the interests of the Union of Soviet Socialist Republics, in case the new administration should later be called upon to exploit also the railway system of the Chinese Eastern Railway or part of this railway system.

Part III.

SPECIAL STUDIES BY THE EXPERTS OF THE COMMISSION.

The following special studies have been prepared, on the request of the Commission, by some of the experts attached to the Commission. The experts have been left entirely free from any instructions of the Commission as to the methods to be followed by them in carrying out their investigations. The studies are not to be considered as part of the Report of the Commission, and the opinions and conclusions expressed in them must be held as opinions and conclusions of the experts concerned.

The memoranda contained in Study No. 1 have been submitted to the Commission by Colonel T. A. HIAM ; Studies No. 2 and No. 3 have been prepared by M. DENNERY ; Study No. 4 by M. PELT ; Studies Nos. 5, 6 and 7 by Professor DORFMAN ; Study No. 8 by M. PELT ; and Study No. 9 by Mr. C. Walter YOUNG, Ph.D.

STUDY No. 1.

MEMORANDA ON RAILWAY QUESTIONS.

July 8th, 1932.

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Section I.

INTRODUCTION.

The history of railway development in Manchuria is in many ways unique. Geographically — as well as from the standpoint of railway economy — that history might have been expected to be somewhat similar to that of other countries adapted to agriculture on a grand scale — for instance, the North-Western States of America, the Prairie Provinces of Canada or the plains of the Argentine. Manchuria has soil as rich as any to be found elsewhere. A potential home for millions of farmers from the crowded other parts of China, it is in a more favourable position than other countries, inasmuch as the market for a large part of its produce is not far from the source of production. Add to this its favourable topography, cheap labour, abundance of raw materials — including timber, coal, etc. — and it will be seen that Manchuria should be an ideal country for cheap railway construction and operation and therefore an attractive field for investment. Unfortunately, Manchuria has so far been unable to reap the full benefit of these advantages, and the reasons are these: in North and South America, railway building was largely a matter of economics, whereas the history of railway development in Manchuria is largely a matter of international rivalries. No railway of any importance has ever been projected or constructed in Manchuria that has not been the source of an interchange of notes between the world's Foreign Offices. When Russia projected an east and west line through Northern Manchuria — with a branch to Dalny — it was not with the idea of providing an outlet for the products of Manchuria, but rather with a view to securing a short route to the sea, via Vladivostok, for the products of Russia, in the first instance, and securing an all-the-year-round port as a naval base, in the second instance. After Japan had fallen heir to that part of the railway extending from Changchun to Dairen, it is safe to say that Japan could hardly have foreseen the great agricultural development which was to take place subsequently in Manchuria. From the standpoint of railway planning, what is of outstanding interest is that, although main lines of railway were provided for in the agreements between Russia, Japan and China, practically no provision was made for the construction of any branch lines. In order to appreciate the importance of these latter, it is only necessary to remember that, in countries similarly adapted to the pursuit of agriculture, the length of branch lines far exceeds that of main lines of railway. With the passing of the years — and after Japan had made vast investments in Manchuria — branch-line construction, unforeseen and unallowed for in the original agreements, became a necessity, and I think that, after reading this report, the Commission will agree that the situation as it exists to-day is at least in part due to measures taken by Japan to overcome that omission.

In this report, I have tried to avoid generalisation. After all, claims and counterclaims have been made by both sides and over a period of years. I considered, therefore, that the Commission would wish me to endeavour to sift to the bottom the more important of those claims. This I have endeavoured to do during the time at my disposal. A large part of that time has been devoted to obtaining information and to an endeavour to have that information confirmed from sources as neutral and reliable as possible. Should the Commission consider that I have gone too much into detail, my only explanation is that certain of the information obtained during my enquiry may prove of some use in possible future negotiations.

I realise that my report is of a rather disjointed nature. This is explained by the fact that I was obliged to complete it in parts — as the information became available. Certain sections had to be left open until the last in order that the Chinese might have the longest time possible to submit information. It is only fair to China to point out that this is due to the fact that much of the necessary documentation essential to the Chinese was, by virtue of the Japanese occupation of Manchuria, very difficult, and in some cases impossible, to obtain. In arriving at the conclusions which will be found at the end of this report, I have endeavoured to make due allowance for this fact.

Section II.

PARALLEL LINES.

“The Chinese Government engage, for the purpose of protecting the interests of the South Manchuria Railway, not to construct, prior to the recovery by them of said railway, any main line in the neighbourhood of and parallel to that railway, or any branch line which might be prejudicial to the interest of the above-mentioned railway.”

The legal aspects of the alleged infringement by China of the so-called Protocols of 1905 is, of course, a matter for the jurists to decide, and any opinions that I advance must be considered as from a purely railway operating viewpoint. In the search for a definition of what constitutes

a "parallel line", the Chinese contention is that "the usage followed in Europe and America" should be adopted as the standard. The authorities of the Peking-Mukden Railway furnish examples of regulations said to exist in certain States of South America where governmental agreements prohibit the construction of railways within distances ranging all the way from 20 to 50 kilometres (*i.e.*, from 12 to 30 miles).

In the Agreement between China and the United Kingdom of April 29th, 1902, in connection with the Peking-Shanhaikwan Railway, Clause 5 reads as follows :

"Under Clause 3 of the Agreement dated October 10th, 1898, it is stipulated that the construction of branch lines or extensions shall be undertaken by the Northern Railways Administration, and the intent of this stipulation is hereby confirmed in order to secure the existing interests of the railways. It is, therefore, agreed that the construction of any new railway within a distance of eighty miles of any portion of the existing lines, for which concessions have not been signed previous to the date of this Agreement, shall be undertaken by the Administrators-General of the Imperial Northern Railways."

In the correspondence of 1908 between the Chinese and Japanese Governments respecting the proposed Hsinmintun-Fakumen Railway, the Japanese made the following comment :

"According to the contract concluded between the Russo-Chinese Bank and the Chinese authorities in 1898 concerning the Chengtai Railway, and also according to that made between the Peking Syndicate and the authorities of the Province of Shansi in that year, the construction of any competitive line was not to be permitted within the distance of 100 Chinese li¹ on either side of the Chinese Chengtai Railway. In other words, the distance of 100 Chinese li was regarded as delimiting an area from which competition was to be debarred, and the construction of no other line was to be permitted within that area. This precedent constitutes a case in point, which undermines the foundations of the argument with which the Chinese Government, in respect of the Hsinmintun-Fakumen Railway, refer to the European and American criterion of distance between railway lines."

The Japanese contentions with respect to parallel lines go very far, as will be seen from the following :

At the time of the interchange of correspondence concerning the proposed line from Hsinmintun to Fakumen, Mr. Moritaro Abe, Japanese Chargé d'Affaires in China, in a note No. 61, addressed to Prince Ching on August 12th, 1907, stated that :

"The Japanese could in no circumstances acquiesce in the construction by China of any railway line which is parallel to the South Manchuria Railway, or which might be prejudicial to its interests, and that it was necessary that this point should be borne in mind by the Chinese authorities."

In document B submitted by the Japanese Assessor, "Relations of Japan with Manchuria and Mongolia" (page 116), we read :

Gigantic Plan to construct New Railways.

"Not satisfied with injuring the interests of the South Manchuria Railway by means of the operation of the various above-mentioned railways, constructed in defiance of the treaty, the Chinese planned the construction of many more. According to an announcement made in May 1930 by the Communications Commission of the North-Eastern Provinces, their plan was to make Hulutao the principal port and Chinwangtao and Yingkou subsidiary ports, and, by constructing certain trunk lines and numerous branch lines, to attract goods from South and North Manchuria to these ports. In the eventuality of the more important of these projected railways being constructed, the port of Dairen as well as the South Manchuria Railway itself would be made as good as valueless. Of these, the Communications Commission enumerated fifty-five lines as of actual feasibility, most of which are considered to be contrary to treaty provisions as constituting competitive lines to the South Manchuria Railway.

"Which of the projected lines can really be constructed in the near future is a matter to be considered from the standpoint of financial and other conditions, and to calculate the losses that might thus be incurred by the South Manchuria Railway may perhaps be a matter of conjecture. However, a few words must be said about certain lines, the construction of which may be easily realised and of which the Communications Commission had also been striving for the speedy construction. These are a line which should directly connect Taonan and Tungliao, and a line connecting Tungliao, Fuyu and Harbin. Were these lines completed, they would bring Harbin, Tsitsihar and other important centres of North Manchuria nearer to Hulutao than the existing lines do, and would undoubtedly deal a far heavier blow to the South Manchuria Railway."

I quote the above two instances to show the extent to which the Japanese contentions go, and that, if their viewpoint were to prevail, it would mean that China would be prevented from almost any kind of railway development in a great part of Manchuria because of future possible "through-traffic arrangements" (the expression "through traffic" is explained more fully in another part of this report). Moreover, I believe that, in some respects, the Japanese contentions, as set forth in document B, are quite inconsistent with Japanese commitments on other

¹ One hundred Chinese li equal approximately 38 miles.

occasions. For instance, the agreement of September 28th, 1918, provided for the construction of a line from Taonan to Jehol and from a point on the Taonan-Jehol Railway to a seaport (presumably Hulutao), and as late as 1922 at the Washington Conference the Japanese delegation made the following declaration :

“ Japan is ready to throw open to the joint activity of the International Financial Consortium recently organised the right of option granted exclusively in favour of Japanese capital, with regard, first, to loans for the construction of railways in South Manchuria and Eastern Inner Mongolia. ”

The declaration, of course, embraced the lines just referred to. If it was considered in 1918, and again in 1922, that the construction of such new lines was permissible, how can their construction logically be considered in 1932 as a violation of the so-called Parallel Lines Agreement and a threat to the port of Dairen ?

Another instance which is inconsistent with the subsequent objections raised by Japan to the construction of certain railways was the willingness evidenced by Japan in agreeing to the extension to Mukden from Hsinmintun of the Peking-Mukden Railway, thus bringing the Mukden area for the first time into contact with the Chinese ports in the Gulf of Chihli and drawing some part of the traffic from the Mukden area away from the South Manchuria Railway. Later, the Japanese agreed to the construction of the Mukden-Hailung Railway by the Chinese, but raised serious objections when the physical connection was made between that railway and the Peking-Mukden Railway Line, which connection, from a railway standpoint, was a most natural one.

Another Japanese objection which appears to be inconsistent is that set forth in the Japanese Assessor's document “B” (pages 114 and 115) concerning the threat to Dairen and the South Manchuria Railway by the building of the Chinese port of Hulutao. The arguments used were that the new Chinese railways — built or projected — would shorten the distance between important stations in North Manchuria and the sea, as compared with distance by the South Manchuria Railway. At the same time that Japan lodges this complaint, she advances a second one concerning China's failure to go ahead with the construction of the Tunhua-Huening extension, which would give a new outlet to Manchurian products via Sershin ; but Japan seems to ignore the fact that the rail haul to the sea by this route would be still more greatly reduced as a result of the construction of this new Chinese line. The total distance from Changchun to Osaka — Japan's main distributing centre — via the port of Seishin will be approximately 520 miles shorter than via Dairen.

It is practically impossible to think of an extensive railway development in any part of Manchuria which the Japanese could not claim “ prejudicial ” to the South Manchuria Railway ; and the Japanese, in so far as I am aware, have never stated what, in their opinion, would constitute a railway which did not fall within the terms of the 1905 Protocol. From the correspondence concerning the Hsinmintun-Fakumen Railway, one might conclude that the Japanese consider the distance of 100 Chinese li as delimiting the area from which competition was to be debarred ; but that, I take it, would only apply to what the Japanese term a “ parallel railway ”, because, on the grounds that a railway, if built, would be prejudicial to the South Manchuria Railway, they could always go much farther. For instance, a north and south railway line, if built by the Chinese, let us say from Manchouli to Peking, could certainly not be considered as in the neighbourhood of the South Manchuria Railway ; but, as it would no doubt carry some part of the traffic which now finds its way via Harbin and the South Manchuria Railway, it could not fail to fall under the term of “ prejudicial ”.

In the search for a definition of the terms used in the alleged Protocol of 1905, it would also be necessary to define the terms “ main line ” and “ branch line ”. Certain expressions are customary but not legal. For example, the main line of the Peking-Mukden Railway was originally to Newchwang, and Hsinmintun was the branch. When the railway was extended to Mukden, however, the branch became the main line, and Newchwang became the branch ; and, incidentally, the South Manchuria Railway was originally a branch of the Chinese Eastern. The Peking-Mukden Railway line extending north from Tahushan was also originally a branch, but when it was extended to Tungliao and became part of the through Chinese line to Tsitsihar, it might be considered as having become part of a new main line. Would it be contended that it was a line “ parallel ” to the South Manchuria Railway, or a branch line which might be “ prejudicial ” to the interest of the South Manchuria Railway ?

Regarding the Chinese contention that the usage followed in Europe and America should be adopted as the standard defining the term “ parallel railways ”, we meet with similar difficulties, because there is no such standard ; the practice varies according to the country and the circumstances. In the United States and Canada no arbitrary rule has been laid down with respect to distance. The authorities take into consideration such special circumstances as population, topography, etc., in connection with all applications for permission to construct new railways. In some instances, competing railways run for a hundred miles practically in sight of one another, and in other cases they are hundreds of miles apart.

From a railway-operating standpoint, the term “ parallel line ” can only be considered as meaning “ a competing line ”. It becomes necessary, therefore, to define the term “ competing line ”, and I would say that, in broad terms, such a railway is one that takes away from another railway some part of the traffic which would naturally have flowed to such other railway had the competing railway not been built, and here it should be remembered that there may be two classes of competitive traffic — *i.e.*, “ competitive local traffic ” and “ competitive through traffic ”. By the term “ competitive local traffic ” I refer to traffic originating in a territory contiguous to an existing railway which may be alienated to a competitive railway because of

the proximity of such competitive railway. By the expression "competitive through traffic" I refer to traffic which might be alienated to a competitive railway as a result of a railway tariff policy — even though the competitive railway is located far away from the territory of the existing railway.

In order to make it quite clear, I will quote one example to show what I mean by "competitive through traffic". The Chinese railways, in order to draw traffic to Chinese ports, have made an arrangement involving the following railways :

The Keshan Railway,
The Taonan-Anganchi Railway,
The Ssupingkai-Taonan Railway, and
The Peiping-Mukden Railway.

As a result of this arrangement, it is possible for merchants to ship their goods on a single through bill of lading from, let us say, Keshan to Yingkou. It was not, however, possible for the same merchants similarly to obtain a through bill of lading if they desired to send their goods to Dairen, for the reason that the Chinese refused to put into effect such an arrangement with the South Manchuria Railway. This example will, I hope, make clear the case of tariff arrangements being utilised to obtain competitive traffic, even though the so-called "parallel line" is located far away from the other railway.

Up to the present time, in an endeavour to describe what is or is not a competing railway, diplomats, students and others seem to have relied entirely on the "yardstick" method. In other words, geographical distance as between various lines was the criterion most frequently advanced in order to arrive at a solution. I believe that the failure to find such a solution is in a large part due to the basic weakness of this method. Railway tariffs can easily be established so as to overcome distance ; therefore, in order to arrive at a true understanding of the position in Manchuria, an examination of the tariff policies of the different railways becomes essential.

Section III.

RATE STRUCTURE.

The most important feature of a railway's tariff policy is, of course, its rate structure. The friction which has developed between Japanese and Chinese owned railways has become embittered by the difference, not only in policy between the different railways, but more complicated still by local conditions explained later in this report.

We must first consider the important question of general policy. The Japanese complaint is that, quite apart from the results arising out of the debasement of silver currency, Chinese railway rates are lower than the South Manchuria Railway can afford to adopt. China's reply is that the South Manchuria Railway is a foreign-owned company whose policy is to make as much money as it can, whereas the Chinese railways were constructed to assist, not only in opening up the country, but also to enable the farmers to reach the markets as cheaply as possible, and not so much with a view to the railways making money over and above sums required to meet fixed charges.

The subject *freight rates* is a study in itself, and comparisons are particularly difficult to make in the case of Manchuria because of fluctuating rates of exchange, different currencies and lack of uniformity in the tariff arrangements. The South Manchuria Railway, for instance, carries all goods at what is known as "railway's risk", and rates quoted by that railway include terminal handling charges. On the other hand, the Peking-Mukden Railway will quote either "railway's risk" or "owner's risk", and their handling costs at the terminal station are charged for on a different basis. A discount of 10 per cent on the published tariff is permitted for goods carried at "owner's risk". Another difference is that the South Manchuria Railway quotes "export" rates on cereals to be exported from Manchuria at a lower figure than the rates charged for goods consumed in the domestic market. The Chinese railways make no such distinction.

From a mass of figures, tariffs and railway rates statistics, furnished by both sides, there seems to be no reason to doubt the contention that, apart altogether from the fall in the price of silver, the rates in effect on the Chinese railways per ton-kilometre are in many cases lower than those in effect on the South Manchuria Railway.

In the competition to secure traffic for their respective lines, from the territory between Mukden and Kirin east of the main line of the South Manchuria Railway, rate cutting seems to have started in 1929 or 1930, which date practically coincided with the date of the opening of the Hailung-Kirin Railway.

The South Manchuria Railway authorities contend that these Chinese rate reductions amounted to as much as 73 per cent in some instances. The Peking-Mukden Railway say that this is exaggerated, but they admit that reductions amounting to from 5 to 47 per cent in the freight rate for the transport of cereals were established. The reasons given by the Chinese railways generally for such drastic reductions are as follows :

- (1) Due to famine disasters in other parts of China, the Government, in order to get food to the famine-stricken lands as cheaply as possible, decided to reduce railway rates ; and

(2) An American railway expert, by the name of Mantel, made a report on all Chinese railway problems, and one of his recommendations was that freight rates on cereals should be reduced to the lowest figure possible.

When cutting rates, it is significant that it was nearly always, if not entirely, freight in competitive areas which would tend to benefit by the reduced tariffs. It is, therefore, difficult to argue that such measures were taken for the purpose of benefiting commerce in general.

The Japanese contend that, in many instances, it would be quite impossible for them to compete with the rates now charged by the Chinese railways, and their contention is that quite a large part of traffic which would normally be shipped over the South Manchuria Railway now finds its way to the Chinese railways because of the latter's lower charges. The question therefore arises as to whether the South Manchuria Railway rates are higher than they should be, and I asked for a comparative table giving rates charged in other countries, with the following result :

| Railway | Unit | Per ton-kilometre | In Japanese yen |
|--|-------------|-------------------|-----------------|
| South Manchuria Railway | Sen | 1.60 | 1.60 |
| Chosen Government Railways | Sen | 1.60 | 1.60 |
| Japanese Government Railways | Sen | 1.80 | 1.80 |
| American Railways (all) | Cent | 0.74 | 2.33 |
| London, Midland and Scottish Railway | Pence | 0.80 | 3.72 |
| Northern Railway (France). | Franc | 0.211 | 2.71 |
| Chinese Eastern Railway | Gold rouble | 0.021 | 3.39 |
| German Reich Railways | Mark | 0.04 | 3.01 |

Remarks. — The exchange rates used in conversion are those published by the Ministry of Communications of Japan on March 22nd, 1932. However, the gold rouble rate is in accordance with the market rate of the Ussuri Railway Bond on the same day :

| | Gold yen |
|-----------------------|----------|
| Mark | 0.75188 |
| Gold rouble | 1.61420 |
| Franc | 0.12821 |
| Pence | 0.0465 |
| Cent | 0.03149 |

I am unable to confirm the correctness of the rates quoted for foreign countries except in the case of United States Railways, and the rate given in the Japanese table for American railways practically agrees with the figures given in the 1929 edition of the *Year-Book of Railroad Information* (New York).

Section IV.

CARTAGE OPERATIONS.

I have made reference elsewhere in this report to the question of cartage. Conditions in Manchuria in this respect are, I believe, quite unique, and, from a railway standpoint, tend to create problems which exist nowhere else, unless one takes motor transport as being analogous. Basically, the principle is the same, but comparison is difficult otherwise.

* * *

In Manchuria, in the winter when the ground is frozen and at a time when the farmers have little use otherwise for their horses or cattle, cartage of cereals and other freight takes place to railheads from points far removed from the railway. The Economic Bureau of the Chinese Eastern Railway estimates this traffic to amount to 300,000 tons annually, in spite of measures taken by the Chinese Eastern Railway and the South Manchuria Railway to combat the traffic. To indicate the extent and importance of these cartage routes, it is only necessary to point out that, when the freight rates on the Chinese Eastern Railway, Southern Branch, were unduly high, with a view to drawing traffic away from the South Manchuria Railway port at Dairen in favour of Vladivostok, cartage operations were carried on successfully all the way from Harbin to Changchun, a distance of 150 miles (or 240 kilometres).

My purpose in emphasising the cart traffic problem is because it has a direct influence on the whole question of parallel or competitive railways, as may be seen from the following :

Assume, for purposes of explanation, a shipment of cereals to a seaport from a station 500 kilometres away from such seaport. If the Chinese railways, for instance, reduce their freight rates by as small a sum as 5 mills per ton per kilometre, this would be equivalent to a reduction of 2.50 yen per ton for the 500-kilometre journey. If one assumes a cartage rate of 5 sen per ton-kilometre (cartage rates are said to vary from 4 to 8 sen per ton-kilometre), the 2.50 yen referred to above as being saved by the rates reduction could be used to pay for cartage over a land distance of 50 kilometres. In other words, the competitive territory on either side of the railway would be increased by 50 kilometres.

From the foregoing example, it is very evident that a slight cutting in freight rates would result in greatly increasing the extent of the territory from which competing railways can draw. The Japanese contend that the Chinese railways, by reducing their freight rates, can

thus now draw from territories formerly served by the South Manchuria Railway. On the other hand, the Chinese say that they have conclusive evidence to show that the South Manchuria Railway, rather than reduce its freight rates, is, in fact, subsidising carts to win traffic away from certain stations on the Chinese railways.

Section V.

DISTRIBUTION OF TRAFFIC TO SEAPORTS.

The South Manchuria Railway has submitted a statement compiled by their Research Bureau in their endeavour to prove the changing traffic position as a result of the building of the new Chinese lines in Manchuria. This statement will be found as Annex I to this study.

Statistics are given for the years 1928, 1929 and 1930. The figures for 1931 are partly hypothetical because the twelve months' total is based on the nine months preceding the incident of September 1931. In other words, the South Manchuria Railway has taken what they say were the nine months' actual figures up to September, and assumed the relative distribution of traffic for the last three months as continuing in the same ratio. I have no way of confirming the exactness of this statement. I do not think the Chinese authorities are prepared to deny a rapidly increasing growth of traffic from areas on certain of their new lines; but they say that this was not necessarily at the expense of the South Manchuria Railway, but represented, to a large extent, entirely new traffic developed as a result of additional lands opened up to agriculture by virtue of their railway expansion policy. The South Manchuria Railway authorities, on the other hand, have furnished certain concrete cases to prove the diversion from their railway of bean traffic. Two such instances are as follows:

(1) During the period April to July 1931, approximately 11,000 tons of cereals originating at stations on the South Manchuria Railway in the vicinity of Ssuping kai were forwarded to Tungliao via Ssuping kai to be delivered to the Peking-Mukden Railway for hauling to Yingkou for export;

(2) A shipment of 10,000 tons of cereals from Changchun station of the South Manchuria Railway to Kirin for transshipment to the Kirin-Hailung Railway, consigned to Yingkou for export.

The South Manchuria Railway's contention is that the low rates quoted by the Chinese railways made it more economical for shippers to pay the local rates between points on the South Manchuria Railway to the nearest connecting station of the competitive Chinese railways, notwithstanding that, in the case of the shipment via Kirin, additional cartage charges would have to be added in view of the fact that there was no railway connection between the two railways at that point.

To sum up, in the past few years the Chinese port of Yingkou (referred to hereafter as Hopei in order to distinguish it from the Japanese port of Yingkou) seems to have gained considerable ground as an export centre. At the same time, the port of Dairen has been falling off since 1929. It is impossible to say what part of the additional traffic passing through the port of Hopei is due to entirely new traffic originating as the result of additional country opened up by new Chinese lines; but the fact remains that competition for export traffic between the South Manchuria Railway and Chinese railways had become, for reasons explained elsewhere in this report, accentuated by 1931, and neither side, I think, would be prepared to deny this.

That the Chinese authorities were increasing the facilities of the port of Hopei to take care of the expected increase in traffic can also, I believe, be confirmed. It is significant that the Peking-Mukden Railway, which is the neck of the bottle in so far as Chinese railways' export traffic is concerned, had, in 1931, the most profitable year in its history.

It is stated elsewhere in this report that only about one-third of the earnings of the Peking-Mukden Railway are obtained from the outside Wall section of the railway. The company, in a statement of earnings submitted to me, show, for the extra mural section in 1927, \$10,277,540, and, for 1930, \$14,490,029, which is an increase of 41 per cent.

The South Manchuria Railway have furnished figures showing traffic transferred from the Mukden-Hailung Railway to the South Manchuria Railway at Mukden for the months of April, May, June and July 1931 as 64,720 tons, as compared with 201,384 tons transferred during the same period by the Mukden-Hailung line to the Peking-Mukden Railway.

The Japanese Assessor, in document B (page 112), makes use of the note from the late Marshal Chang Tso-lin to the Japanese Acting Consul-General at Mukden, January 18th, 1927, in which the Marshal described the proposed Kirin-Hailung Railway as being "tantamount to the addition of a branch line to the South Manchuria Railway", and stated that this line was "esteemed to be no more than an extension of the operation of the South Manchuria Railway".

The Japanese assert that the extension of the railway to Kirin has resulted in the creation of a competitive railway rather than a feeder to the South Manchuria Railway.

Section VI.

THROUGH-TRAFFIC AGREEMENTS.

By the expression "through-traffic" agreement is meant an arrangement entered into by railways for the forwarding of consignments from points on one railway to points on another railway on a single waybill or bill of lading covering the entire voyage. The transport charges for the full journey are levied at the station first receiving the goods, or in certain cases tariff arrangements permit the charges for the whole journey to be paid at the station of destination. In either instance, the railway company receiving such charges is responsible *vis-à-vis* all railways taking part in the carriage for a proper accounting and eventual distribution of the moneys received. Such through-traffic agreements are, of course, a great convenience to merchants and are encouraged — and, indeed, made obligatory — by Government authorities in other countries. In Manchuria, through-traffic agreements exist between most of the railways but do not exist between the Taonan-Angangchi Railway and the South Manchuria Railway companies. Neither do they exist between the Kirin-Hailung Railway and the South Manchuria companies.

In the case of the Taonan-Angangchi Railway, the Chinese authorities have prevented such an arrangement.

When the Ssupingkai-Taonan Railway was completed in 1924, that railway had no outlet for its traffic other than by the South Manchuria Railway, with the consequence that the Chinese authorities readily agreed to a through-traffic agreement, and such an agreement was entered into willingly by both parties concerned. By the time that the Taonan-Angangchi Railway was constructed, the Tahushan-Tungliao branch of the Peking-Mukden Railway had been either projected or it was actually under construction. The Chinese railways, therefore, desirous of diverting as much traffic as possible to their own lines, refused the Japanese request for through-traffic arrangements, but they did enter into through-traffic agreements with the Peking-Mukden Railway. This action proved beneficial to the Chinese lines because, not only did it result in drawing business from the Taonan-Angangchi Railway, but it also could be depended upon to divert to the Peking-Mukden Railway traffic which was later to develop on the projected Keshan Railway running north from Angangchi. The Chinese authorities do not give the foregoing reasons for their refusal of the request of the South Manchuria Railway for a through-traffic agreement, but, from the standpoint of railway strategy, the reasons seem quite apparent.

The reasons for there being no through traffic facilities between the Kirin-Hailung Railway and the South Manchuria Railway are the following :

The Japanese, as operators under contract of the Kirin-Changchun Railway, have always refused a physical connection between that railway and the Kirin-Hailung Railway in order to prevent traffic originating on the Kirin-Changchun and Kirin-Tunhua railways from being diverted south through the Chinese railways rather than finding its way to Changchun for forwarding via the South Manchuria Railway. In view of this refusal, the Chinese refused a through-traffic agreement which would tend to facilitate the diversion of traffic south via Mukden to points on the South Manchuria Railway instead of to Hopei by the Peking-Mukden Railway.

It should be pointed out, however, that, notwithstanding the lack of through-traffic agreements in the above two instances, a fair quantity of traffic originating on the Taonan-Angangchi Railway is sent to the South Manchuria Railway through Ssupingkai as well in the one instance as in the other instance. But, due to lack of through-traffic arrangements, reconsignment at the junction points is necessary, which, of course, is a hardship on the merchants, because it involves additional labour and a certain additional expense.

Section VII.

RATE DISCRIMINATION.

One of the sources of friction between Chinese and Japanese as well as other foreign interests is alleged discrimination in freight rates on Chinese railways based on the nationality of the goods. For instance, Japan has submitted a memorandum containing extracts from the fifth issue (January 1930) of the Chinese railways' general classification of goods issued by the Ministry of Railways in Nanking. The Japanese memorandum lists twenty-four articles of merchandise for which cheaper freight rates are quoted if such merchandise is of Chinese manufacture. In the Chinese classification referred to, the definition for goods imported or of foreign manufacture is as follows :

1. Goods manufactured in foreign countries and imported into China ;
2. Goods manufactured in China :
 - (a) With Chinese and foreign capital, foreign administration, Chinese materials and Chinese labour ;
 - (b) With foreign capital and administration and Chinese materials and Chinese labour.

The Shanghai General Chamber of Commerce of September 5th, 1931, issued the following statement :

“ Discrimination against Non-Chinese Goods on Chinese Government Railways.

“ Discrimination against goods of non-Chinese shippers by according preferential freight rates to Chinese shippers is now being enforced on several lines of the Chinese Government Railways with the probability of becoming uniformly effective throughout China.

“ The official basis for applying these discriminatory rates is contained in the publication of the Ministry of Railways, ‘ Chinese Railways : General Classification of Goods by Goods Trains ’ : fifth issue, January 1930, page 17 :

“ ‘ The terms “ imported and/or foreign manufacture ” as employed in this classification shall be considered to cover goods as follows : (1) goods manufactured in foreign countries and imported into China ; (2) goods manufactured in China with Chinese and foreign capital, foreign administration, Chinese material and Chinese labour, etc., and on “ imported ” goods as thus defined higher freight rates are applicable.’

“ Also, in the latest freight classification published by the Ministry of Railways in ‘ Provisional Revised Grading List of Ordinary Commodities ’ effective on August 10th, 1931, articles are classified in the grading lists as ‘ selected ’ and ‘ ordinary ’, with higher freight rates collectable on goods in the intention of the railway authorities to classify under ‘ selected ’ all goods coming within the ‘ imported ’ class, as defined above. Thus the goods of all non-Chinese shippers will pay on the basis applicable to ‘ selected ’ grading, averaging about 50 per cent more for freight on the same articles than is paid by Chinese shippers on ‘ ordinary ’ grading. The avowed purpose of this interpretation of ‘ selected ’ and ‘ ordinary ’ is to accord preferential treatment to native industries.

“ Such measures constitute a serious handicap, not only to goods actually imported into China, but to all goods manufactured in China with any form of foreign co-operation, or in the hand of non-Chinese shippers.

“ This discrimination is of vital importance to all non-Chinese companies and/or individuals in China, and requires immediate consideration, particularly in view of the revision of treaties now pending.

“ China agrees that, throughout the whole of the railways in China, she will not exercise or permit unfair discrimination of any kind. In particular, there shall be no discrimination whatever, direct or indirect, in respect of charges or of facilities on the ground of the nationality of passengers or the countries from which or to which they are proceeding, or the origin or ownership of goods or the country from which or to which they are consigned, or the nationality or ownership of the ship or other means of conveying such passengers or goods before or after their transport on the Chinese railways.

“ The contracting Powers, other than China, assume a corresponding obligation in respect of any of the aforesaid railways over which they or their nationals are in a position to exercise any control in virtue of any concession, special agreement or otherwise.”

Other forms of discrimination quoted by the Japanese are based on special orders issued by the Ministry of Railways in Nanking and transmitted to Manchurian railways through the Committee on Communications for the North-Eastern Provinces (Annex II) as, for example :

1. An order issued in July 1931, stating that, “ besides the classification of foreign goods and native goods as mentioned in 5, goods manufactured by the Wei Chon Company (silk cloth and silk thread) shall be reduced by 30 per cent ”.

2. An order from the Ministry of Railways of March 1930, reading as follows : “ Besides the classification of foreign and native goods as mentioned in 6, matches manufactured in China shall be lowered by one classification and those manufactured in foreign countries shall be raised by one classification and this shall come into force from March 1st, 1930 (Chinese matches, fourth class ; foreign matches, first class) ”.

The Chinese have submitted statements (Annex III, page 126, and Annex IV, page 127) setting forth very fully their viewpoint. They admit the difference in freight rates for foreign goods as compared to those charged for Chinese goods, and say that their action is justified because “ certain articles of popular consumption made in foreign countries are finer in quality and higher in price than the crude native manufacture, and that, in the absence of an actual protective tariff, the Chinese Government must try to make use of the meagre resources at its command to encourage the growth of native industry ”.

With regard to the contention that there is a violation of Article V of the Nine-Power Treaty (Washington 1922), the Chinese state that, as this measure applies to the same kind of commodities of different nationalities, there is no discrimination, which, they add, confirms the announcement of the chief Chinese delegate at the time of the Conference.

The explanation set forth in Annexes 3 and 4 referred to above do not appear to be satisfactory, and the only conclusion that can be arrived at is that the complaint of the foreign Powers is justified.

Section VIII.

ALLEGED DISCRIMINATION IN CUSTOMS DUES AT CERTAIN COMPETITIVE PORTS.

The Japanese have furnished me with the following memorandum under date of May 4th :

“ I. As one of the results of the autonomy which the Chinese Maritime Customs gained since June 1st, 1930, the Nanking Government issued Customs instructions in February 1931, to the effect that the system of drawback privilege, which had been permitted in favour of foreign re-export goods, should be abolished. Moreover, in spite of the fact that they adopted a system of exempting the double import duty by issuing exemption certificates in favour of those goods destined to Hopei and other Chinese ports (which are in competitive positions with Dairen), they refused to issue the said exemption certificate for goods booked through Dairen by disregarding the agreement for the establishment of Chinese Maritime Customs at Dairen, contending that Kwantung Province is a foreign land and adhering to the fact that Dairen Customs is within the Kwantung Province. On account of this, it had not only become unable to obtain refund of the duty already paid at the original port of entry, but import duty had also come to be levied for the second time against goods destined to interior outside the said province through Dairen.

“ Needless to say, such an act has a considerable adverse effect upon the foreign and domestic merchants trading through the port of Dairen, as well as grave consequences upon the import traffic of the South Manchuria Railway and the port of Dairen.

“ However, as a result of a series of negotiations which took place between the Japanese Minister to China and the Chinese Finance Minister and between Dairen Customs and Kwantung Government, the Japanese contention is now prevailing by means of temporary expedience.

“ II. As regards tobacco, full amount of the duty was levied at Dairen, whereas only one-fifth of the amount of duty was collected at Yingkou, the remaining four-fifths being returned in the form of refund.”

I asked the Chinese if I could have their side of the case, and they asked that I should submit the Japanese complaint in writing, which I did on June 13th ; but up to the date of completion of this report I have not received a reply. This, in fact, is a Customs matter and is only related to railway questions in so far as it might have the effect of diverting traffic from one line to another.

Section IX.

JAPANESE COMPLAINT CONCERNING THE CHANGCHUN-KWANCHANGTZU BRANCH.

The Japanese Assessor in document B maintains that the Chinese planned a further extension of their competitive tactics by constructing, in 1928, a connecting line between Kwanchangtzu, the terminus of the southern section of the Chinese Railway, and Changchun, the terminus of the Kirin-Changchun Railway, with the purpose of cutting off from the South Manchuria Railway some part of the traffic passing to the latter railway from the Chinese Eastern Railway. I examined this complaint fully and find that the date of the construction is not 1928. The line was actually commenced on November 10th, 1929, and completed on December 1st, 1929, and its construction was due to the refusal of the South Manchuria Railway to carry Chinese troops and ammunition at the time of the Sino-Soviet dispute. After the Sino-Soviet settlement and after the Japanese has protested verbally, the Chinese seem to have made no further use of the railway.

If the line had been constructed in 1928, which was the year before the Sino-Soviet difficulties, then the Japanese complaint would have had some significance ; but, as the line was, as already stated, only built at the end of 1929, I think the Chinese explanation to the effect that it was for the purpose of handling troops and army supplies can readily be accepted. The South Manchuria Railway authorities confirm that the line was only built in 1929, which would indicate that the Assessor had been misinformed.

Section X.

SECRET REBATES.

On various occasions the question of secret rebates by the South Manchuria Railway has been raised, and, after careful enquiries from neutral sources, including the foreign Consuls, etc., I have been unable to confirm the statement that such rebates were being granted direct to favoured shippers by the South Manchuria Railway. However, a somewhat similar result is

obtained by that company as a result of its relations with the Kokusai Company. The latter organisation is a joint-stock company said to have been organised by the railway company and controlled as to stockholdings by the railway. The Kokusai Company is ostensibly a forwarding agency (*maison d'expédition*), and I understand that it can quote freight rates on the South Manchuria Railway anywhere up to 25 per cent reduction on the published tariff rates. If a reduction of only 15 per cent is given, then the difference between 15 per cent and 25 per cent remains as profit of the Kokusai Company. If the other shareholders in this company should be large Japanese firms — such as the Mitsui Company or the Mitsubishi Company, for instance — it will be readily seen that this system of rate-cutting would have the result of discrimination in favour of the large Japanese purchasers of agricultural products. As the list of stockholders in the Kokusai Company is not available, however, it cannot be stated that the Kokusai Company is used to unduly favour Japanese nationals. The South Manchuria Railway Company's connection with the Kokusai Company evidently became embarrassing to the railway, because it is affirmed that another company is now being used for obtaining the same ends — *i.e.*, the agency commonly known as the Monokata Company, but is actually the Cheng-Sa-Tung Company, of which Monokata, a Japanese national, is the head.

It is only fair to add that other forwarding agencies have received similar concessions from the South Manchuria Railway on certain occasions when it was a question of competing for traffic with the Chinese railways or the Chinese Eastern Railway, and, in view of the fact that the latter railway has for years carried out a somewhat similar policy — but more openly because of the fact that it was through the so-called Commercial Agency of the Chinese Eastern Railway that made the reductions — the South Manchuria Railway, in order to protect its own interests, may have had to follow suit.

I have heard no complaint that the Chinese-owned railways gave secret rebates, although, when in Harbin, I was told by a forwarding agency (European owned) that, in the event of large consignments of beans being offered for shipment to Chinese ports from stations in the vicinity of Tsitsihar, for instance, especially low freight rates could be obtained.

I think the foregoing facts indicate that, throughout Manchuria, the published freight rates are not in all instances adhered to.

Section XI.

CHINESE RAILWAYS AND JAPANESE LOANS.

The following railways were built entirely with Chinese money :

| | Kilometres |
|----------------------------------|------------|
| Mukden-Hailung Railway | 326 |
| Hailung-Kirin Railway | 184 |
| Keshan Railway | 256 |
| Hulan-Hailun Railway | 221 |

The Peking-Mukden Railway was financed partly by British and partly by Chinese capital and has 887 kilometres of railway outside the Great Wall.

The following Chinese railway lines were constructed with Japanese capital :

| | Kilometres |
|---|------------|
| Kirin-Changchun | 128 |
| Kirin-Tunhua | 210 |
| Ssupingkai-Taonan (and branch to Tungliao) | 426 |
| Taonan-Angangchi (and branch towards Solun) | 309 |

A Japanese statement giving the particulars of the various loans, their amounts, and the accumulated interest up to December 31st, 1931, is set forth in Annex V. The only instances when the loans advanced by the Japanese have been turned into long-term loans are in the cases of the Kirin-Changchun Loan of 1917, which is for thirty years, and the Ssupingkai-Chinchiatun Loan of 1915, which is for forty years. The other loans were all waiting final adjustment at the time of the September incident.

There has been a great deal of discussion as to the circumstances under which these loans were made and as to the purposes for which they were intended. The Chinese contention that, in some instances at least, the loans were forced upon them for the construction of railways which they did not wish to build and which were so unlikely to be profitable that they would not meet their fixed charges, is a matter which can hardly be judged from a railway operating standpoint, because it seems to be more a question of international politics or international morals.

The rates of interest being charged by the Japanese range from 5 per cent to 9 per cent, but, in addition to the interest charges, there was also the so-called handling charges, which, in the case of the Ssupingkai-Taonan Railway Loan, for instance, amounted to 5.5 per cent, and I understand that there was a similar handling fee in the case of the loans for the construction of the other railways. It is reported that the Chinese have stated that as much as 15 per cent was being charged by the Japanese by way of interest, but the latter deny this and say that 9.5 per cent was the highest rate charged (since reduced to 9 per cent), and that the 5.5 per cent

handling fee was only added at the time of the first issue of the loan but was not included in the case of loan renewal, unless, of course, additional capital was borrowed. Subsequent enquiries put to the Chinese confirm the Japanese contention.

The dispute respecting questions of loans has become more involved in the course of negotiations by reason of the fact that extraneous questions have been introduced into the controversy. One example: the Japanese say that, when discussing the renewal of the thirty-two million yen loan of the Ssuningkai-Taonan Railway which expired on May 31st, 1926, the Chinese protested against the high rate of interest and the Japanese offered to reduce the rate if the Chinese railways would agree to enter into a through-traffic agreement as between the Taonan-Angangchi Railway and the South Manchuria Railway (see my remarks on "Through-Traffic Agreements" in another section of this report). This the Chinese refuse to do, so the loan remains outstanding and unrenewed and each year the arrears accumulate.

From a railway standpoint, the loan question is mostly interesting from the standpoint of capitalisation and the earning powers of the railways financed as a result of the loans. From the statements (see Annex VI) of the various Chinese railways, in so far as I have been able to obtain them, I think it is safe to say that, considering the amount of capital invested, none of the Chinese railways built with Japanese capital are proving profitable or are likely to be able to meet their fixed charges out of earnings. This statement is confirmed by the remarks in the Chinese Assessor's document No. 15 (page 7), which reads as follows :

"The South Manchuria Railway Company, in the execution of that policy, has, among other things, forced upon the Chinese Government loan contracts against the public opinion of the Chinese people. In such cases, Japan's object was strategic and political rather than industrial, as has been shown in many instances where the consideration of the earning powers and commercial prospects was often neglected in the selection, construction and management of the railway lines by the Japanese. The result is that all the lines constructed with Japanese capital are at present in deficit with ever-increasing debt obligations. Furthermore, conflicts over administrative authority have often occurred, making the controversy over the railways more complicated than ever."

Section XII.

PEKING-MUKDEN RAILWAY AND ITS POSITION VIS-A-VIS CERTAIN LOAN AGREEMENTS.

The Hong-Kong and Shanghai Banking Corporation and the firm of Jardine Matheson Company formed the British-Chinese Corporation, Ltd., and, in 1898, the corporation made an agreement with the Governor of Peking and the Administrator-General of the railways of North China for a loan by the Corporation of 2,300,000 pounds sterling to be used in extending the line of the Peking-Mukden Railway. This loan was secured on the permanent way, rolling-stock and entire property of the railway between Peking and Shanhaikuan. In addition to this security, the corporation was also given a loan on the earnings of the portion of the railway extending beyond the Wall. Of the original loan of 2,300,000 pounds sterling, only 747,500 pounds sterling remain outstanding.

On account of the favourable position of the railway as to surplus, the Chinese Government has, from time to time, assigned the surplus earnings as collateral security for other loans, to wit, the Shanghai-Hangchow-Ningpo Railway Loan of 1908, and the Shanghai-Fengching Mortgage Redemption Loan of 1914; and, in addition to these, when the density of traffic made it necessary to double-track the section of the line between Tangshan and Shanhaikuan, the Double-Track Loan of 1921 was also secured upon the surplus earnings.

Except for short intervals when traffic was disorganised by civil war and military movements, the revenue of the railway has been greatly in excess of the obligations for service of the loans secured upon it, and these were regularly met up to the year 1926, after which date, under the regime of Marshal Chang Tso-lin, the obligations in connection with the Shanghai-Hangchow-Ningpo and Shanghai-Fengching Loans were repudiated on the grounds of hostilities between the North and South, and the monthly repayments of the Double-Track Loan were also suspended.

The corporation states that the policy of Marshal Chang Tso-lin, and of his son and successor Chang Hsueh-liang, was directed towards development of the extra-mural section of the line and the construction of Manchurian branch lines with central administration and workshops at Mukden, new port at Hulutao, etc., to which purposes the surplus earnings remaining, after payment of subsidies to the Marshal for military purposes, have been devoted. To facilitate this programme, the earnings of the extra-mural section for the past six years have been deposited in Chinese banks in Mukden, where the accounts have been manipulated by the Chinese Director without authority of the British Chief Accountant of the Railway, in breach of the terms of the Loan Agreement, which lays down that all receipts and earnings shall be deposited with the Hong-Kong and Shanghai Banking Corporation at Tientsin.

Following upon the Japanese *coup d'état* of September 18th, 1931, the administration of the railway sought to transfer their funds in the Chinese banks at Mukden to the foreign banks for payment of loan and other obligations, but an embargo was placed upon the deposits by the Japanese advisers, and the funds have only been released, or paid out, under Japanese advice, month by month for payment of loan services.

The position of this loan has always been considered satisfactory, because payments have always been met by the Chinese out of the surplus earnings up to September 1931, and, since

that date, the Japanese authorities have so far continued to meet the service of the loan out of funds lying to the credit of the railway in Mukden banks. Of course, just what will happen in the future it is impossible to say, but I understand the corporation has been informed by the Japanese authorities that they would continue to meet the payments when due.

PEKING-MUKDEN RAILWAY DOUBLE-TRACK LOAN.

This loan was contracted for in 1921 and was secured both as to principal and interest by a first charge upon the surplus earnings of the railway subject to the existing charges. The amount was for 5,000,000 pounds sterling and 2,000,000 dollars to be repaid monthly at the rate of not less than 10,000 pounds as to the sterling portion and 50,000 dollars as to the dollar portion.

Beginning January 1925, payments were suspended, but were partially resumed in 1927. The corporation states that small payments were made regularly in the early months of 1928, but were suspended again in June of that year, when Marshal Chang Tso-lin retired to Mukden and carried off most of the rolling-stock of this and other lines into Manchuria. Minor payments were resumed in 1929, but it was not until May 1930 that repayments in terms of the agreement were regularly recommenced. This was no doubt due to the protest of the British Government against the finance of the construction of the port of Hulutao from the surplus earnings of the railway, which were already pledged, and, as the silver portion of the loan was finally all paid up in August 1930, the Railway Administration promised to continue the monthly silver payments to expedite the liquidation of the sterling portion of the loan. In August 1931, the Managing Director of the Railway demanded a moratorium of one year in repayments of the Double-Track Loan (which, under the Agreement, should have been liquidated in the spring of 1927), on the plea that funds were required for development works at Hopei and on the Manchurian branch lines. Since that date, the monthly repayments of this loan have been made from Mukden. The payment of 10,000 pounds sterling due April 15th, 1932, was paid by Mukden on time.

With respect to the Railway Administration's promise to continue the monthly silver payments in order to hasten the liquidation of the balance of the sterling portion of the loan, the corporation states that only four payments have so far been made in fulfilment of that undertaking, and that twelve monthly payments remain due.

As already explained, the surplus earnings of the Peking-Mukden Railway were also pledged as security for loans to railways in other parts of China—viz., Shanghai-Hangchow-Ningpo Railway and the Shanghai-Fenching Railway. In connection with the former line, the amortisation instalments fell into arrears, and, in June 1932, a sum of 95,281 pounds sterling was outstanding. In the case of the Shanghai-Fengching Railway, the service of the loan was regularly met until the beginning of 1926, when defaults commenced and have since continued.

The obligation assumed under these two Loan Agreements has been repudiated by the Peking-Mukden Railway Administration. The corporation states that, ever since the nominal allegiance of the Peking-Mukden Railway to the Nanking Ministry of Railways, the present Managing Director has refused to resume payment of the service of the loan, although ample funds have been available. It is stated that the Ministry of Railways at one time put forward the pretext that this was an obligation of the Ministry of Finance, but that in 1929 and 1930 the Ministry admitted the responsibility of the Peking-Mukden Railway by instructing the Managing Director to resume payments. The Managing Director, however, refused to comply with the order of the Ministry. Information has been given me by sources which I consider to be reliable that the reason for the Nanking Government's refusing to bring the necessary pressure to bear on the Peking-Mukden Railway to live up to contractual obligations entered into by the Government is that the Central Government has been unsuccessful in its attempts to install its own nominees in the administration of the Peking-Mukden Railway and that, until such time as it succeeds in securing control of that administration and its surplus funds, it will not take the responsibility for the payment of any loan service which may have been secured on those funds.

It will be seen from the foregoing that the Mukden authorities are assuming responsibility for the 1898 Loan as well as for the Double-Track Loan—this in spite of the fact that about one-third of the earnings of the Peking-Mukden Railway are derived from the extra-mural section of the line. This means, of course, that two-thirds of the earnings of the railway still find their way to Tientsin and, as the outside-wall section of the line is at present relieved of nearly all the debt service of the two loans in question (the only exception being of certain silver dollar payments for a portion of the Double-Track Loan), it would seem reasonable to expect that Tientsin would now meet its obligations with respect to the Shanghai-Hangchow-Ningpo Railway and to the Shanghai-Fengching Railway.

Section XIII.

SINO-JAPANESE RAILWAY NEGOTIATIONS IN 1931.

The Commission will recall that, at the interview with Marshal Chang Hsueh-liang in Peiping on April 12th, 1932, the Marshal referred to the railway negotiations between M. Kimura and M. Kao Chi-yi. M. Kao Chi-yi, who was present at the interview, offered to submit a memorandum in connection with this matter, since received (see Annex VII).

Summarising the facts briefly, I think we may conclude from the information submitted that, on January 22nd, 1931, the Japanese, on their own initiative, decided that it would be advantageous to open up negotiations without delay with the view to settling the outstanding railway problems in Manchuria.

The Japanese submitted an agenda which called for discussion of the following points :

- (1) Construction of railways in which the Japanese were interested by treaty or contractual relations ;
- (2) Parallel railways ;
- (3) Competition between Chinese and Japanese railways in Manchuria ;
- (4) Railways which had been built for China by the South Manchuria Railway as contractor but the building contracts of which had not been formally converted into loan agreements.

At the first interview between the Marshal and M. Kimura, the Marshal stated that he would appoint delegates. On the following day, January 23rd, Mr. Kimura submitted a memorandum of which the following is the translation submitted by the Chinese :

“ The following is the gist of the views which I expressed to you during my interview with you on January 22nd in regard to the various railway questions pending between China and Japan in Manchuria :

“ (1) Concerning the question of constructing these railways for which Japan has already secured the treaty or contractual rights, it is difficult to secure a speedy settlement under existing conditions. Whenever China wants to build new railways in Manchuria in accordance with the principle of co-existence and mutual prosperity of the two countries, and desires assistance, the South Manchuria Railway will not be stingy in its support and assistance. I want to make this clear here. I also will not refrain from telling you that Japan has no intention of exercising compulsion even in regard to those new railways in which Japan is interested.

“ (2) The question of the Chinese and Japanese parallel railways has become a subject of controversy for several years and a serious diplomatic and political problem between the two countries. In my opinion, there is a possibility of an amicable settlement based on technical and business considerations if the authorities of the railways directly concerned get together and confer. If the authorities of the two countries can give recognition to the arrangements thus arrived at, then the political and diplomatic sides of the question involved will have been solved automatically.

“ If Your Excellency believes that there is a possibility of this kind of settlement, will you be disposed to give the suggestion a trial ?

“ (3) Concerning the question of competition between the Chinese and Japanese railways, it should be observed that, where several railways exist in one locality, competition is almost unavoidable, but in this connection two adverse effects are apprehended. In the first place, although the South Manchuria Railway, which has a special relation to Manchuria, is both capable and prepared to meet any competition from the Chinese railways, it is feared that, in view of the recent unfavourable atmosphere, the intense rivalry between the Chinese and Japanese railways may so inflame the mind of the public as to make the question a political issue. In such an eventuality, untoward developments may ensue.

“ Secondly, experience shows that, when two railways compete with each other, no matter in what part of the globe this takes place, the inevitable result is that both sides suffer, while the third party steps in to reap the benefit. Eventually the two railways come together and arrange a compromise. It is therefore apparent that the economic and political consequences caused by the existing rivalry between the Chinese and Japanese railways will be extremely undesirable. For this reason, it will be to the advantage and interest of both sides if China and Japan get together and discuss in a spirit of sincerity and mutual accommodation an agreement regulating through traffic and freight rates. The question of parallel railways is also connected with this question, and I believe it to be equally capable of settlement.

“ (4) Concerning the various Chinese railways in Manchuria built by the South Manchuria Railway as a contractor, such as the Kirin-Tunhua and Taonan-Angangchi Railways, the contracts should be converted into loan agreements, but up to the present this has not yet materialised. Again, there are other railway loans which are due for renewal, but they are still unsettled, while the rate of interest of these loans has not been readjusted, with the result that interest payments have accumulated to a considerable figure. If these big loans are left as they are and no attempt is made at their consolidation, it is feared that those who are in favour of a strong policy toward Manchuria will seize this as a pretext to inflame the public mind against the Japanese Government. Therefore, there is a pressing need for an immediate readjustment. Concerning this subject, naturally, I have to consider the respective positions of the South Manchuria Railway and the Chinese side, and I am given full authority to discuss a reasonable mode or reorganisation.

“ January 23rd, 1931.

(Signed) Nichi KIMURA.”

On February 5th, the Marshal appointed M. Kao Chi-yi, Chairman of the North-Eastern Communications Commission, to take charge of the discussion with M. Kimura. M. Kao reported the matter to Nanking, and the Government instructed him to deal with the matter at his own discretion.

At the first meeting on March 6th, at the Mukden office of the Peiping-Liaoning Railway, Mr. Kao informed M. Kimura that he was only willing to discuss two items of the proposed agenda — *i.e.*, items (3) and (4), for the reason that items (1) and (2) were of a political nature and could only be discussed between the Governments. M. Kimura agreed to withdraw the first question on the agenda, but asked M. Kao to reconsider his decision not to discuss the second question — *i.e.*, parallel railways.

M. Kao, in his memorandum, states that, on March 10th, he selected his experts and that, on March 26th, the experts assumed their duties at Mukden and met three times each week until the incident of September 18th. The Chinese contention is that, from the time of the appointment of their experts onward, they were always ready to carry on negotiations, but that the Japanese either failed to appoint — or reappoint — experts, or refused to carry on negotiations during the absence of M. Kimura in Japan.

I would interpret the result of the evidence submitted with respect to the failure of these negotiations in the following manner :

In January 1931, the South Manchuria Railway showed an intention of endeavouring to settle the railway difficulties with China and that the Chinese authorities showed equal willingness to proceed to discuss two, and perhaps three, points on the agenda; and I take it that, in refusing the question of parallel lines, the Chinese authorities did not wish in any way to preclude negotiations, but that, it being a political matter, it ought to have been taken up by the Japanese with the Government at Nanking. Later in the year, however, important changes in the administration of the South Manchuria Railway caused the Japanese to delay these railway negotiations. Whether pressure was brought to bear on the South Manchuria Railway by some other Department of Government in Tokio to postpone these negotiations is a matter on which I cannot express an opinion, but it is significant that the good intentions evidenced by the Japanese seem to have cooled down as months went by.

As there appeared to be considerable conflict in the testimony submitted by M. Kao at the interview with the Marshal on April 12th with that contained in his recent memorandum, I had a subsequent meeting with M. Kao on June 21st.

The Japanese point of view was fully set forth by Consul-General Morishima at the interview in Mukden, May 22nd to 24th, 1932, at which time the Japanese claimed that the failure to carry on the negotiations was due to Chinese procrastination, and the departure and non-return to Mukden of the Chinese delegate, Director Kao Chi-yi, on March 10th. The Chinese, on the other hand, contribute the failure to the absence in Japan of Director Kimura. Both sides maintain that, notwithstanding the absence of their delegates in Tientsin and Tokio respectively, their experts were ready to go on with the negotiations. However, the Chinese contend that the Japanese experts said they had no authority to negotiate in the absence of their delegate, and the Japanese say practically the same thing with respect to the Chinese experts.

The *Manchuria Daily News*, September 14th, 1931, quotes M. Kimura with the following statement :

“ The Sino-Japanese railway negotiations have been delayed mainly for China's internal reasons, but each side has got to share the blame, and we are in no hurry in the matter.”

I think that M. Kimura's reported statement to the effect that both sides had to share the blame for the failure to continue these negotiations is probably a true statement of the facts, and will be found to be borne out especially by information elicited in the final interview between M. Kao Chi-yi and myself on June 21st, referred to above. I can only add that it is most unfortunate that, due to the events following September 18th, further progress was made impossible.

Section XIV.

KIRIN-HUEINING RAILWAY.

The Japanese state that the Chinese agreed to the building of the above railway by a treaty entered into on September 4th, 1909, but no date was decided upon for commencing the construction. In a subsequent agreement of June 18th, 1918, referred to as the “ Preliminary Agreement ”, entered into by China and certain Japanese banks concerning the finances of the railway, reference is made to a “ formal ” agreement to be entered into, following the Preliminary Agreement. Due to certain objections on the part of the Chinese, the formal agreement was never concluded. In 1925, a contract was eventually signed for the construction of the Kirin-Tunhua section only, but this contract was between the South Manchuria Railway Company and the Ministry of Communications. Both the Japanese and the Chinese have furnished me with an *unofficial* translation in English of the contract, which is attached hereto as Annex VIII (Chinese translation).

I do not, of course, wish to touch on the legal aspect of any of the agreements concerning the dispute, and only desire to point out some of the instances which took place that, from a

railwayman's point of view, are significant. To begin with, it would seem that, in connection with the proposed construction of this railway, 10,000,000 dollars were paid to the Chinese Government by the three Japanese banks on June 18th, 1918. MacMurray (page 1432) quotes from the *Peking Times* of July 2nd, 1918, an article, which is stated to be the official report of the Minister of Communications, concerning this Kirin-Hueining Railway Loan. The Minister in that official report makes use of the following words :

“ In pursuance of this condition, 10,000,000 dollars were paid into the Tokio office of the Sino-Japanese Exchange Bank on June 19th, to the credit of the Peking Government, who are at liberty to use it without condition.”

I think it is certain that the Peking Government of that day availed themselves of that liberty, because I cannot find that any part of the 10,000,000 dollars was used for construction purposes. The Japanese show the cost of construction at 23,885,307 dollars, and the Chinese contend that it cost much less. As, in addition to the 10,000,000 dollars above referred to, the South Manchuria Railway advanced subsequently 24,000,000 dollars to cover the construction, I think my statement that the 10,000,000 dollars must have been used for other purposes is apparent.

The Chinese give, as a reason for refusing to proceed with the construction of the line to Hueining, the demand of the Japanese banks that two Japanese technical men should be appointed for the railway, one to act as Traffic Manager and the other as Chief Accountant. The Chinese say that, as no provision for such appointments was foreseen in the original agreement, they refused these demands of the banks. The situation is still more involved by the fact that, on the same date that the Kirin-Tunhua Railway Construction Contract was signed (October 24th, 1925), the Chinese Minister of Communications wrote to M. Matsuoaka, Director of the South Manchuria Railway, as follows :

“ In Clause 1, Article 9, of the Kirin-Tunhua Railway Construction Contract concluded this day between your company and us it is stipulated that :

“‘In view of the necessity to jointly operate the present railway with the Kirin-Changchun Railway, after the present railway will have been opened for traffic after completion of construction works, the Minister shall consult the company before the completion of the construction works of the present Railway.’

“ Taking into consideration the fact that the lengths of the Kirin-Tunhua and Kirin-Changchun Railways are both short, and as it requires big expenditure when separately operated, we deem it necessary to operate the two railways under one centralised administration. Therefore, with the opening of the whole length of the Kirin-Tunhua Railway, the Minister shall propose to your company regarding the amalgamation of the two railways and regarding the necessary amendments and adjustments to be made in the Kirin-Changchun Railway contract, to which we request your company to agree to consult. Moreover, the present equipments at all the stations along the Kirin-Changchun Railway are incomplete, and, as we deem them unable to stand the future use by the Kirin-Tunhua Railway, we beg to request your agreement to plan to complete the equipments as soon as possible before the completion of the Kirin-Tunhua Railway with a view to realise the full development of the joint operation of the Kirin-Changchun and Kirin-Tunhua Railways.”

In view of this request by the Chinese, it is hard to understand why they attach so much importance to the appointment of the Japanese Traffic Manager and Chief Accountant, for the reason that they were quite willing to have the same organisation operate the new line as was already administering the Kirin-Changchun Railway, where there were Japanese officers already installed. In other words, if the Chinese request for joint operation had been adhered to, there would have automatically been a Japanese Traffic Manager and Chief Accountant. I pointed this out to the Chinese, and they replied that, in the letter from the Minister of Communications of October 24th, quoted above, a provision was made for “ necessary amendments and adjustments to be made in the Kirin-Changchun Railway Contract ”, and they say that one of the amendments they had in view was the replacement by Chinese officials of the Japanese nationals at that time employed by the Kirin-Changchun Railway. Personally, I do not see how they could have expected to bring about such a condition, because the Agreement of October 12th, 1917, contains the following articles :

“ *Article 3.* — In view of the company's successful administration of the South Manchuria Railway, the Government will specially commission the company to direct the affairs of the railway in its stead during the term of the loan. But, when the loan is redeemed in full, the company will hand back the property, rolling-stock, and equipment, everything in good condition, to the representative of the Government.

“ *Article 4.* — In order to effect the object referred to in the preceding article, the company will select three Japanese as directors, to occupy the offices of Director of General Affairs, Traffic Director, and Accounting Director. Their salaries will be arranged by the Government and the Company.”

I cannot help but come to the conclusion that the reason for not going ahead with the construction from Tunhua to Hueining is more likely to be found in document No. 6 (paragraph 24, page 14) from the Chinese Assessor, as follows :

“ The Chinese Government has always considered the Kirin-Hueining Railway as one of more than usual commercial importance. An essential preliminary condition for the

completion of this line is the establishment of friendly relations and confidence between China and Japan, and the radical revision by Japan of her political views on Manchuria.’

There remains to be considered China's complaint that the cost of construction of the Kirin-Tunhua Railway line was so excessive that they refused to regulate the question of the Construction Loan. An examination of the Construction Loan Contract shows it, like so many other agreements entered into with respect to Manchurian railways, to be both ambiguous and contradictory. The Chinese translation into English of paragraph 1 says that “ the Minister authorises the company to construct a railway from Kirin to Tunhua ”.

The company referred to is the South Manchuria Railway, who are a party to the contract. The closest English translation that one can get from the Japanese appears to be as follows :

“ The Minister should approve the company's contract for the construction of a railway from Kirin to Tunhua.”

If the more definite translation from the Chinese is accepted, then the article seems to be in complete contradiction to other parts of the contract, because Articles 3, 4 and 6 appear to place a considerable share of the responsibility on the shoulders of the Chinese Director-General and his Chief Engineer. The responsibility of the Chinese Director seems to be more established if one reads the letter of the Minister of Communications of China, dated May 30th, 1927 (see Annex IX). It appears from this that, notwithstanding that the construction had been only commenced, the Director was asking for another six million yen over and above the original eighteen million yen arranged for. Notwithstanding the lack of clarity in the Construction Contract, I think we must assume that the South Manchuria Railway is in some way responsible for the construction, because document “ B ” of the Japanese Assessor, “ Relations of Japan with Manchuria and Mongolia ” (page 113), definitely states that “ the Kirin-Tunhua Railway was constructed by Japanese under contract ”, and, furthermore, it is the Japanese who defend the construction costs as not being excessive. The railway seems to have cost about 161,000 dollars per mile, as compared with 95,000 dollars per mile for the Kirin-Changchun Railway, 89,000 dollars per mile for the Taonan-Angangchi Railway, and 78,000 dollars per mile for the Ssuningkai-Taonan Railway. Such comparisons, however, are not of great value, because in railway construction everything depends upon the topography as well as the nature of the country in which construction takes place, and it is quite impossible to pass an opinion on the merits of the Chinese contention without a report from neutral engineering sources, which time does not, of course, permit.

The Chinese have furnished me with very complete figures of the actual cost of the work as compared with the original estimate and as compared to costs for similar items on other Chinese railways in Manchuria, and the estimated costs have, in nearly all instances, been greatly exceeded. For instance, it is stated that the engineer's original estimate for earth work was 6,579,096 cubic metres at a unit cost of 0.30 yen, which would have given a total cost of 1,973,725 yen ; but when the work was eventually completed the actual cost was found to be 0.70 yen per unit, which made a total cost of 4,606,116 yen.

Another instance is the cost for tunnelling, which the engineer estimated at 1,722,379 yen, but the actual work is stated to have cost 3,112,742 yen.

Such discrepancies as between the engineer's estimates and the eventual cost are unusual, and the Chinese are certainly entitled to an explanation from the Chief Engineer nominated by the South Manchuria Railway as well as from their own Director. It is almost impossible to believe that the latter's responsibility did not permit him to realise the extent to which the estimates were being exceeded as each section was being completed and turned over to him for operation.

There is one other feature concerning the formal acceptance and taking over for operation by the Chinese of the Kirin-Tunhua Railway. Article 6 of the contract states :

“ The Director shall arrange immediately for the operation of the railway when the completed sections are inspected and found satisfactory, and shall be empowered to operate the service in accordance with general regulations of the (Chinese) Government Railways. The revenue from traffic shall be treated as receipts of the railway.

“ The Director shall, upon the commencement of operation of the entire railway until the complete redemption of the advance made by the company, appoint a competent Japanese versed in accounts to serve as Chief Accountant. The Chief Accountant shall be under the order of the Director, and shall have charge over matters relating to accounts. In keeping accounts, the Accounting Rules and Classification of the (Chinese) Government Railways shall be observed. All vouchers relating to receipts and disbursements shall be signed jointly by the Chief Accountant with the Director.

“ The agreement for the employment of the Chief Accountant shall be made by the Director and approved by the Ministry of Communications, and may be cancelled by the Director at any time it is found unsuitable. The renewal of the agreement shall be handled in the same manner.

“ The revenue receipts of the railway shall be deposited in Chinese currency in trustworthy Chinese and Japanese banks, and shall bear interest at the rate advertised at that time.

“ Whenever necessary, the Chief Accountant may, with the approval of the Director, engage a few Japanese to assist in carrying out his duties.”

In accordance with these provisions, the Chinese Director-General started operating the road for revenue purposes as soon as each section was completed, and the Chinese railway authorities continued to operate the entire railway up to September 18th, 1931, the surplus revenues

remaining in the hands of the Chinese. It is very difficult under these circumstances to understand the Chinese contention that they refused to take the road over as, prior to September 18th, there never was a time when the road was not in their hands. The question of a formal acceptance, however, would of course involve coming to an agreement with the South Manchuria Railway concerning the loans, and, by avoiding such formal acceptance, the Chinese were enabled to profit by the operation of the railway without paying for it. I am not implying that such was their intention, but it certainly was the result.

Section XV.

MEASURES TAKEN BY THE JAPANESE AFTER SEPTEMBER 18TH, 1931.

After the Japanese had seized all the Chinese-owned railways in Manchuria north of the Great Wall, the following measures were promptly taken by them :

(1) In order that the railways might be co-ordinated with the South Manchuria Railway, certain changes were made in the arrangement of tracks in and around Mukden,¹ by cutting the tracks of the Peking-Mukden railway at the viaduct under the South Manchuria Railway, thus closing the Liaoning Central station, the Fengtien East station, the Fengtien North Gate station, and thus severing the connection with the Chinese Government Railway to Kirin (later replaced).

(2) At Kirin a physical connection between the Hailun-Kirin line and the Kirin-Tunhua and Kirin-Changchun railways was made.

(3) Monies standing to the credit of the Chinese railways in Manchurian banks were seized.

(4) A staff of Japanese technical advisers was installed in various departments of the railways.

(5) The "special rates" adopted by the Chinese authorities (see my remarks under "Freight Rates") were abolished and the original tariffs restored, thus bringing freight rates on Chinese railways more into conformity with those of the South Manchuria Railway.

During the interval between September 18th, when the North-Eastern Communications Committee ceased to function, and the date of creation of the "Manchukuo Ministry of Communications", the Japanese authorities seem to have assumed entire responsibility for the administration of the railways, and, with the coming into existence of the "Manchukuo", the Japanese appointed their own nationals either as advisers or as heads of departments in the "Ministry", of which there were four — General Affairs, Railways, Posts and Telegraphs, Navigation. The heads of the first three departments are Japanese nationals.

At the interview with the "Ministry of Communications", M. Ting Schang-shu, May 6th, 1932, the latter, asked as to the relations of the various railways with the South Manchuria Railway, stated that the services as between the South Manchuria Railway and the other railways in Manchuria were being co-ordinated, and that through freight rates and passenger traffic had been organised jointly with the South Manchuria Railway.

The statement had been made from at least two neutral sources that the South Manchuria Railway had succeeded in concluding with the "Ministry" long-term traffic agreements whereby the South Manchuria Railway was to operate certain lines of the Chinese-owned railways. The "Minister", when asked if he could confirm this statement, denied that there was any truth in the report, but added that he was negotiating with the South Manchuria Railway in connection with the latter's claims arising out of contracts entered into with the Chinese, but that the negotiations were so involved and extensive that it was not considered that an agreement could be come to for some time. I take this answer to mean that there was considerable possibility of the South Manchuria Railway's being given the right eventually to operate the Chinese railways, but, of course, one cannot be certain.

With regard to new railway construction, the "Minister" stated that he hoped to go ahead with the building of the line from Changchun to Talai. This was one of the lines which was to be financed by the Japanese; there seems to be no doubt that it will shortly be placed under construction. The "Minister" stated that the "Manchukuo" itself hoped to be able to finance the building of the Talai line out of the surplus revenues of the "State", which declaration, of course, is open to question.

No definite information can be obtained as to actual construction work by the Japanese on the Tunhua-Hueining extension. Information available, however, would indicate that, if building has not already commenced, measures have already been taken to start the work this year.

At all interviews which I had with the "Manchukuo" officials, a representative of the South Manchuria Railway was present, and in some cases answered questions on behalf of the "Manchukuo" officials. The impression that I obtained as the result of my enquiries was that communication matters in the new "State" were largely in the hands of the Japanese.

¹ The Peking-Mukden Railway authorities have set forth very completely in their Blue Book — compiled for the information of the Commission — their record of the actions of the Japanese military authorities at the time the Peking-Mukden railway was seized.

Section XVI.

CONCLUSIONS RESPECTING CERTAIN SPECIFIC COMPLAINTS.

I. PARALLEL LINES.

There can be no doubt that certain of the Chinese railways were competing successfully for some of the traffic in what had hitherto been South Manchuria Railway territory, and that, due to depreciated currency and the policy of rate-cutting, this competition was increasing. If, as a result of the examination which is now taking place, the Japanese contentions, with respect to the 1905 secret Protocols should be confirmed, I can only say that, from a railway operating viewpoint, the terminology used is so indefinite that it can be stretched to mean almost anything, and, in its present form, is unfair to China and will always have a tendency to discourage — if not actually to prevent — the building by China of railways in other parts of Manchuria, because cheap railway rates and haulage by carts create a situation different from that existing in other countries.

II. RATE DISCRIMINATION AGAINST FOREIGN GOODS.

The evidence proves that such discrimination does exist on Chinese railways, not only in Manchuria, but elsewhere. Japan has not been singled out especially, because discrimination applies to all foreign goods. Japan probably suffers more because of her large trade with China as well as the number of Japanese-owned factories in China.

III. RAILWAY LOANS.

The Japanese loans appear to have worked out to China's disadvantage. The loan contracts were drawn up in such a way as to give the South Manchuria Railway a considerable measure of control on railway lines constructed by such capital. The rate of interest charged seems to be unduly high; however, in the two cases where China has accepted long-term loans, this rate was reduced to 5 per cent per annum, and it is only fair to the Japanese to assume that they would have done likewise had the other temporary loans been turned into long-term loans. But whether such long-term loans would have proved advantageous to China in the long run is another matter.

IV. PEKING-MUKDEN RAILWAY.

The Chinese have undoubtedly evaded some of their obligations under the loan contracts which were based on this railway's earnings, and the Nanking Government does not appear to have been strong enough to force the railway company to carry out its obligations.

V. CHANGCHUN-KWANCHANGTZU BRANCH LINE.

The Japanese complaint as set forth in document "B" cannot be confirmed.

VI. REBATES.

The system of indirect rebates existing on certain railways in Manchuria is bound to be a source of international friction in the future unless put an end to.

VII. KIRIN-HUEINING EXTENSION.

The reasons advanced by China for not carrying out her contract to extend the line from Tunhua to Hueining are not, in my opinion, sound. From the standpoint of China's interests, such an agreement should never have been concluded. Unfortunately, it seems that China only discovered later on that it was not in those best interests to encourage such a railway, and it was due to this discovery that the contract was not lived up to.

Section XVII.

GENERAL CONCLUSIONS.

STEPS TAKEN BY JAPAN AFTER SEPTEMBER 18TH, 1931.

The measures taken by Japan after September 18th to co-ordinate the operations of the Chinese railways with those of the South Manchuria Railway are significant, because they give an appearance of permanency. At that time, no such "State" as "Manchukuo" existed, so if Japan had merely the intention of effecting a sort of "international foreclosure" in order to force China to carry out certain of the latter's commitments with respect to railway construction, railway loans, etc., it does not seem likely that Japan would have taken the drastic measures that she did. Because of those measures, it will now be practically impossible to accurately estimate the extent of the financial losses suffered by Chinese railways due to diversion of traffic, etc. In the meantime, Chinese railways have practically lost their identity in the larger South Manchuria railway system.

RESPONSIBILITY FOR THE PRESENT RAILWAY SITUATION IN MANCHURIA.

In my opinion, the cause of the railway situation as it existed in Manchuria on September 18th, 1931, was due to three main factors :

- (1) The international rivalries which gave birth to organisations such as the Chinese Eastern and the South Manchuria Railways ;
- (2) Japan's expansionist policy ;
- (3) China's internal politics.

With regard to (1), it is to be remembered that neither of the two projects referred to were railway undertakings in the commonly accepted sense of the term.

The original concessions included all kinds of rights in addition to those normally associated with railway transport, and went so far even as to include certain extra-territorial rights — if not directly, then at least by implication.

With regard to (2), there seems no reason to doubt that, in the course of time — due to the wide powers originally received — those responsible for administering the South Manchuria Railway Company came to believe that Southern Manchuria was a country to be reserved almost exclusively for their company's operations. When additional privileges were sought, advantage was taken of China's internal political troubles. Japan's method of procedure took the form of offers of money to those Chinese authorities which she considered most amenable to the occasion — for instance, at one time it would be the Government of China proper, and another time it would be the authorities of the North-Eastern Provinces or the Government of Fengtien Province. These loan agreements seem to have been generally drawn in wide and ambiguous terms, and it must be said that the Chinese, in their anxiety to obtain money, showed themselves willing instruments of this Japanese policy during a considerable period of time. Later on, when China's internal dissensions became fewer — at least, in so far as the relationship between the North-Eastern Provinces and the Central Government were concerned — and China, acting in the person of Marshal Chang Tso-lin, started a railway policy of its own in Manchuria, she was confronted with the ambiguous terms of the loan agreements entered into with the Japanese.

The Japanese contention that China deliberately laid out, in the first instance, a gigantic scheme of railway development in Manchuria with the avowed purpose of strangling the South Manchuria Railway is not, I believe, correct, because the first railway extension projected by the authorities of the North-Eastern Provinces was undoubtedly with a view to obtaining relief from the monopolistic situation created by the South Manchuria Railway. This monopoly prevented the free movement by rail of Chinese troops from one part of Manchuria to another, and, because of the extra-territorial status exercised by the South Manchuria Railway Company, Chinese troops were even prevented from crossing that railway's property.

After China had begun to extend her railways in Manchuria and found that, due to depreciated exchange, etc., such railways could be made very profitable from a financial point of view, further lines were projected, and eventually the larger scheme for a network of Chinese railways extending all over Manchuria came in being.

The hardest blow dealt to the South Manchuria Railway was undoubtedly the development for commercial purposes of the Chinese line from Tahushan, on the Peking-Mukden Railway, to Tungliao. I think it can be safely assumed that, when Japan made the loans for the construction of the lines from Ssuningkai to Angangchi, it was with a view to furnishing feeders to the South Manchuria Railway, and that those loans would not have been made had it been known in advance that China would build a connecting branch with the Peking-Mukden Railway which was to take away a good share of the traffic from the South Manchuria Railway. From a railway standpoint, Japan's strategy was very sound, because the scheme, had it worked out in accordance with her intentions, would have given the South Manchuria Railway a share of the traffic from the territory north of the Chinese Eastern Railway main line ; because, with

the connecting up of the Huhai and Keshan railways, considerable tonnage from the Chinese Eastern Railway territory would, for the first time, have found its way to Dairen. These far-seeing plans, however, were all upset by the Chinese action in constructing the Tungliao-Tahushan Railway in the first instance, and her subsequent refusal to consent to a through-traffic agreement between the Taonan-Angangchi and the South Manchuria Railways in the second instance.

If considerations involving railway matters were in any degree responsible for the crisis of September 18th last, then such incidents as the foregoing, plus the diminishing net profits of the South Manchuria Railway and the increasing prosperity of the Chinese railways, were not unimportant factors.

In other countries, railway relationships are regulated by tribunals specially established for the purpose, and such tribunals are vested with wide powers. In spite of the fact that such tribunals have generally only to adjudicate upon questions of a legal or economic nature, smooth and pacific relations between railways would be unthinkable without them.

If the foregoing is true in respect of railways in other countries, it will be more easily understood why the Manchurian railway situation has reached such a crisis, because the position there presents considerations, not only of a legal and economic nature inherent to railway transport generally, but also international considerations of great importance. Even prior to September 18th last, I do not think those problems could have been solved by the methods adopted in other countries, and I feel quite sure that the situation as it presents itself to-day can only find its remedy as a result of the solution of the much wider problem involving Manchuria as a whole.

Section XVIII.

CORRECTIONS OR ADDITIONS.

Since the compiling of my report there are one or two corrections or additions which I would like to make :

(1) In the section of the report dealing with the action of the Japanese authorities after September 18th, I should have added that the connection at Tungliao between the Ssupingkai-Taonan and the Peking-Mukden Railways was also cut by the Japanese, thus forcing all traffic to the South Manchuria Railway.

(2) In the same section of the report I stated that the Japanese had seized moneys of Chinese railways in Mukden banks. I find that some of the Peking-Mukden Railway funds were in the Hong-Kong and Shanghai Bank at Mukden and these, of course, could not have been seized. As a matter of fact, the Peking-Mukden Railway managed to collect their earnings on the extra-mural section up to the end of December 1931. After that date, they have all been retained by the Manchurian authorities.

(3) As an indication of the authority exercised by Japanese officials employed by Chinese railways, the statement made by the Japanese Assessor (see document "B") to the effect that the Japanese had refused the Chinese request for a physical connection at Kirin between the tracks of the Changchun-Kirin and the Kirin-Hailung Railways, is significant, because it simply means that, although the two railways referred to were Chinese owned, China, because of certain Japanese officials employed by her under the loan agreements, found it impossible to exercise what were undoubtedly her sovereign rights. It was not a question of a connection with the Japanese-owned South Manchuria Railway, but purely one of connecting two Chinese railways. The only reason which could be given by Japan is that such a connection would violate the agreement concerning parallel lines ; but, in that case, Japan's recourse would have been to protest against the connection, not to prevent it.

ANNEX I.

STATEMENT OF TONNAGE THROUGH DIFFERENT PORTS.
(Prepared by the South Manchuria Railway.)

| Originating area | Fiscal years | Ports of outlet | | | | | | Total amount (in metric tons) |
|--|--------------|---|-------|-------------------------------------|-------|-------------------------|--------|-------------------------------|
| | | Through the South Manchurian ports | | Through the Chinese ports | | Through Vladivostok | | |
| | | Amount (in metric tons) | Ratio | Amount (in metric tons) | Ratio | Amount (in metric tons) | Ratio | |
| Chinese Eastern Railway (western area) | 1928 | 398,452 | 5.08 | | % | 385,873 | 49.20 | 784,325 |
| | 1929 | 460,380 | 74.24 | | | 159,710 | 25.76 | 620,090 |
| | 1930 | 69,667 | 23.50 | | | 226,797 | 76.50 | 296,464 |
| | 1931 | 69,667 | 23.50 | | | 226,797 | 76.50 | 296,464 |
| Ko-Tsi Railway area | 1928 | — | — | — | — | — | — | — |
| | 1929 | — | — | — | — | 30,780 | 100.00 | 36,780 |
| | 1930 | 155,638 | 63.96 | 10,710 | 4.36 | 77,059 | 31.68 | 243,307 |
| | 1931 | 10,532 | 4.32 | 155,638 | 64.00 | 77,059 | 31.68 | 243,307 |
| Taonan-Angangchi Railway | 1928 | 22,221 | 43.12 | 3,704 | 7.18 | 25,599 | 49.70 | 51,524 |
| | 1929 | 48,495 | 66.55 | 8,082 | 11.30 | 14,940 | 22.15 | 71,517 |
| | 1930 | 27,797 | 48.72 | 27,530 | 46.89 | 2,544 | 4.39 | 57,871 |
| | 1931 | 4,401 | 12.00 | 50,926 | 88.00 | 2,544 | 4.39 | 57,871 |
| Ssuningkai-Taonan Railway | 1928 | 318,798 | 96.95 | 10,000 | 3.05 | | | 328,798 |
| | 1929 | 324,940 | 93.53 | 22,470 | 6.47 | | | 347,410 |
| | 1930 | 113,899 | 56.79 | 86,643 | 43.21 | | | 200,542 |
| | 1931 | 104,282 | 52.00 | 96,260 | 48.00 | | | 200,542 |
| South Manchuria Railway area between Changchun and Mukden and Ssu-Tao Railway area between Chengchiatun and Ssuningkai | 1928 | 1,657,791 | 97.54 | 41,697 | 2.46 | | | 1,699,488 |
| | 1929 | 1,031,855 | 95.72 | 45,616 | 4.27 | | | 1,077,471 |
| | 1930 | 1,202,430 | 93.89 | 78,137 | 6.11 | | | 1,280,567 |
| | 1931 | 1,202,430 | 93.89 | 78,137 | 6.11 | | | 1,280,567 |
| Kirin-Changchun Railway area | 1928 | 322,128 | 100 | | | | | 322,128 |
| | 1929 | 307,151 | 100 | | | | | 307,151 |
| | 1930 | 249,108 | 100 | | | | | 249,108 |
| | 1931 | 141,992 | 57 | 107,116 | 43.00 | | | 249,108 |
| Kirin-Tunhua Railway area | 1928 | 5,743 | 100 | | | | | 5,743 |
| | 1929 | 14,090 | 100 | | | | | 14,090 |
| | 1930 | 29,518 | 100 | | | | | 29,518 |
| | 1931 | 12,825 | 57 | 12,693 | 43.00 | | | 29,518 |
| Kirin-Hailung Railway area | 1928 | | | | | | | |
| | 1929 | 43,157 | 99.37 | 270 | 0.63 | | | 43,427 |
| | 1930 | 106,799 | 90.64 | 11,026 | 9.36 | | | 117,825 |
| | 1931 | 12,961 | 11.00 | 104,864 | 89.00 | | | 117,825 |
| Shenyang-Hailung Railway area | 1928 | 119,488 | 75.70 | 38,342 | 24.30 | | | 157,830 |
| | 1929 | 201,639 | 71.39 | 52,760 | 28.61 | | | 254,399 |
| | 1930 | 269,771 | 66.12 | 138,195 | 33.88 | | | 407,966 |
| | 1931 | 44,876 | 11.00 | 363,090 | 89.00 | | | 407,966 |
| Harbin area | 1928 | 510,186 | 52.90 | | | 454,155 | 47.10 | 964,341 |
| | 1929 | 992,125 | 73.48 | | | 357,995 | 26.52 | 1,350,120 |
| | 1930 | 293,015 | 35.06 | | | 545,384 | 64.94 | 838,399 |
| | 1931 | 293,015 | 35.06 | | | 545,384 | 64.94 | 838,399 |
| Chinese Eastern Railway (southern area) | 1928 | 410,116 | 99.13 | | | 3,597 | 0.87 | 413,713 |
| | 1929 | 492,958 | 99.92 | | | 383 | 0.08 | 393,341 |
| | 1930 | 375,148 | 99.99 | | | 17 | 0.01 | 375,165 |
| | 1931 | 375,148 | 99.99 | | | 17 | 0.01 | 375,165 |
| Chinese Eastern Railway (eastern section) | 1928 | 6,418 | 1.50 | | | 420,925 | 98.50 | 427,343 |
| | 1929 | 218,303 | 53.21 | | | 191,958 | 46.79 | 410,261 |
| | 1930 | 3,480 | 0.56 | | | 614,621 | 99.44 | 618,101 |
| | 1931 | 3,480 | 0.56 | | | 614,621 | 99.44 | 618,101 |
| Total | 1928 | Antung : 397,276 Yingkow : 175,754 Dairen : 3,198,311 | | Hopei : 72,726 Others : 21,017 | | | | |
| | | 3,771,341 | 73.15 | 93,743 | 1.82 | 1,290,149 | 25.02 | 5,155,233 |
| Total | 1929 | Antung : 339,505 Yingkow : 206,615 Dairen : 3,588,973 | | Hopei : 50,096 Others : 79,102 | | | | |
| | | 4,135,093 | | 129,198 | 2.57 | 761,766 | 15.16 | 5,026,057 |
| Total | 1930 | Antung : 274,074 Yingkow : 234,691 Dairen : 2,387,505 | | Hopei : 151,261 Others : 200,880 | | | | |
| | | 2,896,270 | 61.42 | 352,141 | 7.56 | 1,466,422 | 31.02 | 4,714,833 |
| Total | 1931 | 2,279,609 | 48.34 | 968,802 | 20.64 | 1,466,422 | 31.02 | 4,714,833 |

Notes.

1. Fiscal year ends on March 31st of the following year — i.e., the fiscal year 1928 begins on April 1st, 1928, and ends on March 31st, 1929.
2. The figures for 1931 are hypothetical, based on the percentage of increase of traffic on the Chinese railways up to the incident. Actual figures substantiating the supposition are given on separate paper already submitted.

ANNEX II.

STATEMENT SUBMITTED BY JAPANESE GIVING ALLEGED INSTANCES
OF RATES DISCRIMINATION AND RATE-CUTTING.

MATERIALS PUBLISHED IN THE TRAFFIC DIARY OF THE SSUPINGKAI-TAONAN
RAILWAY RESPECTING COMPETITION AGAINST THE SOUTH MANCHURIA RAILWAY COMPANY.

1. February 1931. Letter from the Peiping-Liaoning Railway (approved by the Ministry of Communications) :

“ The Peiping-Liaoning Railway has planned an elaborate transportation of south-bound North Manchurian staple produce between Tungliao and Shanghai and Tungliao and Hong-Kong by concluding an agreement with the Kailan Mining Company to use its steamships to transport them at a reduced rate.”

2. June 1931. Instruction of the Committee on Communications :

“ Taking as a reason the comparatively cheap duty on goods going out from Dairen, and in order to recover the lost ground, native duties leviable at Kowpangtze shall be exempted and the consolidation tax at Shanhaikwan shall be reduced by 70 per cent for cereals going southward by the West Four Roads Through Traffic System and eventually going out through Chingwantao.”

3. January 1931. Letter from Peiping-Liaoning Railway :

“ As a policy to draw North Manchurian staple produce to the Peiping-Liaoning Railway via Taonan and Tungliao, the consolidation tax of the Hopei Province shall be abolished from January 1st, 1931, and the native duty leviable at Shanhaikwan shall be cancelled from the third day of the same month and year.”

4. Letter from the Peiping-Liaoning Railway (undated) :

“ As a measure of traffic competition against the South Manchuria Railway, special reduced rates shall be applied to goods (1st to 4th class goods) to be despatched from Chingwantao, Yingkow, Shenyang (Mukden), and Huankutun to Tungliao under Railway Bureau Order of December 1930, as ordered by the Ministry of Railways, Nanking Government. The rate of reduction shall be 30 per cent off the ordinary rate.”

5. January 1930. Committee on Communications Order :

“ Discriminating classification table against foreign goods shall be enforced as established by the Ministry of Railways, Nanking.

“ Note. — In the above classification, definitions of foreign goods and native goods, which were subject to variable interpretations, are clearly classified.”

6. July 1931. Instruction from the Ministry of Railways, Nanking (transmitted by the Committee on Communications) :

“ Besides the classification of foreign goods and native goods as mentioned in 5, goods manufactured by the Wei Chon Company (silk-cloth and silk-thread) shall be reduced by 30 per cent.”

7. March 1930. Ministry of Railways Order :

“ Besides the classification of foreign and native goods as mentioned in 6, matches manufactured in China shall be lowered by 1 classification and those manufactured in foreign countries shall be raised by 1 classification and shall come into force from March 1st, 1930 (Chinese matches, 4th class ; foreign matches, 1st class).”

8. April 1930. Committee on Communications Order :

“ In order to thoroughly materialise the anti-Japanese education, students visiting Manchuria shall be allowed a special reduction of 50 per cent when travelling in parties of three or more.”

ANNEX III.

DETAILED REPLY BY CHINESE TO SPECIFIC INSTANCES RAISED BY JAPANESE.

“ 1. February 1931. Letter from the Peiping-Liaoning Railway (approved by the Ministry of Communications) :

“ The Peiping-Liaoning Railway has planned an elaborate transportation of south-bound North Manchurian staple produce between Tungliao and Hong-Kong by concluding an agreement with the Kailan Mining Company to use its steamships to transport them at a reduced rate.”

Reply.

The so-called through consignment agreement, entered into between the Peiping-Liaoning Railway and the Kailan Mining Administration in January 1931, forms a part of the Railway's scheme for the development of the port of Chingwangtao with a view to provide additional channel to the export trade of Manchuria.

Manchuria produces annually 20,000,000 tons of soya bean, kaoliang, etc., of which a very large part is exported through the South Manchuria Railway via Dairen. Of the Chinese ports, Hulutao will not be open to traffic until 1935 and Yingkow is ice-bound during the winter months. It is therefore imperative that additional port facilities should be provided to cope with the fast-growing trade.

During 1930-31, the world-wide depression, resulting in a serious slump in all the commodity prices, and the rise in gold exchange automatically raising the transportation costs on the Japanese line, all but killed the soya-bean trade of Manchuria. This is proven by the attached table translated from the Japanese *Manchurian Affairs*, of July 1931. By providing another channel of export over which the depreciated Chinese currency is accepted in exchange for the magnificent facilities rendered by the Kailan Mining Administration, the Peiping-Liaoning Railway, as a Government agency, rendered a much-needed service to the trade.

COST OF 30 TON SOYA BEAN FROM KIRIN TO DAIREN.

| | Dollars |
|---|----------|
| A. — 154 piculs soya bean f.o.b. Kirin Station at 1.52 dollar | 2,340.80 |
| B. — Provincial taxes | 131.10 |
| C. — 352 gunny bags at 0.33 yen (exchange rate: 41 yen equals 100 dollars) | 283.32 |
| C. — Cost of sewing and twine. | 5.15 |
| E. — Freight : Kirin-Hailung Railway. 150.78 dollars (Kirin currency : 78) | |
| Mukden-Hailung Railway 147.30 dollars | |
| South Manchuria Railway 165.30 yen | |
| | 664.87 |
| F. — Loading at Kirin station | 4.54 |
| G. — Transfer, Mukden-Hailung Railway | 13.50 |
| H. — Transfer, South Manchuria Railway (16.50 yen) | 40.24 |
| I. — Agency Commission, 1 per cent | 32.77 |
| | 3,516.49 |
| Market price, Dairen, 49,280 catties at 6.65 dollars per 100 catties | 3,277.12 |
| Net loss | 239.37 |

2. June 1931. Instruction of the Committee on Communications :

“ Taking as a reason the comparatively cheap duty on goods going out from Dairen, and in order to recover the lost ground, native duties leviable at Kowpangtze shall be exempted and the consolidation tax at Shanhaikwan shall be reduced by 70 per cent for cereals going southward by the West Four Roads Through Traffic System and eventually going out through Chingwangtao.”

Reply.

Everything being equal, Manchurian products exported through Chingwangtao either to Europe and America or to the interior provinces of China found one stumbling-block which would make the ultimate landing cost too high for the consumers. It was the question of the

Likin Taxes. Passing through the Province of Liaoning, there was the Native Customs Duty at Kowpangtze and upon entering Shanhaikwan payments for the Hopei Provincial Consolidated Taxes had also to be made. These octroi taxes, first established during the Taiping rebellion under the Ching dynasty, had always been a curse to the trade in general both because of their excessiveness and interference with the quick and free movement of goods. Pending their ultimate abolition by the Chinese Government in 1931, the Communications Commission succeeded in obtaining the consent of the various taxing authorities to effect complete or partial exemption from these irksome burdens — a meritorious achievement for which no fair-minded observer, foreign or Chinese, would grudge his unqualified commendation. Perhaps the Japanese complained that such exemptions were not extended to goods consigned to Dairen. But there were no Native Customs Duty or Hopei Consolidated Taxes along the South Manchuria Railway.

3. January 1931. Letter from Peiping-Liaoning Railway :

“ As a policy to draw North-Manchurian staple produce to the Peiping-Liaoning Railway via Taonan and Tungliao, the consolidation tax of the Hopei Province shall be abolished from January 1st, 1931, and the native duty leviable at Shanhaikwan shall be cancelled from the third day of the same month and year.”

Reply.

The exact wording of the telegram despatched by the Superintendent of Transportation of the Peiping-Liaoning Railway to the Traffic Managers of all the Manchuria Railways on January 7th, 1931, was :

“ Following the cancellation of the Hopei Provincial Taxes on January 1st, the Shanhaikwan Native Customs Duty was also abolished on the 3rd inst. Here is a golden opportunity to ship all your cargo before the new taxes will be inaugurated. Please advise merchants along your line to expedite shipments consigned to our stations, in order to make huge profits.”

The abolition of provincial taxes and native Customs duties — different forms of the very unpopular Likin Taxes — was the policy of the Central Government. Instead of working any harm to the South Manchuria Railway, it was calculated to benefit all railways in China by bringing about a boom to the trade and industry in general.

4. Letter from the Peiping-Liaoning Railway (undated) :

“ As a measure of traffic competition against the South Manchuria Railway, special reduced rates shall be applied to goods (1st to 4th class goods) to be despatched from Chingwangtao, Yingkow, Shenyang (Mukden), and Huankutun to Tungliao under Railway Bureau Order of December 1930, as ordered by the Ministry of Railways, Nanking Government. The rate of reduction shall be 30 per cent off the ordinary rate.”

Reply.

On June 1st, 1930, the Peiping-Liaoning Railway declared a reduction of 30 per cent off the ordinary rate for the 1st, 2nd, 3rd, and 4th class goods shipped from Chingwangtao, Mukden, Yingkow and Tienchwangtai to Tungliao for the following reason :

Tungliao being the fountain-head of all the grain traffic of the Peiping-Liaoning Railway, there was always a large number of emptied cars returning without loading. To cut down empty haulage, much reduction in rates was indeed necessary.

5. January 1930. Committee on Communications Order :

“ Discriminating classification table against foreign goods shall be enforced as established by the Minister of Railways, Nanking.

“ *Note.* — In the above classification, definitions of foreign goods and native goods, which were subject to variable interpretations, are clearly classified.”

6. July 1931. Instruction from the Ministry of Railways, Nanking (transmitted by the Committee on Communications) :

“Besides the classification of foreign goods and native goods as mentioned in 5, goods manufactured by the Wei Chon Company (silk-cloth and silk-thread) shall be reduced by 30 per cent.”

7. March 1930. Ministry of Railways Order :

“Besides the classification of foreign and native goods as mentioned in 6, matches manufactured in China shall be lowered by 1 classification and those manufactured in foreign countries shall be raised by 1 classification and shall come into force from March 1st, 1930 (Chinese matches, 4th class ; foreign matches, 1st class).”

Reply.

The purpose of the Ministry of Railways in granting these favourable rates to the Chinese goods was to afford protection to our infant industries, thus advancing the economic status of the Chinese nation and enhancing the purchasing-power of the Chinese people. The backwardness of the Chinese manufacturing industry is a well-known fact. Since the commencement of treaty relations with the principal maritime Powers in the middle of the last century, China has not been able to, and does not even now, enjoy a complete Customs autonomy, by virtue of which due protection may be afforded to our struggling industries. The right of fostering home industries is inherent in any conception of sovereignty and to-day widely exercised by every industrial nation. It is implicitly recognised during the discussions on the question of maintaining the principle of the “Open Door” as regards transportation rates on railways in China. Furthermore, goods of foreign manufacture, being always of better grade, naturally command better prices in comparison with the more crudely-made Chinese goods. Giving different rates to different grades of cargo is perfectly in accord with the universally recognised principle of charging what the traffic can bear. This power of classification is expressly reserved by China and openly recognised by the Powers at the Washington Conference. It is, therefore, entirely irrelevant to consider these cases as competition against the South Manchuria Railway.

8. April 1930. Committee on Communications Order :

“In order to thoroughly materialise the anti-Japanese education, students visiting Manchuria shall be allowed a special reduction of 50 per cent when travelling in parties of three or more.”

Reply.

This was merely a measure to encourage visitors from the Chinese interior to realise the economic resources and trade possibilities of Manchuria. In the promulgation of these special fares (a translation of the regulations governing the granting of such fares is appended herewith), the Ministry of Railways had no other intention in mind than what the Japanese Government had in sending, under various measures of encouragement, numerous private and public bodies, most of whom were students, to visit Manchuria during many years in the past.

ANNEX IV.

STATEMENT SUBMITTED BY CHINESE ASSESSOR'S OFFICE, JUNE 25TH, 1932.

A careful examination of all Japanese complaints against the alleged competition of the Chinese Railways with the South Manchuria Railway will at once uncover the real issue involved. It is the implied denial to all Chinese railways in Manchuria of any right of self-determination and unrestricted development to fulfil their own destinies, with the exception that they must serve as dependent feeding-lines to the South Manchuria Railway. Since Japan has made tremendous efforts and investment in developing the port of Dairen and rebuilding the South Manchuria Railway, so she contends that she is entitled to the monopolistic control of all the traffic movement in Manchuria to the exclusive benefit of her port and railway. The Japanese presumption seems very natural that all efforts on the part of the Chinese railways in fulfilling their economic mission to develop free movement of traffic, both in Manchuria and with the rest of China, is competition detrimental to the interest of the South Manchuria Railway. The railway controversy between China and Japan can never be solved until Japan admits and respects the fundamental principle that China has a right to freedom of railway construction and the establishment of an independent rate policy to meet her own economic needs. Whatever form of co-operative readjustment necessary for the harmony of Sino-Japanese railway relations must be built upon the recognition of this basic principle.

The attached statement (see Annex II) of Japanese complaints against alleged competition, typifying the monopolistic and dictatorial attitude of the South Manchuria Railway, therefore, should need no further explanation except in a few cases not so self-evident.

However, a detailed statement explaining each of the eight cases is herewith attached to show the usual Japanese tactics of confusing the main issue by drawing attention to unimportant details.

DISCRIMINATION AGAINST FOREIGN GOODS.

In rate-making, it is generally agreed that the cost of operation can be better borne by those commodities that can best bear them. Certain articles of popular consumption made in foreign countries are finer in quality and higher in price than the crude native manufacture. Furthermore, the Chinese Government, in the absence of an actual protective tariff, must try to make use of the meagre resources at its command to encourage the growth of native industry. The reduction of rates on native crude products is therefore made with the double purpose of maintaining an equitable rate policy and providing at the same time some encouragement to the growth of native industry, which is struggling for bare existence against overwhelming obstacles. This measure applies equally to the same kind of commodities of different nationalities and there is no discrimination, as the chief Chinese delegate announced at the Washington Conference in 1921-22, between goods of different nationalities.

REDUCED RATES FOR STUDENT PARTIES.

It has been the policy of the Chinese Railway Administration to encourage students to travel in all parts of China, which naturally includes Manchuria. Nowhere is this same policy more liberally and effectively enforced than in Japan, and yet she charges us with anti-Japanese education if we do the same thing. Is there any better evidence of Japan's implied denial, under the cover of railway competition, of China's rights to self-development in Manchuria?

REGULATIONS GOVERNING SPECIAL FARES FOR VISITING GROUPS TO THE NORTH-EAST.

1. These regulations are applicable to groups formed by the people of different places visiting Liaoning, Kirin, and Heilungkiang.

2. There must be at least three persons to each group travelling at the same time and to and from the same stations.

3. The leader of the group should give in details on prescribed forms the names, birthplaces, ages and professions of the members, the purpose of the visit, the railways to travel on, and dates of the outward and return trips, and forward them to the Ministry of Railways, in accordance with the following, for approval and issuance of the reduced-fare certificate:

(a) Educational bodies should apply through their respective provincial bureaux of education to certify and forward to the Ministry of Railways. In case of university bodies, presidents of such universities will certify.

(b) Groups, other than as described above, should apply through their respective provincial chambers of commerce to certify and to forward to the Ministry.

4. The reduced-fare certificate will be mailed to the forwarding organisations to be given to the applying groups.

5. The fares on the railways will be 50 per cent off the regular fares of the respective railways. Expressage and berth tickets will have to be paid for if express trains or sleeping-berths are availed of.

6. Only members of the groups are entitled to use these reduced-fare certificates. In case of transfer or discrepancy in ages and names, they will be invalidated and excess fares collected according to regulations.

7. Date of validity should be filled on such certificates during which the travel must be completed.

8. The certificates must not be altered or mutilated.

ANNEX V.

JAPANESE LOANS TO CHINESE RAILWAYS.

| Name of loan . . . | Kirin-Changchun Railway Loan | Kirin-Changchun Railway Rail Loan | Kirin-Tunhua Railway Construction Loan | Ssupingkai-Taonan Railway Loan | Taonan-Angangchi Railway Construction Loan | Ssupingkai-Chengchiatun Railway Bond | Kirin-Haining Railway Advanced Loan | Advanced Loan for Four Railways in Manchuria and Mongolia |
|---|--|-----------------------------------|--|---|--|---|---|---|
| Debtor | Departments of Finance and Communications. Republic of China | Kirin-Changchun Railway Bureau | Department of Communications | Departments of Finance and Communications | Chief of the Three Eastern Provinces Governor of Fengtien Province | Departments of Finance and Communications | Departments of Finance and Communications | Departments of Finance and Communications |
| Date of contract . . . | 12 /X /1917 | 6 /IV /1928 | 24 /X /1925 | 31 /V /1925 | 3 /IX /1924 | 17 /XII /1915 | 18 /VI /1918 | 28 /IX /1918 |
| Amount of loan (in yen) | 6,500,000 | 907,697.88 | 24,000,000 | 32,000,000 | 12,920,000 | 5,000,000 | 10,000,000 | 20,000,000 |
| Method of paym.: Date due | 21 /X /1947 | When formal contract is concluded | One year after being turned over | 31 /V /1926 | Contract was to be concluded six months after being turned over | X /1955 | Bond Issuance | Bond Issuance |
| Method | Semi-annual installments | | | | | | | |
| Amount paid (in yen) | 975,000 | | | | | 491,000 | | |
| Amount unpaid (in yen) | 5,525,000 | 907,697.88 | 23,885,307.36 | 32,000,000 | 12,920,000 | 4,509,000 | 10,000,000 | 20,000,000 |
| Interest | 5% | 9% | 9% | 9% | 9% | 5% | 7.5% | 8% |
| Date for interest payment | 21 /IV 21 /X | 5 /IV 5 /X | | 31 /V | | | | |
| Amount of interest unpaid: Amount (in yen) Date due | 325,000 | 354,320.26 5 /IV /1928 | 7,672,281.41 10 /X /1928 | 22,963,160.21 1 /VI /1926 | 6,138,327.95 1 /VII /1927 | | 17,003,446.59 18 /VI /1919 | 36,996,710.58 28 /IX /1919 |
| Source of payment | Railway revenues | Railway revenues | | | | | | |
| Security | Properties and revenues | Rails | | | | | | |
| Use | Railway construction | Renewal of rails | Railway construction | Railway construction | Railway construction | | | |

ANNEX VI.

CHINESE RAILWAYS CAPITAL EXPENDITURE.

It is not easy to arrive at the exact cost of Chinese railways, but, as a result of comparing information obtained from the balance-sheets and comparing figures submitted by both Japanese and Chinese authorities, the following figures are, I believe, reasonably exact :

| | \$ |
|-------------------------------------|------------|
| Kirin-Changchun Railway | 7,620,457 |
| Kirin-Tunhua Railway | 21,170,235 |
| Ssupingkai-Taonan Railway | 20,876,822 |
| Taonan-Angangchi Railway | 12,502,419 |
| Mukden-Hailung Railway | 15,433,541 |
| Hailung-Kirin Railway | 9,678,000 |
| Hulan-Hailun Railway | 11,969,000 |
| Koshan Railway | 11,000,000 |

Note A. — As stated elsewhere in this report, the Chinese authorities do not accept the figures for the Kirin-Tunhua Railway.

Note B. — In the case of certain of the above railways, expenditure for rolling-stock has been deducted in order that the sums actually spent for construction purposes might be arrived at.

Note C. — Since compiling this report, the Chinese authorities have also informed me that they refuse to agree to the figures for the capital expenditure for the construction of the Taonan-Angangchi Railway. The Japanese confirm these figures, therefore this line may be considered as in the same position as the Kirin-Tunhua Railway in this respect.

EARNINGS AND EXPENDITURES OF VARIOUS MANCHURIAN RAILWAYS.

TAONAN-ANGANGCHI.

| <i>Year</i> | <i>Revenue</i> \$ | <i>Expenditure</i> \$ | <i>Profit or loss</i> \$ |
|----------------|----------------------|--------------------------|-----------------------------|
| 1927 | 632,724 | 495,403 | 137,321 |
| 1928 | 1,140,744 | 1,350,046 | — 209,302 |
| 1929 | 2,147,505 | 2,873,703 | — 726,198 |
| 1930 | 1,885,260 | 1,208,656 | 676,604 |

Note. — Revenues in 1929 favourably affected by Chinese-Soviet dispute. Expenditures in 1930 adversely affected by floods.

TAONAN-SSUPINGKAI.

| | | | |
|----------------|-----------|-----------|-----------|
| 1922 | 1,657,814 | 1,167,062 | 490,752 |
| 1926 | 7,675,284 | 3,684,812 | 3,990,472 |
| 1927 | 6,066,281 | 3,758,360 | 2,307,921 |
| 1928 | 6,042,028 | 3,612,559 | 2,429,469 |
| 1929 | 6,751,336 | 4,137,748 | 2,613,588 |
| 1930 | 7,444,354 | 5,713,715 | 1,730,639 |

KIRIN-TUNHUA.

| | | | |
|----------------|-----------|-----------|----------|
| 1929 | 1,795,581 | 1,723,483 | 72,098 |
| 1930 | 1,685,343 | 1,774,227 | — 88,884 |

MUKDEN-HAILUN.

| | | | |
|----------------|--------------|--------------|--------------|
| 1929 | 5,343,086.16 | 3,399,839.75 | 1,943,246.41 |
|----------------|--------------|--------------|--------------|

HULAN-HAILUNG.

| | | | |
|----------------|--------------|--------------|--------------|
| 1928 | 2,652,034.42 | 1,350,045.74 | 1,301,988.68 |
| 1929 | 4,741,598.65 | 2,873,701.98 | 1,867,896.67 |

KOSHAN.

| | |
|----------------|---------|
| 1929 | 158,710 |
|----------------|---------|

SOUTH MANCHURIA RAILWAY.

| Year | Revenue | Expenditure | Profit |
|----------------|-------------|-------------|------------|
| | Gold yen | Gold yen | Gold yen |
| 1922 | 87,813,029 | 34,169,258 | 53,643,744 |
| 1923 | 92,269,704 | 35,787,589 | 56,482,115 |
| 1924 | 92,561,732 | 36,553,297 | 56,008,435 |
| 1925 | 97,395,228 | 38,800,691 | 58,594,537 |
| 1926 | 107,923,567 | 45,951,623 | 61,971,944 |
| 1927 | 113,244,180 | 45,235,835 | 68,008,345 |
| 1928 | 118,639,090 | 44,358,065 | 74,281,025 |
| 1929 | 122,103,743 | 47,213,508 | 74,890,235 |
| 1930 | 95,330,730 | 36,768,576 | 58,562,154 |
| 1931 | 85,476,927 | 37,290,815 | 48,186,112 |

Note. — The above figures only refer to railway revenues and expenditures. In order that the wide ramifications of the South Manchuria Railway may be better understood, however, the combined profit-and-loss statement of not only the railway, but all the subsidiary branches of the company's activities are given in detail on the following page for a typical year ending March 31st, 1931. From this, it will be seen that only about 50 per cent of the company's revenue was derived from the operation of its railways and only approximately 22 per cent of the company's expenditures were in connection with its railway operations.

Combined Profit-and-Loss Statement of the South Manchuria Railway for the Fiscal Year 1930.

| Items | Income | Expenditure | Profit or loss | Income | |
|--|--------------------|--------------------|-------------------|--------------|--------------|
| | Gold yen | Gold yen | Gold yen | Percentage | |
| Railway | 95,331,000 | 36,769,000 | 58,562,000 | 50.7 | 22.1 |
| Ports | 8,559,000 | 6,738,000 | 1,821,000 | 4.5 | 4.0 |
| Mines | 62,441,000 | 60,628,000 | 1,813,000 | 33.2 | 36.4 |
| Oil | 2,615,000 | 2,583,000 | 33,000 | 1.4 | 1.6 |
| Steel | 6,641,000 | 7,308,000 | — 667,000 | 3.5 | 4.4 |
| Local Affairs | 4,586,000 | 15,305,000 | — 10,719,000 | 2.4 | 9.2 |
| Overhead | — | 10,868,000 | — 10,868,000 | — | 6.5 |
| Interest on income | 5,357,000 | — | 5,357,000 | 2.8 | — |
| Interest on debts | — | 16,202,000 | — 16,202,000 | — | 9.7 |
| Miscellaneous interest payable | — | 7,662,000 | — 7,662,000 | — | 4.6 |
| Miscellaneous income | 2,573,000 | — | 2,573,000 | 1.4 | — |
| Miscellaneous loss | — | 1,038,000 | — 1,038,000 | — | 0.6 |
| Discount on funded debt extinguished | — | 1,330,000 | — 1,330,000 | — | 0.8 |
| Total | 188,104,000 | 166,431,000 | 21,673,000 | 100.0 | 100.0 |

The combined profit-and-loss figures for the years from 1922 to March 31st, 1931, were as follows :

| Year | Gold yen |
|----------------|------------|
| 1922 | 35,080,244 |
| 1923 | 34,795,592 |
| 1924 | 34,552,914 |
| 1925 | 34,865,280 |
| 1926 | 34,157,884 |
| 1927 | 36,274,323 |
| 1928 | 42,552,861 |
| 1929 | 45,505,857 |
| 1930 | 21,673,462 |
| 1931 | 3,401,000 |

Note. — By the term "Combined Profit-and-Loss Statement" is meant that all the Company's activities are included — *i.e.*, railway, mines, ports, etc.

PEIPING-LIAONING.

| Year | Revenue | Expenditure | Profit |
|----------------|------------|-------------|------------|
| | \$ | \$ | \$ |
| 1911 | 11,668,627 | 3,651,132 | 8,017,495 |
| 1912 | 13,183,638 | 3,820,657 | 9,362,981 |
| 1913 | 14,907,232 | 3,925,450 | 10,981,782 |
| 1914 | 13,841,991 | 5,024,049 | 8,817,942 |
| 1915 | 15,277,931 | 7,579,598 | 7,698,333 |
| 1916 | 14,809,724 | 5,953,575 | 8,856,149 |
| 1917 | 16,996,642 | 6,529,967 | 10,466,675 |
| 1918 | 20,853,532 | 6,903,148 | 13,950,384 |
| 1919 | 19,408,241 | 7,519,184 | 11,889,057 |

PEIPING-LIAONING (continued).

| Year | Revenue \$ | Expenditure \$ | Profit \$ |
|----------------|-------------------------|-------------------|--------------|
| 1920 | 23,146,505 | 8,528,764 | 14,617,741 |
| 1921 | 25,484,742 | 13,014,649 | 12,470,093 |
| 1922 | 20,690,448 | 12,933,498 | 7,756,950 |
| 1923 | 18,280,123 ¹ | 11,336,677 | 6,943,446 |
| 1924 | 17,509,533 ¹ | 11,912,900 | 5,596,633 |
| 1925 | 24,047,676 | 13,218,204 | 10,829,472 |
| 1926 | 23,487,169 ¹ | 13,598,980 | 9,888,189 |
| 1927 | 34,720,466 | 15,941,157 | 18,779,309 |
| 1928 | 21,821,545 ¹ | 10,958,396 | 10,863,149 |
| 1929 | 37,514,591 | 18,512,682 | 19,001,909 |
| 1930 | 38,819,627 | 22,136,529 | 16,683,098 |
| 1931 | 43,140,985 | 21,778,800 | 21,362,185 |

(approximately)

KIRIN-CHANGCHUN.

| Year | Revenue \$ | Expenditure \$ | Profit \$ | Surplus (After payment of fixed charges) \$ |
|---------------------|---------------|-------------------|--------------|--|
| 1913-1914 | 1,038,360.03 | 976,995.55 | 61,364.48 | — 157,288.68 |
| 1915 | 911,102.09 | 763,537.51 | 147,564.58 | — 453,338.80 |
| 1916 | 933,511.67 | 756,380.30 | 177,131.37 | — 138,910.02 |
| 1917 | 1,081,170.26 | 754,273.67 | 326,896.59 | — 12,298.66 |
| 1918 | 1,776,144.09 | 1,038,669.70 | 737,474.39 | 251,452.05 |
| 1919 | 1,895,650.85 | 1,309,288.07 | 586,362.78 | 319,786.73 |
| 1920 | 2,188,494.83 | 1,430,651.54 | 757,843.29 | 731,560.29 |
| 1921 | 2,763,402.11 | 1,750,690.72 | 1,012,711.39 | 753,175.48 |
| 1922 | 2,789,552.39 | 1,790,525.20 | 999,027.19 | 611,515.49 |
| 1923 | 2,866,796.46 | 1,928,632.47 | 938,163.99 | 592,486.65 |
| 1924 | 2,718,656.15 | 1,967,331.59 | 751,324.56 | 362,442.44 |
| 1925 | 2,680,344.55 | 1,786,376.61 | 893,967.94 | 360,836.31 |
| 1926 | 2,919,764.09 | 1,995,383.29 | 924,380.80 | 194,524.18 |
| 1927 | 3,305,005.19 | 2,320,812.29 | 984,192.90 | 185,266.75 |
| 1928 | 3,628,480.17 | 2,553,014.50 | 1,075,465.67 | 321,090.43 |
| 1929 | 3,884,751.83 | 2,697,007.15 | 1,187,744.18 | 475,756.81 |
| 1930 | 3,028,351.27 | 2,779,905.94 | 248,445.38 | — 367,770.87 |

ANNEX VII.

THE REAL FACTS ABOUT THE DEADLOCK OF THE KIMURA RAILWAY NEGOTIATIONS.

On January 22nd, 1931, M. Nichi Kimura, a director of the South Manchuria Railway Company, called on Marshal Chang Hsueh-liang, Chairman of the North-Eastern Political Council, and told him that, in view of the many railway problems pending in Manchuria between China and Japan, which had lately taken a turn for the worse, he had been detailed by his Government and M. Sengoku, President of the South Manchuria Railway Company, to come to Mukden and discuss them with Marshal Chang, as they were local issues. The questions which M. Kimura brought up with Marshal Chang were as follows: (1) the question of constructing those railways which are connected with Japan by treaty or contractual relations; (2) the question of Chinese and Japanese parallel railways; (3) the question of competition between Chinese and Japanese railways; and (4) the question of those railways which have been built by Japan for China as contractor, but the building contracts of which have not yet been formally converted into loan agreements. M. Kimura submitted his views on these questions at considerable length and requested Marshal Chang to give the matter his due consideration, expressing at the same time the hope that he would appoint delegates to negotiate with him. In reply, Marshal Chang said that the pending railway questions should be settled as soon as possible in order to avoid misunderstanding and added that he would appoint delegates to open negotiations with M. Kimura. On the following day (January 23rd), M. Kimura submitted a memorandum, which is translated as follows:

“The following is the gist of the views which I expressed to you during my interview with you on January 22nd, in regard to the various railway questions pending between China and Japan in Manchuria:

“1. Concerning the question of constructing those railways for which Japan has already secured the treaty or contractual right, it is difficult to secure a speedy

¹ Broken years, owing to civil wars.

settlement under existing conditions. Whenever China wants to build new railways in Manchuria, in accordance with the principle of co-existence and mutual prosperity of the two countries, and desires assistance, the South Manchuria Railway will not be stingy in its support and assistance. I want to make this clear here. I also will not refrain from telling you that Japan has no intention of exercising compulsion, even in regard to those new railways in which Japan is interested.

“ 2. The question of the Chinese and Japanese parallel railways has become a subject of controversy for several years and a serious diplomatic and political problem between the two countries. In my opinion, there is a possibility of an amicable settlement, based on technical and business considerations, if the authorities of the railways directly concerned get together and confer. If the authorities of the two countries can give recognition to the arrangements thus arrived at, then the political and diplomatic sides of the question involved will have been solved automatically.

“ If Your Excellency believes that there is a possibility of this kind of settlement, will you be disposed to give the suggestion a trial ?

“ 3. Concerning the question of competition between the Chinese and Japanese railways, it should be observed that, where several railways exist in one locality, competition is almost unavoidable, but in this connection two adverse effects are apprehended. In the first place, although the South Manchuria Railway, which has a special relation to Manchuria, is both capable and prepared to meet any competition from the Chinese railways, it is feared that, in view of the recent unfavourable atmosphere, the intense rivalry between the Chinese and Japanese railways may so inflame the mind of the public as to make the question a political issue. In such an eventuality, untoward developments may ensue.

“ Secondly, experience shows that, when two railways compete with each other, no matter in what part of the globe this takes place, the inevitable result is that both sides suffer, while the third party steps in to reap the benefit. Eventually, the two railways come together and arrange a compromise. It is, therefore, apparent that the economic and political consequences caused by the existing rivalry between the Chinese and Japanese railways will be extremely undesirable. For this reason, it will be to the advantage and interest of both sides if China and Japan get together and discuss in a spirit of sincerity and mutual accommodation an agreement regulating through-traffic and freight rates. The question of parallel railways is also connected with this question, and I believe it to be equally capable of settlement.

“ 4. Concerning the various Chinese railways in Manchuria built by the South Manchuria Railway as a contractor, such as the Kirin-Tunhua and Taonan-Angangchi railways, the contracts should be converted into loan agreements, but up to the present this has not yet materialised. Again, there are other railway loans which are due for renewal, but they are still unsettled, while the rate of interest on these loans has not been readjusted, with the result that interest payments have accumulated to a considerable figure. If these big loans are left as they are and no attempt is made at their consolidation, it is feared that those who are in favour of a strong policy toward Manchuria will seize this as a pretext to inflame the public mind against the Japanese Government. Therefore, there is a pressing need for an immediate readjustment. Concerning this subject, naturally I have to consider the respective positions of the South Manchuria Railway and the Chinese side, and I am given full authority to discuss a reasonable mode of re-organisation.

January 23rd, 1931.

(Signed) Nichi KIMURA.”

On February 5th, Marshal Chang Hsueh-liang appointed M. Kao Chi-yi, Chairman of the North-Eastern Communications Commission, to take charge of the discussions with M. Kimura, and also personally introduced him to the Japanese railway official. After receiving his appointment, M. Kao reported the matter to the Ministry of Railways in Nanking, which instructed him to deal with the matter at his own discretion.

On March 6th, at 3 p.m., M. Kimura, accompanied by M. Shotaro Irie, Director of the Mukden office of the South Manchuria Railway, called at the Mukden office of the Peiping-Liaoning Railway and had a formal discussion with M. Kao Chi-yi. As a result of the discussion, the following matters were agreed upon :

1. Concerning the scope of the formal conference, M. Kao declared to M. Kimura that the conference could discuss only those questions which related to the management of the railways, and that it had no power to discuss other issues or questions. M. Kao further pointed out that, since the first and second questions brought up in M. Kimura's memorandum — namely, the construction of new railways in Manchuria and the Chinese parallel railways — were political and diplomatic questions, they should be excluded from the conference. M. Kimura thereupon withdrew the first question, but asked M. Kao to reconsider the second question. Concerning the third and fourth questions listed in the memorandum, M. Kao accepted them for discussion.

2. Both sides agreed to select qualified men as technical experts and entrust them with the negotiations.

3. After the technical experts have been selected, each side shall inform the other of their names, so that they may be simultaneously announced.

4. M. Kuo Chu-jen and M. Irie were designated to discuss with each other the question of selecting the technical experts.

5. The Mukden office of the Peiping-Liaoning Railway was designated as the venue of the formal conference.

On March 10th, M. Kao Chi-yi selected M. Kuo Chu-jen, M. Wan Kuo-pin, M. Ho Jui-chang, M. Lao Mien, M. Li Ming-shu and M. Yun Shou-sung as Chinese technical experts and submitted their names to the North-Eastern Political Council for approval and appointment. On March 26th, the experts assumed their duties in the Mukden office of the Peiping-Liaoning Railway and started to collect all the relevant materials bearing on the subject. The experts met thrice every week, and this continued until the Japanese occupation of Mukden on September 18th put a stop to all Chinese Government activities.

On April 8th, M. Irie transmitted a telegram which he had received from the Director at Tokyo. In doing this, M. Irie said that M. Kimura felt extremely anxious that the formal conference could not be held on time, as he was unable to return to China for the present. M. Irie further said that he had been specially requested by Director Kimura to express his regret, as he feared that the Chinese side might suspect Japan of lack of sincerity. M. Kimura's telegram to the Chinese side is translated as follows :

“ We have selected our technical experts. All the preparations are completed for the opening of the negotiations with China, which are expected to terminate satisfactorily. All that is needed is the approval of the President of the South Manchuria Railway, but, as the President is still ill and cannot receive visitors, I cannot come to Fengtien for the present. For this I feel extremely sorry. I know that the Chinese side has completed all the preparations and is awaiting my return. This makes me all the sadder for my inability to return to Mukden. I beg your pardon.”

On April 13th, M. Kao Chi-yi sent the following telegram to Director Kuo :

“ Your confidential letter, as well as the telegram from Director Kimura, transmitted by M. Irie, expressing regret that he and his technical experts are unable to come to Mukden to open the negotiations on account of the illness of the South Manchuria Railway President, has been received and noted. How is the condition of President Sengoku ? Please request M. Irie to convey to President Sengoku my best wishes for a speedy recovery. — Kao Chi-yi.”

On May 7th, a letter was received from the South Manchuria Railway, enclosing a list of technical experts to the proposed formal railway conference. The letter is translated as follows :

“ Mukden Office, South Manchuria Railway,
May 7th, sixth year of the reign of Taisho.

“ I beg to inform you that our company has appointed a number of technical experts for the railway conference, and I am sending you herewith a list of the experts. Please let me know as soon as you have appointed your experts. As to the method and time of announcing the names of the technical experts, I hope that this will form a subject of separate discussion.

(Signed) IRIE.”

The letter was addressed to M. Kuo Chu-jen and marked “ Confidential 30, No. 137 ”.

The attached list of Japanese experts follows : M. Yamasaki, Councillor and Sectional Chief of the “ Department of Negotiations ” ; M. T. Hotsumi, Technical Expert in charge of the railway section of the “ Department of Negotiations ” ; M. Irie, Councillor and Director of the Mukden office of the South Manchuria Railway ; M. Takenaka, Councillor and Vice-Chief of the business department ; M. Iro, Councillor and Sectional Chief of the through-traffic division of the Railway Department ; and M. Furuyama, Chief of the second section of the through-traffic division of the Railway Department.

Under date of May 12th, M. Kuo, who was director of the Kirin-Tunhua Railway, sent the following reply :

“ Your letter of May 7th instant, enclosing a list of Japanese technical experts to the railway conference, has been duly received. Chairman Kao has appointed six technical experts, including myself. Enclosed you will find a list of these experts.

(Signed) Kuo Chu-jen.”

The list of the Chinese technical experts is as follows : M. Kuo Chu-jen, Director of the Kirin-Changchun and Kirin-Tunhua Railways ; M. Li Ming-shu, Director-General of the Kirin-Hailung Railway ; M. Wan Kuo-ping, Director of the Taonen-Angangchi Railway ; M. Ho Jui-chang, Director of the Ssuping-kai-Taonan Railway ; M. Lao Miao, Deputy-Director of the Peiping-Liaoning Railway ; and M. Yun Shou-sung, Sectional Chief of the Kirin-Tunhua Railway.

After the technical experts of the two sides were announced, M. Sengoku resigned from the Presidency of the South Manchuria Railway Company on June 13th, and was succeeded by Count Uchida. While Count Uchida was lingering in Japan, there were many reports in circulation in the Press that the new South Manchuria Railway President would enforce a drastic retrenchment policy. This greatly upset the Japanese experts. Count Uchida assumed office early in June and immediately afterwards he discharged a large number of employees from the South Manchuria Railway, including M. Irie, Director of the Mukden office and

contact man between his organisation and the Chinese authorities. M. Irie returned home, and the vacancy thus created was never filled.

In the middle of August, President Uchida made a tour of the South Manchuria Railway in company with Director Kimura. While making a stop-over at Mukden, M. Kimura told the Chinese technical expert, M. Kuo Chu-jen, that, as soon as Count Uchida completed his tour of inspection, he would fill the vacancies caused by the discharge of some of the Japanese technical experts, so that the railway conference might be opened at an early date. After Count Uchida's return to Dairen, no such action was taken, although the Chinese experts had been waiting in Mukden for the appointment of the Japanese experts. When the September 18th incident occurred, naturally the opening of the railway conference was out of the question.

From the foregoing survey it will be evident that there is not the slightest foundation in the propaganda report spread by the Japanese side that, when M. Kimura arrived at Mukden in an effort to start railway negotiations with China, there was no Chinese representative to treat with him, and that the Chinese side deliberately adopted a policy of procrastination. After receipt of the memorandum from M. Kimura and the meeting between him and M. Kao Chi-yi on March 6th, the Chinese authorities immediately appointed six technical experts. The experts started to work on March 26th, and, from that day to September 18th, the Chinese side was always ready to open negotiations with the Japanese side. The delay in the opening of the conference was first due to the request of M. Kimura and then to the change of President of the South Manchuria Railway, and, when the new President signified his assumption of office by recalling the Japanese technical experts and when he never took any steps to appoint new ones to take their places, the failure of the conference can be easily understood. Indeed, if any side is responsible for the non-opening of the railway conference, it is the Japanese side, and not the Chinese side.

ANNEX VIII.

[Chinese unofficial translation.]

KIRIN-TUNHUA RAILWAY CONSTRUCTION AGREEMENT.

(Attached with twelve letters exchanged.)

This Agreement is made between the Minister of Communications of the Government of the Republic of China (hereinafter referred to as "the Minister") and the South Manchuria Railway Company (hereinafter called "the Company") for the construction of a railway from Kirin to Tunhua, and it is hereby agreed as follows :

Article 1. — The Minister authorises the Company to construct a railway from Kirin to Tunghua.

The construction of the above-mentioned shall begin within a period of one year from the signing of this Agreement, and shall be completed at the end of approximately two years. The work of construction for the different sections of the railway shall be supervised from time to time by the Director of the railway (hereinafter referred to as "the Director") to be appointed by the Ministry of Communications.

Article 2. — The cost of the construction and equipment of the railway shall be fixed at 18,000,000 yen (to be paid in full without any discounts or rebates whatsoever), which amount may be increased according to the uses to be agreed upon by both parties.

All expenditure in connection with the construction and rolling-stock equipment of the railway shall be fully provided by the Company and to be disbursed upon the order of the Director.

The aforesaid advance shall bear interest from the date of the completion of accounts for the different completed sections of the railway until the date of the complete payment of the advance, at the rate of 9 per cent per annum—that is, every 100 yen bears interest of 9 yen.

Article 3. — The Director shall at all times reside at the site of construction works in charge of the full management of the railway. All matters pertaining to the construction of the railway shall be sanctioned by the Director before being put into operation.

The Director shall, during the period of construction, appoint from among the Company's staff an experienced Japanese engineer to serve as Chief Engineer until the completion of the entire railway, when his service shall be discontinued.

The Chief Engineer shall, under the order of the Director, have charge over all matters pertaining to the planning, estimating and construction works of the railway, and shall countersign with the Director all vouchers relative to receipts and disbursements.

The agreement for the employment of the Chief Engineer shall be made by the Director in consultation with the Company and after due approval by the Ministry of Communications.

When necessary, the Chief Engineer may, with the approval of the Director, employ a few Japanese to assist him in carrying out his duties.

Article 4. — Upon the signing of this Agreement, the Director shall make all necessary arrangements for the commencement of work, the acquisition of lands, and the purchase of materials required. The funds required shall be requisitioned by the Director jointly with the Chief Engineer from the Company, which will make the payment accordingly.

All purchases of materials and supplies for the railway shall be listed by the Chief Engineer and submitted to the Director for sanction, before calling for tenders in the open market or to be selected by limited tender. Preference should be given to best quality and lowest price and, in order to encourage Chinese industries, whenever Chinese materials and products of equal quality and price as compared with Japanese or other foreign products are available, they shall be given preference.

Materials from abroad required by the railway shall be purchased by the Director in consultation with the Company, in accordance with the aforesaid procedure and arrangement.

Contractors shall be engaged to undertake the different construction works of the railway, and a majority of the works shall be awarded to Chinese.

Procedures regarding the purchase of materials and supplies, contracts for the work of construction and the inspection of materials and work done shall conform with the general regulations of the (Chinese) Government Railways.

Article 5. — For the purpose of protecting the construction works and maintaining order on the railway, the Director may create a force of railway police, the number of whom shall be decided at his discretion. The necessary outlay shall be defrayed by the railway.

Article 6. — The Director shall arrange immediately for the operation of the railway when the completed sections are inspected and found satisfactory, and shall be empowered to operate the service in accordance with general regulations of the (Chinese) Government Railways. The revenue from traffic shall be treated as receipts of the railway.

The Director shall, upon the commencement of operation of the entire railway until the complete redemption of the advance made by the Company, appoint a competent Japanese versed in accounts to serve as Chief Accountant. The Chief Accountant shall be under the order of the Director, and shall have charge over matters relating to accounts. In keeping accounts, the accounting rules and classification of the (Chinese) Government Railways shall be observed. All vouchers relating to receipts and disbursements shall be signed jointly by the Chief Accountant with the Director.

The agreement for the employment of the Chief Accountant shall be made by the Director and approved by the Ministry of Communications, and may be cancelled by the Director any time it is found unsuitable. The renewal of the agreement shall be handled in the same manner.

The revenue receipts of the railway shall be deposited in Chinese currency in trustworthy Chinese and Japanese banks, and shall bear interest at the rate advertised at that time.

Whenever necessary, the Chief Accountant may, with the approval of the Director, engage a few Japanese to assist in carrying out his duties.

Article 7. — At the completion of the construction of the whole railway, the Director shall conduct an inspection and submit a report thereof to the Ministry of Communications, and the Minister shall redeem in full the advance made by the Company for the construction of the railway. In case the advance is not redeemed in full or in part after the lapse of one year following the inspection and acceptance of the railway, the Minister may arrange for the postponement of the payment by consultation with the Company; but in any case the Ministry shall have the right of redemption at any time when funds are available.

All movable and immovable property belonging to the railway or which it may hereafter acquire, as well as the earnings of the railway, shall serve as first security for the repayment of the principal of the aforesaid advances and the interest thereon.

The security above-mentioned shall not form any lien for any obligations outside the scope of this Agreement.

Article 8. — In case the Company desires to transfer all, or any, of its rights under this Agreement to other parties, the approval of the Minister must first be obtained.

Article 9. — When the railway is completed for traffic, it is necessary that it should be under joint operation with the Kirin-Changchun Railway, and the Minister shall, before the completion of the railway, make the necessary arrangements with the Company.

This Agreement shall be in force as from the date of its signature and shall become terminated as soon as the advance made by the Company has been completely redeemed as provided in Article 7.

This Agreement is executed in duplicate sets, each containing the Chinese and Japanese texts, one copy of each set to be retained by the Minister and one by the Company. Should any doubts arise as to the interpretation of the Agreement, both the Chinese and Japanese texts shall be accepted as the standard.

Dated the twenty-fourth day of the tenth month
of the fourteenth year of the Republic of China.

(Signed) YEH KUNG-CHAO,
Minister of Communications,
Government of the Republic of China.

Dated the twenty-fourth day of the tenth month
of the fourteenth year of the reign of Taisho.

(Signed) Y. MATSUOKA,
Director,
The South Manchuria Railway Company.

Director Y. MATSUOKA,
Representative,
The South Manchuria Railway Company.

SIR,

With reference to Article 7 of the Kirin-Tunhua Railway Construction Agreement concluded between us this day, which article stipulates that :

“ At the completion of the construction of the whole railway the Director shall conduct an inspection and submit a report thereof to the Ministry of Communications, and the Minister shall redeem in full the advance made by the Company for the construction of the railway. In case the advance is not redeemed in full or in part after the lapse of one year following the inspection and acceptance of the railway, the Minister may arrange for the postponement of payment by consultation with the Company; but in any case the Ministry shall have the right of redemption at any time when funds are available. ”

We beg to advise that, in the event the manner of redemption referred to is changed in future to yearly instalment payment, the period for the instalment payment shall be thirty years, but within the said period we shall reserve the right to redeem at any time when funds are available.

Trusting to be favoured with your reply confirming the above,

(Signed) YEH KUNG-CHAO.
Minister of Communications,
Government of the Republic of China.

The twenty-fourth day of the tenth month of the fourteenth
year of the Republic of China.

His Excellency,
Minister of Communications.

YOUR EXCELLENCY,

We have the honour to acknowledge receipt of your letter, setting forth as follows :

“ With reference to Article 7 of the Kirin-Tunhua Railway Construction Agreement concluded between us this day, which article stipulates that :

“ At the completion of the construction of the whole railway, the Director shall conduct an inspection and submit a report thereof to the Ministry of Communications, and the Minister shall redeem in full the advance made by the Company for the construction of the railway. In case the advance is not redeemed in full or in part after the lapse of one year following the inspection and acceptance of the railway, the Minister may arrange for the postponement of payment by consultation with the Company ; but in any case the Ministry have the right to redeem at any time when funds are available, ”

we beg to advise that, in the event the manner of redemption referred to is changed in future to yearly instalment payment, the period for the instalment payment shall be thirty years, but within the said period we shall reserve the right to redeem at any time when funds are available.

“ Trusting to be favoured with your reply confirming the above. ”

In reply, we beg to confirm our acceptance of the same.

We have the honour to be, Sir, Your obedient Servants,

(Signed) Y. MATSUOKA,
Director,
The South Manchuria Railway Company.

The twenty-fourth day of the tenth month
of the fourteenth year of Taisho.

Director Y. MATSUOKA,
Representative,
The South Manchuria Railway Company.

SIR,

With reference to the Kirin-Tunhua Railway Construction Agreement concluded between us this day, we note that it covers, in fact, a part of the railway from Kirin to Huening via the

southern boundary of Yenki and across the Tumenkiang as stipulated in the Provisional Agreement entered into on the eighteenth day of the sixth month of the seventh year of the Republic of China, and of the same date and year of Taisho, between our Government and the three Banks — Japan Industrial Bank, the Bank of Taiwan and the Bank of Chosen — preliminary to the negotiation of a formal loan agreement. Hence, the present Construction Agreement, being based on the above-mentioned Provisional Agreement and pending the conclusion of a formal loan agreement, serves in a measure to expedite the completion of the trunk line in question. In the event of the said Kirin-Huening Railway being constructed and amalgamating the Kirin-Tunhua Railway in future, and should our Government choose to redeem the latter, we request that your Company will agree accordingly.

Awaiting your reply and confirmation, Yours truly,

(Signed) YEH KUNG-CHAO,
Minister of Communications,
Government of the Republic of China.

The twenty-fourth day of the tenth month
of the fourteenth year of the Republic of China.

His Excellency,
Minister of Communications.

YOUR EXCELLENCY,

We have the honour to acknowledge receipt of your letter, setting forth as follows :

“ With reference to the Kirin-Tunhua Railway Construction Agreement concluded between us this day, we note that it covers, in fact, a part of the railway from Kirin to Huining via the southern boundary of Yenki and across the Tumenkiang as stipulated in the Provisional Agreement, entered into on the eighteenth day of the sixth month of the seventh year of the Republic of China, and of the same date and year of Taisho, between our Government and the three Banks — Japan Industrial Bank, the Bank of Taiwan and the Bank of Chosen — preliminary to the negotiation of a formal loan agreement. Hence, the present Construction Agreement, being based on the above-mentioned Provisional Agreement and pending the conclusion of a formal loan agreement, serves in a measure to expedite the completion of the trunk line in question. In the event of the said Kirin-Huening Railway being constructed and amalgamating the Kirin-Tunhua Railway in future, and should our Government choose to redeem the latter, we request that your Company will agree accordingly.

“ Awaiting your reply and confirmation.”

In reply we beg to confirm our acceptance of the same.

We have the honour to be, Sir,
Your obedient Servants,

(Signed) Y. MATSUOKA,
Director, South Manchuria Railway Company.

The twenty-fourth day of the tenth month
of the fourteenth year of Taisho.

Director Y. MATSUOKA,
Representative,
The South Manchuria Railway Company.

SIR,

We beg to refer to the first paragraph under Article 9 of the Kirin-Tunhua Railway Construction Agreement concluded between us this day, in which it is stipulated that “ when the railway is completed for traffic, it is necessary that it should be under joint operation with the Kirin-Changchun Railway, and the Minister, before the completion of the railway, shall make the necessary arrangements with the Company, etc.” The necessity for the joint operation of the Kirin-Tunhua and Kirin-Changchun Railways is apparent, in view of the comparatively short distances of the two lines and the wasteful expenditure involved under separate managements. The Minister shall, upon the operation of the entire line of the Kirin-Tunhua Railway, propose such arrangements to the Company for the amalgamation of the two railways and the necessary amendment or cancellation of the Kirin-Changchun Railway Agreement, and the Company shall agree to discuss these matters accordingly. Furthermore, inasmuch as the stations along the Kirin-Changchun Railway are not adequately equipped to serve the future needs of the Kirin-Tunhua Railway, they shall be speedily rebuilt before the Kirin-Tunhua

Railway is completed, so that with the amalgamation of the two railways will traffic on both lines be fully developed.

Trusting to be favoured with your reply confirming the above,

(Signed) YEH KUNG-CHAO,
Minister of Communications,
Government of the Republic of China.

The twenty-fourth day of the tenth month
of the fourteenth year of the Republic of China.

His Excellency,
Minister of Communications.

YOUR EXCELLENCY,

We have the honour to acknowledge receipt of your letter, setting forth as follows :

“ We beg to refer to the first paragraph under Article 9 of the Kirin-Tunhua Railway Construction Agreement concluded between us this day, in which it is stipulated that ‘when the railway is completed for traffic, it is necessary that it should be under joint operation with the Kirin-Changchun Railway, and the Minister, before the completion of the railway, shall make the necessary arrangements with the Company, etc.’ The necessity for the joint operation of the Kirin-Tunhua and Kirin-Changchun Railways is apparent, in view of the comparatively short distances of the two lines and the wasteful expenditure involved under separate managements. The Minister shall, upon the operation of the entire line of the Kirin-Tunhua Railway, propose such arrangements to the Company for the amalgamation of the two railways and the necessary amendment or cancellation of the Kirin-Changchun Railway Agreement, and the Company shall agree to discuss these matters accordingly. Furthermore, inasmuch as the stations along the Kirin-Changchun Railway are not adequately equipped to serve the future needs of the Kirin-Tunhua Railway, they shall be speedily rebuilt before the Kirin-Tunhua Railway is completed, so that with the amalgamation of the two railways will traffic on both lines be fully developed.

“ Trusting to be favoured with your reply confirming the above.”

In reply, we beg to confirm our acceptance of the same.

We have the honour to be, Sir,
Your obedient Servants,

(Signed) Y. MATSUOKA,
Director,
The South Manchuria Railway Company.

The twenty-fourth day of the tenth month
of the fourteenth year of Taisho.

The Republic of China, Ministry of Communications.

October 24th, 1925.

M. YO-U MATSUOKA, Director,
The South Manchuria Railway Company,
Dairen.

DEAR SIR,

It was stated in the third item of the Article 2 of the Agreement made to-day between China and Japan about the construction of the Kirin-Tunhua Railway that the advance made by Japan to China for the said purpose shall bear interest at nine per cent per annum (gold yen), beginning with the completion of the various sections of the line until the time when the whole loan is paid up.

If in the future the money market is favourable to China for the flotation of bonds and if this Ministry or the South Manchuria Railway Company proposes to float any Chinese Government Kirin-Tunhua Railway Bonds, there should be a meeting of mind of the two parties concerned.

We are writing this to notify you the above proposition and hope that you will favour us with an affirmative reply.

(Signed) YEH KUNG-CHAO,
Minister of Communications.

The South Manchuria Railway Company, Ltd.,
Dairen, China.

Taisho, fourteenth year, October 24th, 1925.

M. YEH KUNG-CHAO, Minister,
Ministry of Communications,
Peking.

DEAR SIR,

In reply to your esteemed communication of October 24th, 1925, relative to the third item of Article 2 of the Agreement made to-day between Japan and China about the construction of the Kirin-Tunhua Railway regarding the advance made by Japan to China to the effect that it shall bear interest at nine per cent per annum (gold yen), beginning with the completion of the various sections of the line until the time when the whole loan is paid up and that, if in future the money market is favourable to China for the flotation of bonds and if this Company or the Ministry of Communications proposes any flotation of Chinese Government Kirin-Tunhua Railway Bonds, both parties concerned should agree, we inform you that the South Manchuria Railway Company agrees and complies with your request.

(Signed) YO-U MATSUOKA,
Director.

The South Manchuria Railway Company, Ltd.
Dairen.

Taisho, fourteenth year, October 24th, 1925.

M. YEH KUNG-CHAO, Minister,
Ministry of Communications,
Peking.

DEAR SIR,

The second item of the Article 6 of the Agreement made to-day between China and Japan about the construction of the Kirin-Tunhua Railway states that the Director of the said line, beginning with the date of operation of the line till the full payment of the advance, should engage an expert Japanese accountant as the Chief Accountant of the line. This Chief Accountant will represent hereafter the South Manchuria Railway Company in all matters concerning the railway between your Ministry and this Company, which this Company hopes that your Ministry will agree.

(Signed) YO-U MATSUOKA,
Director.

The Republic of China,
Ministry of Communications.
October 24th, 1925.

M. YO-U MATSUOKA, Director,
South Manchuria Railway Company, Ltd.,
Dairen, China.

DEAR SIR,

Replying to your communication of the same date concerning the second item of the Article 6 of the Kirin-Tunhua Railway Agreement made to-day between China and Japan about the engagement of an expert accountant (Japanese) as the Chief Accountant of the said line, beginning with the date of operation of the line till the date when the payment of the advance is completed, and that this Japanese Chief Accountant will represent hereafter your Company in all matters concerning the railway between this Ministry and your Company, we inform you that we agree to the said proposal.

(Signed) YEH KUNG-CHAO,
Minister of Communications.

The South Manchuria Railway Company, Ltd.,
Bureau of Foreign Affairs, Peking.

Taisho, fourteenth year, October 24th, 1925.

M. YEH KUNG-CHAO, Minister,
Ministry of Communications,
Peking.

DEAR SIR,

The Kirin-Tunhua Railway Agreement signed to-day by your Excellency and M. Yo-U Matsuoka, Director of South Manchuria Railway Company, stipulates that the advance thus

made be devoted to the construction of the said line only and that it cannot be used for any political and military purpose. We are instructed by our President to write you about this proposal, and shall appreciate if you will kindly give your consent.

(Signed) MASAICHI TAKEACHI,
Chief.

The Republic of China,
Ministry of Communications.

October 24th, 1925.

M. MASAICHI TAKEACHI, Chief,
Bureau of Foreign Affairs,
South Manchuria Railway Company,
Peking.

DEAR SIR,

In reply to your communication of the same date about the Kirin-Tunhua Railway Company Agreement signed by M. Yo-U Matsuoka and this Ministry, relative to the entire use of the advance for the construction of the said line only and that it cannot be diverted for any military and political purpose, we inform you that this Ministry agrees to the said communication.

(Signed) YEH KUNG-CHAO,
Minister of Communications.

ANNEX IX.

AGREEMENT REGARDING THE INCREASE OF CONTRACT MONEY
FOR THE CONSTRUCTION OF THE KIRIN-TUNHUA RAILWAY.

May 30th, 1927.

M. Y. KONISHO, Manager,
Peking Office of the South Manchurian Railway.

DEAR SIR,

I herewith take full acknowledgment of your following enquiry, as per your letter of May 29th, 1927 :

“ Although construction work of the Kirin-Tunhua Railway has been commenced in accordance with the Kirin-Tunhua Railway Construction Contract concluded between the Minister of Communications of your Government and our Company on December 24th, 1925, M. Wei, the Director of the said railway, by official letter No. 1 of the Kirin-Tunhua Construction Budget series, dated November 17th, 1926, requested our Company to agree to the increase of contract money up to 24,000,000 yen, with documents attached explaining the alteration of the construction plan. As we found the proposal of the Director to be reasonable, as the result of our investigation made in consequence thereof, we replied the fact of our agreement to Director Wei in the name of our Company by letter of December 21st, 1926. Although we understand that, though the matter has been proposed by the Director, it is also already agreed upon by Marshal Chang-Tso-lin and Your Excellency, we beg to request Your Excellency's reply by way of precaution.”

Seeing that, as regards the increase of Kirin-Tunhua Railway contract money by 6,000,000 yen, my Ministry is in receipt of the application from Director Wei, ratified by Marshal Chang-Tso-lin, with the said Marshal's letter of reply attached, I beg to reply that this Ministry has no objection to the matter.

(Signed) PAN FU,
Minister of Communications,
Government of China.

STUDY No. 2.

WHAT IS THE ECONOMIC IMPORTANCE OF MANCHURIA FOR JAPAN ?

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INTRODUCTION.

Public opinion in Japan is, generally speaking, convinced that the resources of Manchuria are capable of providing an effective solution for the over-population of Japan. The Japanese believe that Manchuria is not only indispensable to Japan from the standpoint of national defence, but also from the economic standpoint.

What part do the Three Provinces at present play in the economic life of the Japanese islands? To what extent will the links between them and the Japanese Empire increase in importance in the future? These are the two questions which call for an answer.

I. MANCHURIA AND JAPANESE EMIGRATION.

Is Manchuria in a position to provide a direct outlet for Japanese over-population, to absorb the surplus population and to become for Japan not only a country to be exploited but a country to be peopled?

1. THE JAPANESE POPULATION IN MANCHURIA.

Small Number of Japanese in Manchuria.

There is no indication at present of Manchuria being in such a position. On the morrow of the Russo-Japanese war, the whole world believed that the rich Manchurian plains would shortly be colonised by Japanese peasants. In fact, however, the number of Japanese who have settled in the Three Provinces is very small. At the end of 1930, barely 225,000¹ Japanese had settled in the district of Kwantung and in the whole of Manchuria. The majority (115,000) were in the Province of Kwantung, where they represented 12 per cent of the total population. 96,000 were settled in the South Manchuria Railway zone, and only 13,000 in Manchuria outside the concession zone.

Absence of emigrants.

Moreover, the majority of these Japanese are not finally settled on the Continent of Asia. They are engineers on the railways, bridges or mines, industrialists or business men. They constitute almost exclusively a society of traders or officials who change their residence according to the changes in their appointments or promotions and often return to their native country after a few years. Of all the Japanese settled in Kwantung and in the railway zone, nearly a quarter (24%) belong to the transport industry, another quarter (23%) are members of the liberal professions or officials, a fifth (20%) are engaged in trade, and a fifth (20%) in industry.² Even in the Province of Kwantung, hardly more than 1% are settled agriculturists. For one Japanese settled on the land, there were 562 Chinese at the end of 1930.³ Properly speaking, there never has been any Japanese emigration to Manchuria.

Reasons for the Slackening-off of Emigration.

Political reasons.

There are more reasons than one for this almost total absence of Japanese emigrants to the Three Provinces. The reluctance of the Chinese to let land to Japanese farmers explains to some extent the difficulties with which Japanese peasants are confronted in settling on Manchurian soil outside the concession zones.⁴ But the small number of Japanese in Kwantung or in the concession zones is none the less surprising.

¹ The figure for the Japanese, according to the Kwantung Government Statistical Table No. 25, drawn up in Kwantung and the South Manchuria Railway Zone (211,386 in all, at the end of 1930), was supplied to us by the Ministry of Oversea Affairs at Tokyo. In addition, 13,083 Japanese were at the end of 1930 resident in other parts of Manchuria (see Statistical Summary of the Japanese Empire, 46th year, 1932, page 24).

² Figure supplied by the Ministry of Oversea Affairs at Tokyo, according to the Kwantung Government Statistical Table No. 25 (see page 92).

³ The number of Chinese in the Province of Kwantung at the end of 1930 was 820,534, of whom 408,865 were employed in agriculture (supplied by the Ministry of Oversea Affairs at Tokyo from the Kwantung Government Statistical Table No. 25).

⁴ See document B submitted by the Japanese Assessor, "The Relations of Japan with Manchuria and Mongolia" pages 102 to 105.

Psychological reasons.

The fact is that the Japanese is not accustomed to mass emigration. The case of Manchuria does not stand alone. The number of Japanese in foreign countries at the end of 1930 was not more than 755,000.¹ The slight volume of Japanese emigration is in contrast to the Chinese emigration which, especially in recent years, has been proceeding on a large scale. Small as it is, the Japanese colony in Kwantung and Manchuria is the largest foreign settlement of Japanese. The colonies, which are themselves highly populated, only include a small percentage of inhabitants from the home country (Korea 2%,² Formosa 5%,³ most of whom are officials or traders. Of the 17,000,000 inhabitants of Korea there are only 10,500 Japanese families engaged in agriculture.⁴ The only important Japanese emigration of recent years — to Brazil — fostered by lavish subsidies and by active propaganda on the part of the Japanese Government, has only succeeded in transporting annually some 10,000 emigrants overseas (14,000 in 1930).⁵ There is no tradition of emigration in Japan; or, if there once was one, it has been interrupted so long and so completely that it has left no trace behind it. For two centuries and a half down to 1868, Japan was a closed country and its inhabitants were forbidden to leave it. Emigration is not an ancient custom; it has no roots in the past.

The Manchurian climate is not in itself such as to prevent the Japanese cultivator from settling in Manchuria. The Japanese peasant is accustomed to extremes of temperature which, though they are not equal to those of the neighbouring continent, are nevertheless sufficient to acclimatise him to the winter cold. But the climate is only one of a number of conditions which render life in the Three Provinces very different from life in Japan itself. The Japanese farmer, accustomed to his smiling fields and narrow valleys, feels himself lost in the vast Manchurian plain. The conditions of work on the land in Manchuria have no resemblance to those to which he is accustomed. Instead of the intensive cultivation of the narrow littoral plains or valleys, he is faced with the extensive cultivation of the Three Provinces, in which no fertilisers are ordinarily used and the land is not irrigated and has a relatively poor yield. None of these conditions taken by themselves would present insurmountable difficulties; but collectively they contribute to create an atmosphere to which the Japanese does not readily adapt himself, and which he is eager to quit as soon as possible in order to return to his native village.

Economic reasons.

Above all, it is difficult for him to cope with the competition of the Chinese on the continent of Asia. He is not prepared to adopt the depressed standard of living of the Chinaman, and is unable to compete with him in a field where the primary economic factor is the cost of labour.

2. FUTURE OF JAPANESE EMIGRATION IN MANCHURIA.

Japanese hopes.

For some years public opinion in Japan seemed even to have abandoned the idea of mass emigration to Manchuria. Manchuria was regarded always as the great source of supply of raw materials and as the market for Japanese manufactured products. But there was no question of a programme of Japanese settlement on the land. The Japanese Government itself does not seem up to the present to have taken up any very clearly defined attitude on the subject:⁶ but the idea of Japanese settlement of the Three Provinces has made headway during the past few weeks, and a number of professors, journalists or officials have come out strongly in its support.

Certain conditions which are unfavourable to Japanese settlement will disappear in the future in Manchuria. The political obstacles to the establishment of Japanese on the land must be done away with, and the Japanese will no doubt one day be able to lease land freely in the Three Provinces. The present disturbances in the interior, which are not calculated to promote immigration, will not last for ever. But the main difficulties, which are economic in origin, will be much less easy to eliminate.

Economic difficulties.

The economic competition of the Chinese will always leave very little scope for Japanese immigration even in the future when Manchuria is given a new political status.

Without denying altogether the difference in the standard of living between the two peoples, certain Japanese economists have maintained that it is less than it is usually represented to be.

Difference in the standard of life of Japanese and Chinese.

It is, in fact, beyond dispute. In the case of the workers in the towns, whose fixed wages make comparison of earnings easy, it is obvious. In the Dairen factories, according to the

¹ See Statistical Summary of the Japanese Empire (1932), page 24.

² Out of 21,057,000 inhabitants, there were, in 1930, in Korea 527,904 Japanese (see *Year-Book of Japan*, 1932, page 59).

³ Out of 4,462,632 inhabitants of Formosa in 1930, there were 220,730 Japanese (see *Year-Book of Japan*, 1932, page 70).

⁴ See *Year-Book of Japan*, 1932, page 66.

⁵ See Statistical Summary of the Japanese Empire, page 23.

⁶ The Japanese newspapers, however, announce (August 1932) that credits will be provided in the 1933 budget of the Ministry of Oversea Affairs for sending some thousands of Japanese emigrants to Manchuria.

statistics of the Chamber of Commerce,¹ a Japanese worker earns on an average three or four times more than a Chinese worker with the same job. The same is true of the miners of Fushun or Anshan. In justification of this difference, the employers talk of a higher output; but the difference in the output of the two is not in proportion to the inequality in their wages.

This difference in the standard of living is to be found also in the case of agriculture, but it is more difficult to prove. Inevitably the considerable difference between the standard of living of Chinese and Japanese workers is equally marked in the case of the peasants. A conclusive study has still to be made of the income, expenditure and requirements of the Manchurian peasant.² But there can be no doubt that Japanese, newly arrived from a country in which the rapid development of industry and Western influences have created new tastes even in the most remote country districts, have more extensive requirements than the wretched peasants of Shantung or Tcheli, who have sought refuge from famine at a great distance from their isolated villages. According to certain Japanese economists,³ the difference between the standards of living of the two is ordinarily over-estimated, for the reason that the comparison is made between Japanese farmers and the mass of Chinese coolies. They claim that it should be made between farmers in the two countries. But the majority of Chinese farmers in Manchuria, who have come to the country as refugees, have settled on the land under conditions which were hardly in any respect different from those in which coolies live, and have in many cases a standard of living even lower than that of coolies.

The rare experiments which have been made in the past to settle Japanese on Manchurian soil have shown that Japanese farmers were quick to abandon contact with the soil in order to become contractors or managers employing Chinese workers. Directly after the war, the South Manchuria Railway Company, desiring to settle Japanese peasants in the railway zone, leased land to a small number of such peasants at an extremely low nominal rent.⁴ To the great disappointment of the management of the company, the majority of the lessees did not proceed to work their own land, but sublet it to Chinese at a much higher price than that at which it had been leased to them. The Chinese peasant is taking the place of the Japanese peasant on the land. No propaganda either with the Japanese employers or with the Japanese workers can prevent this development.

Japanese plans for group emigration.

The authors of emigration schemes are not unaware of these difficulties, and they commonly propose accordingly a special form of emigration, and in the first place a form of emigration by groups.⁵ The idea is to create purely Japanese villages in the Three Provinces and even zones of Japanese population. What is required, they say, is to create more or less compact groups within which the Japanese peasant will not feel so uprooted from his native soil. The settlers are to be small owners, though they are to have on an average some ten times as much land as they would have in Japan, since cultivation is less intensive on the continent than it is in Japan.

These units of population are not merely to be racial "islands" but economic groups of as a compact a character as possible. They are to be self-sufficient as far as practicable. All forms of cultivation are to be undertaken by the Japanese settlers — soya beans, rice, grain and cotton; sheep-breeding, it is hoped, may also be carried on profitably.

The possibilities of these forms of cultivation are discussed elsewhere: some of them (*e.g.*, cotton) have in our opinion only a poor future in Manchuria. Sheep-breeding has never sufficed to people a country. The peasant remaining in Japan will no doubt lose more at the present time from competition of a neighbour producing rice than he will gain by the release from the congested conditions as a result of emigration. But the problem of crops is not in our opinion the most delicate issue. The idea of economic enclaves corresponding to racial enclaves seems in itself difficult to realise successfully. It would be dangerous for the economic system of Manchuria.

¹ See Annex to the statistics supplied by the Ministry of Oversea Affairs at Tokyo and drawn up according to the *Monthly Economic Bulletin*, No. 203, of the Dairen Industrial Chamber of Commerce.

² Enquiry has been made by the General Affairs Department of the South Manchuria Railway on the following subject: "The Characteristics of Agriculture in Manchuria and Comparison between Agriculture in Manchuria and that of Japan Proper (1927)", page 63.

Taking as an average the expenses of ten families of Chinese farmers in South Manchuria during 1925, cultivating an average of 16.9 acres of land, the author arrives at an annual average expenditure of 74.70 yen. Taking the same average for 75 families of Japanese farmers in South Manchuria in 1925, and cultivating an average of 53.4 acres of land, the author arrives at an annual average expenditure of 197.52 yen. Taking the same average for 100 families of Japanese farmers in Japan, cultivating an average of 4.1 acres, the author arrives at an average annual expenditure of 145.51 yen. No conclusions can be drawn from these results, as the number of Chinese families in Manchuria considered by the author is far too small and the area of land cultivated in Manchuria is not the same for the Japanese and Chinese families.

³ See S. NASU: "Our Manchurian Policy in the Farmers' Emigration", *Kaizo Journal*, May 1932, pages 21 to 28.

⁴ See *Manchuria Daily News*, monthly supplement, July 1st, 1926, "Good Outlook for Agricultural Development in Manchuria and Mongolia", by T. СHIBA, from South Manchuria Railway Company Service, page 14.

⁵ Dr. NASU, professor of the Faculty of Agriculture at the Imperial University at Tokyo, has recently written numerous interesting articles in support of this form of emigration. See particularly "Practical Ways of Agricultural Emigration into Manchuria", from *Shakai Seisaku Jiho* (social reform), May 1932, No. 140, pages 152 to 159.

See, in the same number of the same publication, articles by Professors KOJIMA and KOMURA. Also the articles by Dr. NASU: "Japanese Population Problems and the Manchurian Emigration", extracted from *Journal of Agriculture, Economic Association of Japan*, Volume 8, No. 2; V. K. OKURA, ex-Director of the South Manchuria Railway Company: *Emigration of Japanese Farmers to Manchuria*; V. Z. ITANI, professor of the Tokyo Commercial College: *Perspective of Asiatic Economics*, Chapter 3, page 57.

Nature of Manchurian production and Japanese emigration.

Manchurian exports, as will be shown shortly, are primarily low-priced exports: they are not exports of quality. Fushun coal finds a market in Japan, thanks to its low price. The soya of the Three Provinces serves as a rule, in most of the forms in which it is used, to replace special products, frequently of superior quality. It continues to hold its ground owing to its low price. But an increase in the cost of its production would displace its derivatives in favour of European or South-American fodders, olive oil from the Mediterranean or linseed oil from the Argentine. The same argument applies *a fortiori* to poor cereals such as the kaoliang, which goes to China, or the millet, which goes to Korea. These commodities owe their success to their low prices. An increase in their sale price would mean the ruin of Manchurian exports.¹ But it would be an inevitable consequence of Japanese immigration.

High cost of artificial emigration.

Moreover, emigration would involve heavy charges for the Japanese Government. To create artificially a movement of population is an expensive operation. It would be necessary to pay the cost of transport of the emigrants, to purchase land for them and provide them with the necessary capital for the initial costs of exploitation, with a house and tools, and, above all, to support them with subsidies in an economically unprofitable undertaking. The majority of the authors of emigration schemes advocate no doubt military settlement rather than civilian emigration. They would reduce the financial cost while peopling the Three Provinces with a hardened population. But, even so, it would afterwards be necessary to pay for the transport of the wives and children. A Japanese economist optimistically estimates the cost of the initial installation of Japanese families in Manchuria at 2,000 yen per family.² But a number of subsequent grants would no doubt still be necessary. The idea, under these circumstances, of settling a number of families large enough to constitute an outlet for Japanese over-population is a complete illusion.

Conclusion.

Attempts at emigration on a large scale may well be made in the near future. A petition signed by 45,000 Japanese peasants was presented to the Diet last spring asking for grants with a view to emigration to Manchuria, at the same time as a moratorium for peasant indebtedness. "The emigrants", said the petition, "are real volunteers who will be the custodians of the vital succession of our race". But it is doubtful whether this enthusiastic offer would be followed by a lasting movement on the part of the masses.

Emigration on a considerably larger scale than in past years is probable. But emigration on a scale sufficient to constitute even a minor outlet for Japanese over-population is not possible. Manchuria will remain for a long time to come a country for Japanese to exploit but not to people.

II. MANCHURIA AND THE JAPANESE FOOD SUPPLY PROBLEM.

Since the beginning of the twentieth century, Japan has been much exercised by the problem of food supplies. The risk of a future shortage of agricultural products has come to be regarded as the most dangerous consequence of over-population.³ The Japanese Government has been obsessed with the fear that in the event of war it might be unable to provide for the feeding of its population, and imports of food products have for many years been greatly in excess of exports.

1. JAPAN AND IMPORTS OF FOODSTUFFS.

Deficiency of agricultural production.

At the present time, however, this problem is not particularly acute in Japan. From 1927 to 1930, the average annual deficit in the balance of trade in respect of raw foodstuffs was 152,188,000 yen (imports 198,315,000 yen, exports 46,127,000 yen), while for prepared food

¹ These ideas are developed in a very interesting way by T. YANAIBARA, Professor in the Faculty of Political Economy at the Imperial University of Tokyo. See *Chuo Koron: Central Review*, No. 7, 47th year, pages 40 to 43. See also the same author's "Colonisation in Manchuria — Its Material and Moral Factors", in the *Shakai Seizaku Jiho (The Review of Social Reform)*.

² According to Jinnosuko NAKAJIMA: "An Outlook for Manchurian Immigration", *Shakai Seizaku Jiho (The Review of Social Reform)*, No. 140, 1932, page 107.

The cost of settling a Japanese family in Manchuria would amount to 2,000 yen, as follows:

| | |
|---|-----------|
| Purchase of land (25 acres) | 1,000 yen |
| Buildings | 200 " |
| Agricultural implements and various expenses | 200 " |
| Cost of living | 400 " |
| Expenses of voyage from Japan to Manchuria (50 yen per head). | 200 " |

Mitsuhiko So, "A Definite Measure for Emigration to Manchuria", *Shakai Seizaku*, No. 140, 1932, pages 166 to 167, recommends the establishment of co-operative farms. Such a farm of an area of 125 acres (half plough-land and half meadow-land) would, according to the author, permit of the establishment of 5 families of 2 persons at a total cost of 5,500 yen, or 500 yen per head.

³ Document B from the Japanese Assessor (*op. cit.*), pages 144 to 148.

products it was almost negligible.¹ This deficit, although six times less than that for industrial raw material, is nevertheless, as a result of the excess in exports of manufactured products, higher than that of the total Japanese trade balance (138,750,000 yen).²

Primal importance of Korea and Formosa.

The contribution of the Japanese colonies has, however, made it possible to make good a portion of this deficit. In the case of rice which, although not the largest of Japanese imports, is undoubtedly the most indispensable, the Japanese colonies alone supply more than four-fifths by weight of the total imports (Korea 62 %, Formosa 24 %). The acquisition of these two colonies by Japan appears to have solved for the moment the rice problem, which formerly gave rise to so much anxiety for the future of the country. Imports of rice from Siam and Indo-China are merely supplementary, and are important rather on account of their quality than of their quantity. From 1927 to 1930 Japanese rice and paddy imports from abroad did not exceed 138,125,000 yen ;³ exports amounted to 2,600,000 yen.⁴

Principal products imported.

The main agricultural products which Japan must import from abroad are wheat (58,530,000 yen⁵ imported from 1927 to 1930 — *i.e.*, 29 per cent of raw the total imports of foodstuffs), soya beans (46,910,000 yen), peas (15,414,000 yen), sugar and small quantities of various cereals such as kaoliang (3,211,000 yen), maize (2,500,000 yen), millet (1,840,000 yen). The principal agricultural imports⁶ of Japan fall outside the class of foodstuffs: oilcakes, used chiefly as fertilisers, are purchased abroad to an average annual value of 82,060,000 yen.

2. JAPAN AND IMPORTS OF FOODSTUFFS FROM MANCHURIA.

Manchuria has not hitherto supplied Japan with any large portion of the agricultural products which she lacks. The Three Provinces are importers of rice and sugar, and their import of flour is greatly in excess of their export of wheat. So far they have only supplied Japan with small quantities of secondary cereals, such as maize, kaoliang and millet. Their only agricultural export to Japan of any importance is the soya bean.

Japan and the Manchurian soya bean.

Soya beans are exported to Japan from Manchuria either in the natural state or as oilcakes. About half the soya beans supplied in the natural state are turned into oilcakes in Japan. There is no export of soya-bean oil to Japan from the Three Provinces. From 1927 to 1930 about 424,000 tons of soya and 1,186,000 tons of oilcake⁷ were exported annually from Manchuria to Japan.⁸ Twenty per cent of the soya-bean exports and 71 per cent of the oilcake exports from Manchuria went to Japan.⁹ About one-third of the total soya consumption in Japan from 1927 to 1930 was supplied by Manchuria. The Manchurian soya bean is not superior in quality to that from Japan or Korea ; it contains a larger amount of protein (average 40 per cent as against 37 per cent), but less carbohydrates. The produce of the Three Provinces is less carefully selected than in Japan, but Manchurian soya is cheaper. In spite of fairly high costs of transport, export taxes, import duties (1.70 yen per picul), it is sold in Tokyo at a lower price than the native product (4.50 yen as against 5.25 yen).¹⁰

Importance of the soya bean in Japan.

The many ways in which the soya bean and its derivatives are used in Japan have made the Manchurian market indispensable for that country. The increasingly varied uses to which it is put have led to a great increase in consumption, which doubled from 1907 to 1919. Although there has been some slight falling-off since then, consumption still remains at more than four-fifths of its level at that time.

As food.

Soya beans contain a high percentage of protein and are therefore an indispensable element in the food of a people which eats very little meat. It is eaten as a vegetable, as a pickle, in the form of flour and in the form of cheese. The oil may be used instead of olive oil for salad dressing, and can be manufactured into artificial fats and margarines. Its industrial uses

¹ See Statistical Summary of the Japanese Empire, 1932, page 65.

² See Statistical Summary of the Japanese Empire, 1932, page 64.

³ The Thirty-first *Financial and Economic Annual of Japan*, 1931, the Department of Finance, Tokyo, page 140.

⁴ *Ibid.*, page 136.

⁵ *Ibid.*, page 135.

⁶ *Ibid.*, page 140.

⁷ Statistics supplied by the Bureau of Trade and Industry of the South Manchuria Railway Company, see pages 92 and 93. Other statistics on the same matter have been supplied to us by the Mitsui Company, Dairen, see pages 93 and 94. They differ noticeably from the first in respect of the annual variation, but are fairly close in respect of the averages for several years.

⁸ See pages 92 and 93.

⁹ Statistics supplied by Dr. Saito, Ministry for Foreign Affairs, Tokyo. According to the seventh Statistical Table of the Department of Agriculture and Forestry, December 1931.

¹⁰ Statistics supplied by the Mitsui Company, Dairen. See page 95.

are many. It can be used instead of linseed oil for the manufacture of paints, varnishes and linoleums, and instead of ground-nuts or copra for the manufacture of soap. In quality it is inferior to the products which it replaces, but it is less expensive and keeps well.

There are, however, two main uses for soya beans¹ — namely, the feeding of cattle and the fertilisation of the soil. For both these purposes it is generally used in the form of oilcake.

As fodder.

About one-fifth of the soya beans imported into Japan is used as fodder for cattle. In nutritive value it appears to be equal to oilcake made from ground-nuts or from cotton seeds and is cheaper than either of them. A proof of its value can be found in its widespread use since the war by German and Danish breeders. It has also been increasingly used in recent years for feeding pigs and poultry.

As a fertiliser.

As a fertiliser, the use of the soya bean is of primary importance. Japanese agriculture is highly intensive in character, and the lavish use of fertilisers is indispensable for the maintenance of the high agricultural yield necessitated by the density of the population. From 1927 to 1930, annual imports of fertilisers amounted to 2,165,000 tons.² The soya bean, which is a nitrogenous fertiliser, is particularly suitable to Japanese soil. From 1927 to 1930 annual imports of oilcake into Japan averaged 1,186,000 tons.²

The soya bean is, however, the only Manchurian agricultural product on which Japan is really dependent. At the present time, Manchuria can only supply Japan with a small portion of its requirements in foodstuffs. The raw foodstuffs imported into Japan amount to 178,375,000 yen, of which only a little over one-fifth comes from Manchuria.³ Apart from soya beans, Japan is not at the moment dependent upon Manchurian agricultural products.

3. ABNORMAL CONDITIONS GOVERNING THE EXPORT OF AGRICULTURAL PRODUCTS FROM MANCHURIA.

It would not, however, be fair to judge of the future from the present. The Japanese say with justice that they have not been free to develop the economic system of Manchuria in the direction they would desire. In recent years they have met with numerous obstacles to their schemes for the agricultural development of the Three Provinces, as also in the actual export of the products of the soil and in their manufacture.

The Japanese have not been able to lease land outside the concession zones, and have in consequence been able to exercise but little influence over production, which has been further disorganised by numerous and arbitrary taxes and by monetary disorder. Even trade in food products has been subject to constant interference.

Monopolisation by the Chinese of the products of the soil.

During recent years Japanese exporters have frequently complained of the monopolisation of agricultural products by the Chinese authorities.⁴ The Manchurian authorities adopted indirect methods to secure the products of the soil. The Provincial Banks of Tsitsihar and Kirin engaged in extensive speculations on the purchase of cereals from the farmers. In addition to the soya-oil works (at Anta and Fularki) and the mills (at Hailan), the Bank of Tsitsihar controlled business houses which specialised in the purchase of foodstuffs from the peasants. The latter were compelled to sell their goods in exchange for non-convertible banknotes which were only current within the province and were issued for the sole purpose of purchasing agricultural products. The peasants were deprived of a portion of the fruit of their labours, and exporters also suffered losses, since a large proportion of the agricultural products was thus excluded from the market. In the grain trade there was no firm more important than the representatives of the Bank of Tsitsihar; every year this bank controlled enormous quantities of grain which was resold to exporters (mainly Chinese and European), and thus it was able to influence the market. This policy, the object of which was in some cases to cover the expenses of military operations, undoubtedly caused very serious difficulties for Japanese exporters.

Japanese organisation of the trade in agricultural products.

It is true that the organisation of the Japanese firms enabled them to hold out. Japanese exporters in Manchuria have always received very powerful assistance from the banks. The

¹ For the different uses of the soya bean, see *Manchuria Beans*, Agriculture Office, South Manchuria Railway Company, June 1929, and *Soya Beans in Manchuria*, Agricultural Office, South Manchuria Railway Company, Dairen November 1926.

² See *The Japan Advertiser Annual Review*, 1931-32, page 23.

³ Statistics supplied by the Ministry of Commerce and Industry. See page 106.

⁴ See document B from the Japanese Assessor, page 159.

Bank of Korea, the Yokohama Specie Bank and the Seirio Bank have given vigorous support to Japanese exporters and readily granted them direct loans against documents.

One of the main organisations for the assistance of Japanese traders was the "Kokusai". Its management is at Dairen and it has branches in all the large towns in Manchuria. Its main object is to attract Manchurian goods traffic from the north to the Japanese railways. It secures for its customers (occasionally European as well as Japanese) rebates on freight rates. It lends money at a comparatively low rate on the security of the goods which it carries. It grants credits without difficulty and rarely sells up the goods of insolvent customers.

In addition it controls firms which, though nominally Chinese, work with Japanese capital in the interests of Japanese exporters. These firms, of which the best known is the Cheng Fu Tung, are very numerous in Manchuria. They purchase cereals for Japanese exporters, supervise the quality of deliveries, their weight and packing, they grant credits to small local traders and secure early information, not ordinarily at the disposal of foreigners, regarding crops.

The methodical organisation of the Japanese exporters has permitted them to cope to some extent with the difficulties raised against them. Indeed, the Japanese industries dealing with Manchurian food products, which largely depend for their prosperity on the trade in their manufactured products, have proved better able to stand the strain in recent years than the Chinese industries.

Out of 82 oil factories in Dairen in 1925, 77 were Chinese, with a production capacity of 7,000 tons per day, and 5 were Japanese with a production capacity of 640 tons.¹ In June 1932 there were only 47 Chinese factories with a daily production capacity of 4,600 tons, but the 5 Japanese factories were still in existence with a production capacity of 900 tons.

Nevertheless, although Japanese traders in food products and the businesses dependent upon them have managed to hold out during recent years, there is no doubt that they have had to overcome innumerable difficulties. An improvement in the organisation of Manchuria would undoubtedly improve the position of Japanese trade in these products and would in general allow of the development of the country in a direction more consonant with the needs of Japan.

4. MANCHURIA AND THE FUTURE OF JAPANESE FOOD SUPPLIES.

Future increase of the Japanese population.

Though the food problem is not at the moment serious for Japan, it may well become so in the future. The Japanese population is increasing by 800,000 to 1,000,000 inhabitants per annum, and it is probable that it will continue for some time to increase at a rapid rate. It is true that there is a certain drop in the birth rate, but the death rate also has fallen. The fertility of the women has begun to decline, but the number of women of an age to have children is increasing by reason of the rapid growth of the population during recent years.² It will be necessary to provide fresh food supplies for this additional population. The production of cereals in Japan is no longer increasing at the same rate as before 1920.³ The cost of agricultural production is very high. The increase of rice exports from Korea will enable Japan for some little time to solve the rice problem, but Korea cannot export continually increasing quantities of cereals to Japan.

What is the part to be played by Manchuria in the Japan of the future, in which the problem of food supplies may become much more urgent?

Probable Decrease in the Importance of Manchurian Soya in the Future.

So far as concerns the supply of the principal agricultural product exported to-day by the Three Provinces to Japan, it is possible that the importance of Manchuria may decline rather than increase.

Not as an article of food—

The part played by the Manchurian soya as an article of food will no doubt remain important — will perhaps become even more important than in the past. It is probable also that Japanese stock-breeders and farmers will employ it increasingly for feeding their cattle, poultry or pigs.

But, as we have seen already, only a small portion of the soya bean imported from the Three Provinces is used as food for man or beast.

— But as a fertiliser.

As a fertiliser there is already a serious competitor to the soya bean.

¹ Statistics supplied by Furuizawa, Secretary-General of the Dairen Chamber of Commerce.

² See W. R. CROCKER, *The Japanese Population Problem: the Coming Crisis*, London, 1931, Chapter 4: "The Future Population," pages 70 to 92.

³ See the very interesting study of E. F. PENROSE: *Food Supply and Raw Materials in Japan. Index of the Physical Volume of Production of Foodstuffs, Industrial Crops and Minerals, 1894 to 1927*; Chicago, 1929, pages 61 to 68.

Competition of sulphate of ammonia.

Imports of sulphate of ammonia to Japan have much increased during recent years.¹ From 1927 to 1930, annual imports amounted to 302,000 tons. Whereas soya oilcake contains only 6½ per cent of nitrogen, sulphate of ammonia contains 20.5 per cent.¹ The amount of nitrogen supplied annually to the Japanese soil from imports of soya (81,090 tons) is therefore not much more than that supplied by the imports of sulphate of ammonia (61,910 tons). Furthermore, though sulphate of ammonia is, weight for weight, considerably more expensive than soya oilcake, its high nitrogen content makes its price really lower than that of the oilcake. An English ton of sulphate of ammonia sells at Tokyo for 50 yen, whereas an English ton of soya oilcake sells at 47 yen.¹ The price per unit of nitrogen is therefore 2.40 yen for the purchaser of sulphate of ammonia, whereas it amounts to 7.20 yen for the purchaser of soya oilcake. The price of nitrogen is therefore three times less in the case of the chemical fertiliser. The increasing popularity of this artificial manure has been reflected during recent years in the fluctuation in the price ratio between the two competing products. In 1931, as a consequence of the fall in the price of rice and silk, the price of soya oilcake fell by about one-third. The price of sulphate of ammonia, however, only fell by one-fifth. Imports of soya bean have in fact considerably diminished during 1929 and 1930.

The Japanese authorities appear so determined to encourage the use of mineral fertilisers in the country that they are doing everything in their power to increase the output. The creation of the fertiliser industry is regarded as a necessity in case of conflict with a foreign Power ; such independence can be established much more easily and much more surely by developing a home chemical industry than by increasing Manchurian imports. At the end of 1931, a Japanese law imposed high duties upon imports of ammonia sulphates and introduced a complicated system of import licences.² In the last few years, the Japanese policy appears to have been entirely successful — 249,000 tons of ammonia sulphate were produced in 1929, 368,200 tons in 1930, and 599,000 tons in 1931, the economic crisis notwithstanding.² This increase of more than 230,000 tons from 1930 to 1931 amply counterbalanced the fall in imports, which amounted to 78,000 tons.

The future prospects of soya oilcake would therefore appear to be far from bright. Such cakes no doubt possess the advantage, as compared with ammonia sulphate, of containing phosphates (1.2 per cent) and potash (1 per cent) ; but they only contain very small quantities of these chemicals. It is possible that vegetable fertilisers may seem preferable to artificial fertilisers ; European agriculturists used to assert that ammonia sulphate was liable to exhaust the soil. They have since revised this opinion, and the directors of the Tokyo Agricultural Experimental Station do not themselves believe that there is any danger in using chemical fertilisers.

At all events the Japanese will no longer be so closely dependent upon Manchuria for the fertilisation of their soil ; and if in the future they should desire to ensure the independence of their markets in nitrate fertilisers, they will most easily achieve this in their own country.

In regard to the most important of its agricultural products — the only one which at the present day is indispensable to Japan — it would appear that, whatever may be its future status, Manchuria is likely to play a decreasingly important part in the economic activities of the Islands.

Manchurian cereals and live-stock.

The Japanese, however, hope that the Three Provinces may one day supply them with the other foodstuffs of which they stand in need.

Neither Manchurian kaoliang nor millet will ever assist Japan to solve the problem of her food supplies. There is an increasing tendency among the Japanese to forsake low-quality cereals in favour of rice, and it is unlikely that they will ever reverse the process. Manchurian wheat may perhaps some day serve to make good the Japanese deficiency in this product, but Manchuria must, in the first instance, aim at being self-supporting ; contrary to the opinion held in certain quarters, the irregular character of their wheat crops would not appear to make the Three Provinces particularly suitable for this type of agriculture. It is possible that some day Western Manchuria will supply Japan with its beef and mutton, but stock-raising is one of the activities for which the Japanese may discover new scope in their own country if they so desire : for example, in the sparsely populated Hokkaido territory or on the grassy slopes in the interior of Hondo.

Japan and the future of rice.

The real problem of the future is that of the rice supply. As we have already seen, it is not at present acute in the Japanese islands. Manchurian rice exports would even considerably aggravate the poverty of Japanese farmers. The problem may, however, come to the fore in the future, and no one can blame the Japanese for giving it their attention.

At the present day the output of Manchurian rice is not very large : the annual crops amount to 300,000 tons³ and rice only occupies 1 per cent of the area under cultivation.

¹ See page 96.

² See *The Japan Advertiser Annual Review*, Finance, Industry and Commerce, page 23.

³ See *Manchuria Year-Book* 1931, page 75.

The really negligible development of rice-growing in Manchuria is to be attributed to historical much more than to geographical factors. The Chinese from Shantung and Hopei who settled the Three Provinces did not cultivate this cereal in their country of origin and they only transferred to the other side of the Great Wall the types of agriculture to which they were accustomed. Rice was introduced by the Koreans, who at the present day still grow approximately nine-tenths of the rice produced in Manchuria.

Possibilities of growing rice in Manchuria.

The success of their efforts has amply demonstrated that rice can be grown in the Three Provinces.¹ The climate in South Changchun is not unfavourable to its cultivation. Even in northern latitudes, early rice of a variety which has been tested in Hokkaido continues to give a high yield. Like mountain rice (which at present occupies an appreciably more important place), plains rice may find a favourable field of expansion in the greater part of Manchuria.

Two factors would appear to militate against the cultivation of rice: the cold winters and the relatively small rainfall. There is always a risk that the winter cold may continue beyond April and thus affect the ripening of the grain. For the purposes of rice-growing, the small rainfall would make it necessary to undertake expensive irrigation works, especially in the north. But soils which freeze to a great depth make up for this in fertility and are characterised by an almost complete absence of parasitical insects.

At the present day the yield, at least in the case of plains rice, has already reached a high level. Even the Koreans who emigrate without capital and settle in the mountain valleys, often at high altitudes, obtain good yields. Though lower than in Japan, the yield of the irrigated rice-fields in the plains appears to be higher per crop than in the tropics, in Java, Indo-China and India.

South Manchurian experts are of opinion that rice-fields covering one million hectares could be cultivated in Manchuria, and the technical experts of the Chinese Eastern Railway are even more optimistic. Manchuria could thus produce a crop equal to two-thirds of the Japanese crop.

It is true that in view of the low rainfall a large capital outlay would be required for the irrigation of the rice-fields. It would be necessary to draw upon the waters of the Sungari and Nonni by means of great irrigation works or, alternatively, to collect mountain water by means of dykes. The Three Provinces are capable of producing rice in abundance, but this result could only be attained through the construction of expensive public works.

In any case it is doubtful whether Manchuria will have an exportable rice surplus in the near future. Her first task is to become self-sufficient. If, when order has been re-established in the country, the development of the Three Provinces is accelerated, the standard of life of their inhabitants will undoubtedly rise. Their needs will change. They will consume more rice, with a resultant diminution of exports.

Indirectly, however, Manchurian production may, if necessary, be used to increase the rice supplies of the Japanese islands.

In recent years the principal purchaser of Manchurian cereals has been Korea. After the soya bean, the most important article of food exported by Manchuria is millet. In 1928 Korea imported more than 25,000,000 yen of millet from Manchuria, in 1929 more than 20,000,000, and more than 21,000,000 in 1931. These imports enabled it to release rice for export to Japan. In the event of an increase in Manchurian millet exports to Korea, the export of Korean rice to Japan may correspondingly expand.

Manchuria may become a factor of increasing importance if Japan is some day faced with a rice problem. At present, however, the Japanese people need have no fear of a dearth of rice. There are even years in which the Japanese peasant is apprehensive of over-production. Thanks to Korea, it is improbable that the problem will arise in years to come. It is, however, easy to understand the Japanese people's concern for the future, however remote.

It is possible that, in the future, Manchuria may be more useful as a source of supplies for an over-populated Japan. For the time being, however, and with the exception of the soya bean, her rôle is still relatively unimportant. In the near future it is even possible that her utility in this respect may decrease with the declining importance of cake fertilisers.

III. MANCHURIA AND THE JAPANESE PROBLEM OF RAW MATERIALS.

1. JAPAN AND MANCHURIAN RAW MATERIALS.

Scarcity of raw materials in Japan.

But what Japan stands most in need of are raw materials. With the exception of silk, the Japanese islands do not themselves produce on a large scale any of the raw products which they manufacture.² From 1927 to 1930, the average annual imports of raw materials in a crude

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Japan has to import all the cotton and wool she consumes, all her rubber, two-fifths of her timber, the greater part of her metals (except copper), more than nine-tenths of her iron ore and more than nine-tenths of her oil. In coal, she is almost self-sufficient, but only as regards quantity and not as regards quality ; and her reserves are not abundant. As her mineral resources become used up and her industry grows, Japan becomes more and more dependent on abroad for the supply of her raw materials.

Manchurian raw materials.

Manchuria is not capable of supplying Japan with all the products which she lacks. There are even some which Manchuria does not supply at all or in very small quantities — namely, cotton, wool, wood pulp, metals, other than iron, and rubber. Even if cotton-growing develops rapidly in Manchuria (which is doubtful), Japan will never depend to more than a small extent on the cotton of the Three Provinces and certainly much less than on Indian, American or Chinese cotton. As regards timber, Japan has not imported from Manchuria in the last few years much more than 1 per cent of her total consumption.² She has even exported the finer kinds of wood to Manchuria, while importing hard timber. But Manchuria is rich in forest reserves. Its timber reserves are estimated at 4,250,000 cubic metres, and would be sufficient for more than three years of world consumption.³ Once peace and order have been restored in the Three Provinces, it is probable that Japan will be able to supplement her own production by importation of Manchurian timber instead of having recourse to America or Russia.

Manchurian raw materials and Japanese national defence.

In practice, with the exception of silk, the only raw materials which Japan obtains in large quantities from Manchuria are cast iron, coal and oil, all of them products necessary for the heavy industries and for national defence. This is not a coincidence. Japan's hope is to achieve a certain independence as regards supplies of these minerals.

How far is Japan at present dependent on Manchuria for these raw materials of heavy industry ? To what extent will she be dependent thereon in the future ?⁴ Does the importation of these products from Manchuria offer Japan, and will it offer her in the future, an economic advantage or only greater political and national security ?

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From the point of view of quantity, Manchurian coal has therefore only played a small part in the Japanese economic system.⁶ From 1926 to 1931, 1,790,000 tons have been supplied annually to the Japanese Empire by the Three Provinces, or only 5½ per cent of the total amount of coal produced and imported.⁶ It is true that the percentage of Manchurian coal consumed by Japanese industry, small though it may be, is continually growing (4.6% in 1926 ; 5.3% in 1928 ; 5.6% in 1930, and 6.4% in 1931.)⁶ The decline in Manchurian exports,

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The really negligible development of rice-growing in Manchuria is to be attributed to historical much more than to geographical factors. The Chinese from Shantung and Hopei who settled the Three Provinces did not cultivate this cereal in their country of origin and they only transferred to the other side of the Great Wall the types of agriculture to which they were accustomed. Rice was introduced by the Koreans, who at the present day still grow approximately nine-tenths of the rice produced in Manchuria.

Possibilities of growing rice in Manchuria.

The success of their efforts has amply demonstrated that rice can be grown in the Three Provinces.¹ The climate in South Changchun is not unfavourable to its cultivation. Even in northern latitudes, early rice of a variety which has been tested in Hokkaido continues to give a high yield. Like mountain rice (which at present occupies an appreciably more important place), plains rice may find a favourable field of expansion in the greater part of Manchuria.

Two factors would appear to militate against the cultivation of rice: the cold winters and the relatively small rainfall. There is always a risk that the winter cold may continue beyond April and thus affect the ripening of the grain. For the purposes of rice-growing, the small rainfall would make it necessary to undertake expensive irrigation works, especially in the north. But soils which freeze to a great depth make up for this in fertility and are characterised by an almost complete absence of parasitical insects.

At the present day the yield, at least in the case of plains rice, has already reached a high level. Even the Koreans who emigrate without capital and settle in the mountain valleys, often at high altitudes, obtain good yields. Though lower than in Japan, the yield of the irrigated rice-fields in the plains appears to be higher per crop than in the tropics, in Java, Indo-China and India.

South Manchurian experts are of opinion that rice-fields covering one million hectares could be cultivated in Manchuria, and the technical experts of the Chinese Eastern Railway are even more optimistic. Manchuria could thus produce a crop equal to two-thirds of the Japanese crop.

It is true that in view of the low rainfall a large capital outlay would be required for the irrigation of the rice-fields. It would be necessary to draw upon the waters of the Sungari and Nonni by means of great irrigation works or, alternatively, to collect mountain water by means of dykes. The Three Provinces are capable of producing rice in abundance, but this result could only be attained through the construction of expensive public works.

In any case it is doubtful whether Manchuria will have an exportable rice surplus in the near future. Her first task is to become self-sufficient. If, when order has been re-established in the country, the development of the Three Provinces is accelerated, the standard of life of their inhabitants will undoubtedly rise. Their needs will change. They will consume more rice, with a resultant diminution of exports.

Indirectly, however, Manchurian production may, if necessary, be used to increase the rice supplies of the Japanese islands.

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which since 1930 has been marked, has been accompanied by a still greater decline in Japanese production.

The world economic crisis, the voluntary restrictions of output (20% in 1931),¹ the competition of oil fuel and hydraulic power (which supply more than four-fifths of Japan's electrical energy) have led to a decline in Japanese consumption and have put a stop to the continual increase in her consumption of coal.

Thus, at present, Japan only utilises a small proportion of the coal which Manchuria would be capable of supplying.

Manchuria as a whole, according to the *Geological Survey of China*, produced from 1927 to 1930 an annual average of 9,450,000 tons of coal.² More than three-quarters of this production was accounted for by the three big mines belonging to or practically under the control of the Japanese those of Fushun, Penhsihu and Yentai.²

The Fushun mine alone, worked since 1905 by the South Manchuria Railway Company, has for the last five years been producing an annual average of over 6,600,000 tons of coal.³ The percentage of coal exported to the Japanese Empire compared to the amount of coal produced is small (28%). Even in the Japanese undertakings, hardly more than a quarter of the coal produced has been sent to the Japanese islands.

Advantages of Manchurian coal.

However modest the present exports of Manchurian coal to Japan may be, they are evidently more important than the small difference between Japanese production and consumption would lead one to expect. The Japanese islands produce a quantity of coal sufficient for their needs; but quantity is not everything. The problems of the quality of coal and that of its cost of production are no less important. Does Manchuria possess marked advantages in these respects?

In respect of quality.

Japanese coal possesses caloric power which, without being very high, is, generally speaking, sufficient for heating; it is also suitable for the manufacture of gas, but the Japanese Empire is deficient in coal for the production of metallurgical coke. The Miike mines at Kyushu and those of Yubari at Hokkaido, which together furnish about one-tenth of the coal consumed in Japan, are the only important mines which produce coking coal. The quality of the coke is poor and the iron-works which employ it are obliged to mix it with coal imported from China (20%).⁴ The scarcity of coke is as great a drawback to Japanese metallurgical expansion as the scarcity of iron ore.

Can Manchuria supply Japan with the coke which she lacks? Generally speaking, Manchurian coal is also suitable for heating rather than for coke-making. The Fushun coal, which is bituminous, presents the peculiarity of occurring in strata of the tertiary period, which usually only produce lignite. Its caloric power is great (6,800 according to the analysis of the South Manchuria Railway Company). While it contains a considerable proportion of moisture (3.9%), a great deal of ash (9.7%) and comparatively little carbon (45%), it is rich in volatile matter (41%).⁵ Mixed with Japanese coal, it increases the latter's caloric power; but the coke which it produces is of rather poor quality. For smelting, it must be mixed with coal which is richer in coke; and the Anshan foundries mix it in the proportion of 4 to 1 with Penhsihu coal.⁶

The Sino-Japanese mines of Penhsihu are at the present time the only important producers of good coking coal. Their coal is capable of supplying 74 per cent of coke. But these mines have at present a comparatively small output (an average of about 570,000 tons from 1927 to 1930).⁷ As the deposits of Northern Manchuria are for the moment little exploited, the total quantity of coking coal supplied by the Three Provinces is quite small. The quality is no doubt superior as a whole to that of Japan, and, according to experts, the cost of production is much lower. Even in Manchuria, however, it is much greater than that of caloric coal, for it is not found in surface mines.

In respect of cost of production.

But Manchurian coal has a still more marked advantage over Japanese coal — namely, its low cost of production. The production of Japanese coal is costly. The technical conditions of operation in Japan are difficult. The pits have to be deep; the seams are shallow; the distance from the mining centres of Kyushu or Hokkaido to the industrial centres is great. Labour is dear compared to its output — the output per man seems to be one-fifth on an average of what it is in the United States. According to experts, the average cost of production

¹ See *Japan Advertiser Annual Review*, page 4.

² See statistics supplied by the *Geological Survey of China*. See pages 98 and 99.

³ Statistics supplied by the Director of Mines at Fushun. See page 96. According to statistics of the *Geological Survey of China*, the average production is 6,976,000 tons.

⁴ See J. E. ORCHARD: *Japan's Economic Position*, page 286.

⁵ See *The General Description of Fushun Coal Mine*, South Manchuria Railway Company, 1932.

⁶ Information supplied by the Management of the Anshan Mines.

⁷ Statistics of the *Geological Survey of China*. See page 99.

in 1927 in the Japanese mines was 13.50 yen per ton.¹ The cost of production of Manchurian coal is much lower. Chinese labour is cheaper than Japanese, but, above all, operating conditions are much easier in the Three Provinces than in the Japanese islands. The Fushun mines have particularly favourable conditions of operation. Even in the underground portion of the mine, the conditions of operation are easy; the average depth of the coal seam is greater (about 40 metres); the dead ground is of little depth. The *Geological Survey of China*, in an estimate which seems to err rather on the side of pessimism, estimates the cost of production in the Fushun pits at 4.27 yen per ton.² But nearly 45 per cent of the Fushun production is at present obtained on the surface.³ The cost of production of this surface mine, which is the largest in the world, is very low. The *Geological Survey of China* puts it at 2.85 yen per ton;² at the present time certain experts believe it to be even from half to one-third of this figure.⁴

Even with the cost of transport, Manchurian coal is therefore at present sold in Japan at lower prices than Japanese coal. The South Manchuria Railway Company estimates at about 8.30 yen the average cost of transport⁵ of Fushun coal in the last five years to Yokohama (transport by rail Fushun to Dairen, 5.5; freight, 1.9; export tax, 1; miscellaneous, 0.8)⁵ according to the qualities of coal. The average sale price of Fushun coal during the last five years ranged from 8.5 yen for "No. 2 dust" to 12 yen for "lump".⁵ On the Japanese market, Fushun coal can therefore compete on favourable terms with domestic coal.

This moderate price for Manchurian coal explains the favour with which it is regarded by the Japanese consumer. But the Japanese mining interests have been greatly perturbed by this competition.⁶ They have exerted great pressure on the Japanese Government to limit exports of Fushun coal. In 1928, the South Manchuria Railway Company, at the Japanese Government's request, agreed to reduce its exports to Japan. More recently, in the middle of last July, after long agitation by the Japanese mine-owners, and thanks to the mediation of the Colonial Minister, a compromise seems to have been reached between the Japanese producers and the Fushun mine. According to the Press, the latter agreed to reduce its exports to Japan by 200,000 tons, and the former to cut down their production by 800,000 tons.

3. MANCHURIAN COAL AND THE ECONOMIC FUTURE OF JAPAN.

Small extent of Japanese reserves.

While at present Japan is almost entirely self-sufficient as regards coal, this may not always be the case. The Japanese islands have become rapidly industrialised. The resources of the sub-soil run the risk of becoming exhausted, and the importance of Manchurian coal may grow as time goes on.

Japanese geologists hold widely different opinions as to the extent of the reserves of the islands. According to the estimates of the *Japan Imperial Geological Survey*, the theoretical geological reserves of the country amount to seven thousand million tons. No other great country, with the exception of Italy, has such small reserves.

Moreover, the proved reserves are very much smaller and are hardly more than half the theoretical figures. Lastly, less than half these known reserves are regarded in the present state of technique as capable of exploitation. The known and utilisable reserves of the Japanese islands therefore do not appear to exceed 1,800,000 tons.⁷ The Japanese colonies are not at present of much help to Japan. Formosa, which possesses trifling reserves, and Korea, whose deposits are estimated at about one thousand million tons, have more than half their reserves in the form of lignite.⁸

It is difficult to anticipate what Japan's future consumption of coal will be. The formerly rapid rate of industrialisation has now come to a standstill, but may once more become accelerated when the world crisis is at an end. The use of hydraulic power and that of heavy oils may become still more widespread. But at the present rate of consumption the known reserves of coal will be exhausted in about 50 years.

Manchurian Reserves.

Are the Manchurian reserves sufficient to make good in the future the exhaustion of the Japanese mines?

¹ B. P. TORGASHEFF: *Coal, Iron and Oil in the Far East*; "A Digest prepared and published by the Institute of Pacific Relations", Honolulu 1929. Advance proof, page 23.

² See page 99.

³ Information supplied by the Management of the Fushun Mines.

⁴ According to C. Y. HSIEH and N. C. CHU: *Foreign Interests and the Mining Industry in China*. Preliminary paper prepared for the conference of the Institute of Pacific Relations, Hangchow, 1931, page 20.

The cost of production of Fushun coal is stated to be 1.50 Mexican dollars per ton.

⁵ See page 97.

⁶ Twelfth International Geological Congress: "The Coal Resources of the World", Toronto, 1913, Volume 1, pages 278 to 318.

The estimated resources at this date were 7,900,000,000 tons. On the basis of the annual consumption of coal in Japan, its resources to-day would therefore be a little more than 7,000,000,000 tons.

⁷ TORGASHEFF (*op. cit.*), page 22.

⁸ *Ibid.*, page 26.

Probable comparative importance.

Prospecting in Manchuria, except that done in the areas served by the South Manchuria Railway Company, is naturally of a much more rudimentary nature than in the Japanese islands. Geologists differ widely in their estimates of reserves.

According to the estimates of the South Manchuria Railway Company, the total reserves of Manchuria amount to 2,352 million tons, 60 per cent being in the Province of Liaoning, 18 per cent in the Province of Kirin and 22 per cent in the Province of Heilungkiang. The *Geological Survey of China* gives a higher figure and puts the reserves of Manchurian coal at nearly four thousand million tons, of which 45 per cent are in the Province of Liaoning, 29 per cent in the Province of Kirin and 26 per cent in the Province of Heilungkiang.

The disagreement between these estimates is chiefly due to the uncertainty with regard to Northern Manchuria. The figures for Southern Manchuria, which is better known, are in closer agreement. The Province of Liaoning seems to contain coal reserves of about 1½ thousand million tons¹ and the Fushun mine of about 950,000,000 tons.² The greater part of the deposits of Southern Manchuria in the neighbourhood of Fushun belong to the tertiary age and about one-sixth of the deposits to the permo-carboniferous age. The same is true of the Penhsihu mine.

The reserves of Northern Manchuria, regarding which great uncertainty exists, cannot be estimated with any accuracy. Only a very small part of the Province of Heilungkiang has been prospected. Geologists place at the low figure of about 200 million tons the known industrial reserves of Northern Manchuria; but they add that the possible geological reserves may be much larger.³

Economic conditions of the exploitation of the Manchurian reserves.

The quality of these reserves is necessarily little known. In Southern Manchuria, good-quality coking coal is rapidly becoming exhausted. The Penhsihu mines have undoubtedly important reserves (226 millions of tons),⁴ but their possibilities of exploitation are as yet little known.

Nearly half the reserves of Northern Manchuria consist of lignite of little industrial value, but certain recently explored regions like that of Hooligan (reserves of about 50 million tons), on the left bank of the Sungari, or that of Muling (45 million tons) have good-quality coking coal.⁵

The average price of Manchurian coal is likely to rise in the future. The economic advantage of the Fushun surface mines as regards operation will disappear in the not far distant future, the greater part of their reserves being underground.⁶ At the present rate of production, surface operation will come to an end in a few decades.

Conclusion.

Manchurian coal therefore does not at present play a very important part in the Japanese economic system. It supplements the Japanese production as fuel, and especially as coking coal. It advantages the consumer by keeping prices low on the Japanese market, owing to its own cheapness. But it is far from being essential, and many Japanese mine-owners would like to see it eliminated altogether. Possibly the time will come when Japanese industry will be glad to have coal reserves within its reach to supplement those on Japanese soil. The Manchurian reserves capable of exploitation seem, indeed, at present to be materially greater than those of the Japanese islands. But their more or less rapid exhaustion must depend on the future development of industry in Manchuria. The available coking coal, the reserves of which seem to be rather small, could not be shared between Japanese industry and a new Manchurian industry. The Manchurian sub-soil would in no way suffice to ensure the future independence of the Japanese metallurgical industry as regards coke supplies.

4. JAPAN AND MANCHURIAN SHALE OIL.

Japan and the Oil Problem.

The consumption of oil has grown very rapidly in industrial Japan, but the islands are poor in this fuel, and only supply a very small part of the home consumption. In 1931, hardly more than 11 per cent of the refined oil utilised was produced in a crude state in the Empire.⁷

¹ According to the investigation made by C. Y. HSIEN in 1925 for the *Geological Survey of China*, the coal reserves in the Province of Liaoning are 1,275,000,000 tons. According to the Director of the Geological Institute at Dairen, M. Murakami (TORGASHEFF, *op. cit.*), page 19, these reserves amount to 1,177,000,000 tons. The figures supplied by the South Manchuria Railway Company and by the *Geological Survey of China* for the Province of Liaoning were 1,422,000,000 tons and 1,794,000,000 tons respectively (see pages 100 and 101).

² See page 96.

³ AHNERT: *Mineral Resources of North Manchuria* (Memoirs of the *Geological Survey of China*, 1929), page 140. This is the most important book on the mineral resources of North Manchuria.

⁴ See page 101.

⁵ See AHNERT, *op. cit.*, page 90.

⁶ See page 96. The coal resources estimated by the South Manchuria Railway Company are 164,526,000 tons in surface mines and 786,847,000 tons in underground mines.

⁷ Out of a total of 733,831,000 gallons of volatile oil, light or heavy oils, and lubricating oil, consumed in Japan, 83,060,000 gallons were produced in Japan itself. See page 101 and *Japan Advertiser Annual Review*, "Finance, Industry and Commerce," page 71.

Japan and Formosa each accounted for half this production. In addition, the Japanese have been able to obtain from the Soviets a permanent licence for the exploitation of the oil-bearing ground in the Russian part of the island of Sakhalin. Including these resources obtained from foreign soil but exploited by the Japanese, 23 per cent of the refined oil consumed has been produced in the crude state by the Japanese. Japan is therefore obliged to import the greater part of her mineral oil from the United States and the Dutch Indies. The reserves of this fuel are meagre. Japan and Formosa combined hardly contain more than 1,235,000,000 barrels. At the present rate of consumption, the reserves would hardly satisfy Japan's needs for more than about ten years. This problem is particularly serious, inasmuch as a large part of the petroleum and heavy oils are consumed by the army and navy (apparently nearly one-third).¹

Possible importance of Fushun shale oil.

The Japanese have put great hopes in the recovery of oil from the Fushun shales. Fushun is not the only deposit of bituminous shales in Manchuria, and the Provinces of Heilungkiang and Kirin contain considerable quantities. But at Fushun the shale can be exploited at the same time as coal and in very favourable conditions.

Since 1929 a large factory extracts oil from the bituminous shale which overlies the coal for a depth of about 100 metres. Thanks to the combined researches of the laboratories of the South Manchuria Railway Company and of those of the Japanese navy, 55,000 tons of crude oil, 40,000 tons of heavy oils and 14,000 tons of crude paraffin can be produced each year, according to the management of the Fushun Mines.²

The great advantage of this oil is its low price. The residues after treatment are themselves utilised to fill in the underground galleries of the mines, once the work has come to an end. This use of the bituminous shale for a double purpose makes the production of oil still more economical. The Fushun shale oil only represents a small part of the total Japanese consumption, but its importance may increase any day. According to the authorities of the South Manchuria Railway Company, the deposits of bituminous shale are estimated to exceed 5,000 million tons, capable of providing more than 200 million tons of oil.³ This would suffice for Japanese consumption for over a century.

These possibilities are indeed purely theoretical. At the present time, the production of shale oil in Manchuria is not yet of very great assistance to Japan.

5. JAPAN AND MANCHURIAN IRON.

Present Importance of Manchurian Iron in the Japanese Economic System.

For Japan the iron problem is much graver than the coal problem. While the Japanese islands are almost self-sufficing as regards coal, the quantity of iron which they produce is totally inadequate for their needs.

Scarcity of iron ore in Japan.

Japanese industry is heavily handicapped by this scarcity of the most essential metal, and the Japanese General Staff is concerned about the country's dependence on foreign supplies for a raw material which is more indispensable than any other to national defence.

From 1927 to 1930, the Japanese islands produced barely 9 per cent of the iron they consumed.⁴ Of the annual requirements of 2,050,000 tons of ore, the country supplied only 185,000 tons each year. Most of the pig-iron produced in Japan had therefore to be manufactured from imported ores. Notwithstanding these heavy imports of iron ore, Japan consumes far more pig-iron and steel than she produces. From 1927 to 1930, only 62 per cent of the pig-iron used in Japan was produced in the country (1,080,000 tons per annum out of 1,727,000 tons required).⁵ This also applies to steel, of which 929,000 tons were manufactured in the country, while 713,000 tons had to be imported.⁶ In order to cover the Japanese consumption of iron, pig-iron, and steel, it has been reckoned that about fifteen times as much ore as is produced in the islands would be required.⁷

The Japanese colonies are unable to make good the deficit in Japanese production. At the present time, Korea is the only one which produces any considerable quantity of ore. Its annual output is much larger than that of the home country (530,000 tons per annum between 1927 and 1930).⁸ During this period, Korea and Japan together did not supply more than 34 per cent of Japan's requirements.

¹ *Ibid.* This proportion is obtained by subtracting from the total amount of petroleum consumed in Japan the amount (512,880,000 gallons) of the commercial consumption and by carrying forward the result obtained (220,961,000 gallons) to the total consumption.

² See *General Description of Fushun Coal Mines*, South Manchuria Railway Company, 1931, page 7.

³ See *Description of Fushun Coal Mines*, *op. cit.*, page 8, and TORGASHEFF, *op. cit.*, page 61.

⁴ The production of iron ore in Japan from 1927 to 1930 averaged 185,000,000 tons per annum. See 102.

⁵ See *Japan Year-Book*, 1931, page 378, and *Japanese Empire (Year-Book of Japan)*, 1932, page 185. See also page 102.

⁶ *Japan Year-Book*, page 379, and *Japanese Empire (Year-Book of Japan)*, page 185.

⁷ EHLERS: *Raw Materials entering into the Japanese Iron and Steel Industry*, page 19, quoted by Orchard (*op. cit.*, page 279).

⁸ See page 102.

Japan has therefore been obliged to import ore, pig-iron, and steel from various countries. She obtains her ore chiefly from China proper, her pig-iron from India and Manchuria, her steel from Germany, the United States of America and Belgium.

Extent of Manchurian pig-iron exports to Japan.

Manchuria does not supply ore to Japan. The low iron content of Manchurian ore makes it necessary to use large quantities of raw material for the manufacture of pig-iron, and the exportation of the ore would thus be very costly. Moreover, it is to the interest of Manchuria, which, as we have already seen, possesses more coking coal than the Japanese islands, to produce pig-iron locally.

From 1927 to 1930, 31 per cent of the pig-iron imported into Japan came from Manchuria (196,000 tons per annum).¹ During that period Manchuria was the chief exporter of pig-iron to Japan, after India, which supplied 299,000 tons per annum (46 per cent of the Japanese imports). China proper sent her only 32,000 tons.

This dependence of Japan upon Manchurian pig-iron has tended to increase in recent years. In 1927, as a result of the stoppage of the metallurgical works at Taiye and Hanyan, in China, imports from Manchuria rose appreciably; in 1931, for the first time, Japan obtained more pig-iron from Manchuria than from India (244,000 tons from Manchuria, 150,000 from India).¹

The Manchurian metallurgical works and the mines which supply them with their raw material are actually much more dependent on the Japanese market than the coal-mines were. The proportion of the output exported to Japan is much greater in the case of pig-iron than it was in the case of coal: ¹ on an average, 66 per cent of the pig-iron produced in Manchuria from 1927 to 1930 was exported each year to Japan. Pig-iron was produced by Japan in Manchuria for her own requirements. Of the two principal metallurgical works in Manchuria — that of Anshan (average output from 1927 to 1930, 217,000 tons)² and that of Penhsihu (average output 77,000 tons)² — one is owned by the South Manchuria Railway Company and the other by the Sino-Japanese Iron and Coal Company, which is for practical purposes under Japanese control. The Japanese have spent a great deal of money in endeavouring to bring about a steady increase in their output, but their efforts have not always been successful. At the present time the costly metallurgical plant at Anshan is not working at full capacity. The hydro-electrical, electrical, and ore preparing plant has not been extended sufficiently to cope with the potential output of the blast-furnaces. During the last few years, the Anshan works produced only two-thirds of their possible output.

There are two main obstacles which are at present hampering the production of pig-iron in Manchuria. First, the economic depression in Japan. As a result of the industrial crisis, the demand for pig-iron suddenly dropped in 1930 and 1931. In June 1932 the stock of pig-iron in the Japanese islands was some 450,000 tons, which is sufficient to cover about four months' requirements.

High cost of production of Manchurian pig-iron.

However, the principal obstacle is the high cost of production in the Three Provinces. This drawback is mainly due to the nature of the iron ore, and also, though in a lesser degree, to the site of the works.³

Manchurian ore has a low iron content. The ore deposits are spread over a distance of 200 kilometres, reaching from Korea to the Liaotung Peninsula.⁴ They consist in the main of hematite and magnetite ore, with a fairly low iron content (30-40 per cent) and a high silicon content.⁵ Richer deposits (50-60 per cent iron content) are sandwiched between them in irregular veins, which make them more difficult to work. Moreover, they are rare, and constitute a negligible proportion of the ore.

Geological causes.

The cost of production of the rich ore is comparatively high, owing to the technical difficulties in working; but the cost of working the poor ore, in view of all the transformations which it has to undergo before it is sent to the blast-furnaces, is much higher still. The extraction of the crude ore is easy and cheap. It is found near the surface, and the cost of explosives for breaking up the seams is low (0.45 per ton).⁶ But the ore has to be crushed, pounded, sorted and calcined. The chief object is to increase the iron content of the poor ore. The Anshan works are obliged to subject it to a process of magnetic concentration they have discovered, which enables them to increase its iron content from 37 to 62 per cent. But this process is expensive, and, although its cost is kept secret, it apparently adds considerably to the cost of production of the pig-iron. At the present time, the poor ore concentrated in this way is mixed with rich ore. At Anshan, two or three times as much poor ore as rich ore is

¹ See page 104.

² See page 103.

³ These two ideas have been admirably worked out by ORCHARD, *op. cit.*, pages 297 to 305.

⁴ See F. R. TEGENGREN: *Iron Ores and Iron Industry of China*, page 97.

⁵ See page 103 and TEGENGREN, *op. cit.*, page 100.

⁶ Information supplied by the management of the mines at Anshan.

used in the manufacture of pig-iron. ¹ In three years' time, the mines will cease to supply the Anshan works with rich ore, and the price of pig-iron, which will thenceforward be manufactured solely from poor ore, will rise. ¹ Already this combination of rich ore, which is costly owing to the difficulties in working, and poor ore, which is still more costly owing to the expense of transformation, makes the price of pig-iron high.

Industrial causes.

At Anshan, the site of the works also contributes, although in a lesser degree, to the high cost of production. The blast-furnaces are situated near the iron-mines and at a considerable distance from the coal-mines. The Japanese manufacturers were led to choose this site by the presence of water near the iron-mines, the greater proximity to the sea, and the necessity of using a large quantity of ore in the manufacture of cast iron, owing to the poor quality of the ore. To bring coal by rail from Fushun or Penhsihu is expensive, and, according to the manager of the Anshan works, 40 per cent of the cost of production of a ton of pig-iron represents the cost of coal (according to the *Geological Survey of China*, this proportion is only 26 per cent. But the iron mines themselves are not very near the blast-furnaces, the latter having had to be built in the railway zone, from which the mines are several kilometres distant.

Although neither the management of the Anshan mines nor that of the Penhsihu mines is prepared to reveal the cost of production of their products, they admit that it is high. The *Geological Survey of China* ² puts it at about 25 yen, and this figure appears to be fairly correct. This cost is appreciably lower than in Japan, where the cost price of cast iron made from raw materials which are mainly imported is particularly high (probably from 35 to 40 yen), ³ but it is higher than in India. Notwithstanding the great distance from Bengal to Japan and the fact that the freight from Calcutta to Kobe is three times as high as from Dairen to Tokyo, the Indians were able, up to 1931, to sell their pig-iron in the Japanese market at an appreciably lower price than Japan's neighbour Manchuria. Japanese and Manchurian manufacturers accuse their Indian competitors of dumping. Actually, however, the natural richness of Indian ore, mass production, easy working, the close proximity of coal and iron, and the protection given by the Government of India to the metallurgical industry largely explain the competitive ability of Indian producers. Moreover, Anshan pig-iron still contains a high proportion of silicon (2 to 3 per cent), ⁴ and Indian pig-iron is more suitable for the manufacture of steel.

Economic drawbacks to the production of Manchurian pig-iron.

Under these conditions, the sale of Anshan cast iron is not profitable. It must have been sold at a loss ever since the works were established. In 1931, the price of Manchurian pig-iron at Kobe was 24.50 yen. ⁵ Consequently, the cost of transport and all intermediate charges appear to represent a dead loss for the Manchurian producer. According to the statistics of the South Manchuria Railway Company, these expenses amounted in 1931 ⁵ to an average of 11.6 yen (including 4.57 yen for railway transport, 1.36 yen for sea transport, and 1.998 yen for the export duty). Therefore, the management of the Anshan mines must have lost over 10 yen, and possibly much more, on every ton of pig-iron sold. It is naturally a difficult matter to make the assets and liabilities of such an undertaking balance. From 1919 to 1928, the Board of Directors of the mine admitted an average annual loss of nearly 3 million yen. ⁶ In 1928 and 1929, this loss was apparently converted into a profit : by means of the reassessment of the works fund at one-half its value, the liabilities were — on paper — largely reduced.

At the present time, the production of pig-iron at Anshan does not present any economic advantage. For the Manchurian producer, it represents a considerable loss, which, in the end, must fall more or less directly on the Japanese Government or taxpayer. It is impossible to estimate the amount of this charge, as the South Manchuria Railway Company may possibly make good part of the losses at Anshan by the profits on Fushun coal, which is used by the blast-furnaces, and the transport of pig-iron by rail. It is doubtful, however, whether this profit is commensurate with the losses. Nor do the profits obtained by Japanese consumers from the sale of Manchurian pig-iron in the Japanese market appear to be sufficient to make good the financial losses of producers.

Political considerations.

At the present time, the production of Manchurian pig-iron does not appear to present any marked economic advantage. But the Japanese Government is thinking less of the present than of the future, and is guided not only by economic considerations ; its object is to create in Manchuria, or in the islands, an independent metallurgical industry which will enable the Japanese islands themselves to supply the materials for their national defence.

¹ Information supplied by the management of the mines at Anshan.

² See page 103.

³ See TORGASHEFF, *op. cit.*, page 41.

⁴ See ORCHARD, *op. cit.*, page 304.

⁵ See page 104.

⁶ "Third Report of Progress in Manchuria", *op. cit.*, page 122.

Possibilities of an Independent Japanese Metallurgical Industry with the Help of Manchuria.

Can Japan hope one day, with the help of Manchurian resources, to establish a metallurgical industry which will be to a large extent independent of foreign supplies ?

Scarcity of iron reserves in Japan.

The Japanese islands have scarcely any iron reserves. The *Imperial Geological Survey of Japan*¹ puts the reserves on Japanese soil at 80 million tons. Even this figure has been disputed as too high. Moreover, these deposits are, in general, expensive to work, being situated in thin seams at a great depth, under heavy soil which contains no useful mineral. Korea possesses rich ore (with an iron content of 50 to 55 per cent), but her reserves are not estimated at more than 20 to 30 million tons.² Apart from the metalliferous sands along the Japanese coasts, which, in the present state of technique, are difficult to concentrate, the iron resources of the Japanese Empire are totally inadequate, and are not commensurate with the needs of an industrial nation, even one of much less importance than Japan.

Manchuria's reserves.

Estimates of Manchuria's reserves are naturally very vague. One of the most competent experts puts the present and potential reserves of South Manchuria at 740 million tons.³ In his opinion, an estimate of 400 million tons for the beds adjoining Anshan alone may be regarded as moderate.⁴ The *Geological Survey of China* and the South Manchurian Research Bureau appear to corroborate this estimate.⁵ At Kwangchangling, the reserves are put at 268 million tons ; at Miaoerhku, not far from the Penhsihu works, at 70 millions.⁶ The size of the deposits in North Manchuria is hardly known, but certain parts of the province of Kirin and other districts east of Harbin may contain fairly rich deposits, the extent of which it is absolutely impossible to estimate.⁶ Consequently, the Manchurian deposits (at all events so far as concerns South Manchuria, which has alone been prospected up to the present) contain abundant reserves.

Future cost of production of Manchurian cast iron.

The quality of the reserves is, however, less encouraging than their quantity, and the cost of production is likely to remain at a high level.

The reserves of rich ore, the working of which, as we have seen, is the less costly, are very small. According to the *Geological Survey of China*, hardly more than 1 per cent of the deposits in South Manchuria contain ore with an iron content exceeding 40 per cent.⁷ At Miaoerhku, only 2 per cent of the ore appears to be rich. At Anshan, the management of the metallurgical works states that the rich ore will be exhausted in three years' time. This fact may help to keep up the high cost of production of Manchurian cast iron. It should also be added that some of the ore deposits regarded as reserves have an iron content of under 25 per cent, and could not be worked at the present time.

The Japanese industrialists place their hopes in the development of mining technique. They also count on an improvement in industrial organisation. One of the reasons of the high cost of production in the Manchurian metallurgical industry is its youth. As production increases, the cost per ton of output decreases. According to the management of the Anshan mines, the cost-of-production index per ton of cast iron fell from 100 in 1919 to 70.15 in 1920, 51.5 in 1925, 35.6 in 1927, 21.7 in 1930, and 18.6 in 1931. While the output was eight times as great, the cost of production fell to less than one-fifth of the original figure.⁸ It is true that this decline in the cost of production is more rapid when an industry is beginning to develop than when it has reached maturity. In view of the difficulties of technical exploitation, which are growing greater and greater, it is doubtful whether it can fall as rapidly in the future as it has done in the past. The prospect of the profitable economic exploitation of Manchurian cast iron by Japan remains doubtful.

Will the Japanese islands at any rate be able to make their metallurgical industry independent ?

Apart from the products required for the manufacture of cast iron, the scarcity of high-grade coking coal, even in Manchuria, would, in any case, make the complete independence of the Japanese metallurgical industry impossible.

Even from the point of view of ore, the problem would be difficult. Manchurian reserves would no doubt be sufficient for several centuries to supply Japan with the ore required for the manufacture of her cast iron and steel. But the financial sacrifices which this ambition would entail will make it difficult to realise. Economic necessities will force Japan to obtain iron, cast iron and steel from foreign producers for many years to come.

¹ See TEGENGREN, *op. cit.*, part 2, page 408.

² See TORGASHEFF, *op. cit.*, page 34.

³ See TEGENGREN, *op. cit.*, page 121.

⁴ *Ibid.*, *op. cit.*, page 118.

⁵ *Ibid.*, page 121.

⁶ See AHNERT, *Mineral Resources in North Manchuria*, *op. cit.*

⁷ See page 105.

⁸ See page 104.

Possible site for a future metallurgical industry.

Nevertheless, a metallurgical industry may grow up, given financial assistance, thanks to Manchurian ore.

This industry could be developed more easily in Manchuria than in Japan itself. The discussions which took place a few years ago regarding the site of the Showa Steel Works revealed, however, the lack of a consistent economic policy. At the present time, there are no steel works in the Three Provinces. When their establishment was proposed four years ago, the Japanese Government could not make up its mind about the subsidies to be granted. For a time, Korea and the South Manchuria Railway Company vied with each other to secure the future site of these works.¹ The economic crisis forced them to temporise. The proposal has again been discussed recently. Manchuria appears to have won the day. The Showa Steel Works will probably be built not far from Fushun, at Suchiatun, on the Antung-Mukden line.

The vacillation displayed in June 1932 by the Japanese Government and the Chamber of Peers in regard to the adoption of the tariffs on foreign cast iron and Manchurian cast iron in particular, shows their reluctance to protect Japanese pig-iron at the expense of pig-iron from the Three Provinces.² If the Japanese Government agrees to the financial losses and economic sacrifices required for the encouragement of a metallurgical industry, this will be developed in Manchuria rather than in Japan. The works will be established near the raw material.

There is no doubt that the exploitation of the Three Provinces by the Japanese may enable the Empire to depend less closely on foreign producers for the raw materials required by its industry.

IV. JAPAN AND EXPORTS TO MANCHURIA.

Importance of the Manchurian Market for Japan.

Not only does Japanese industry depend on Manchuria for its raw materials, but it finds there an important market for its exports of manufactured products.

Manchuria, no doubt, plays a more important part as a supplier than as a customer. The balance of trade between Japan and Manchuria is in the latter's favour. Between 1927 and 1930, imports from Manchuria to Japan exceeded exports from Japan to the Three Provinces by 33,700,000 yen on an average per annum. In 1931, the margin was 54,700,000 yen.³

Taking Japanese commerce as a whole, exports to Manchuria are not of paramount importance. Between 1927 and 1930, they represented on an average 8.4 per cent of Japan's total exports, the amount in yen being approximately 159,400,000. In 1931, they were not even as much as 6.7 per cent.³

On the whole, however, there has been a continual increase in the volume of Japanese exports to Manchuria in the last twenty years. The average annual exports for the period from 1916 to 1920 amounted to almost twice, those for 1921 to 1925 to almost three times and those for 1926 to 1930 to more than four times the annual average exports for 1911 to 1915. Japan's share in Manchurian imports has not grown to an appreciable extent as compared with that of other countries. The percentage of Japanese imports into Manchuria, as compared with imports from all countries, was no higher in 1927 than in 1913. The fact is that Manchuria has developed economically, has been populated with extraordinary rapidity and has become rich, so that the Japanese, without appreciable increasing their share in the country's orders, have benefited by an economic expansion to which they themselves have contributed.

Nature of Japanese Exports to Manchuria.

The commercial relations between Japan and Manchuria are those of a highly developed industrial State and a country which, economically, is still in its infancy. Japan receives raw materials and foodstuffs from Manchuria, and sends her mostly manufactured products. Whereas finished products exported from Manchuria to Japan in 1930 amounted in value to only 3 per cent of her total exports to the same country, her imports of manufactured articles from Japan were close on 63 per cent.⁴

Raw materials and food products occupy a place of only minor importance in Japanese exports to Manchuria (18 per cent for the former, 17 per cent for the latter). Japan exports few raw materials, except silk. Small as are Japanese exports of foodstuffs to the Three Provinces, they nevertheless represent a fairly high proportion of Japan's total exports under the same heading. In 1930, more than a quarter of the wheat flour exported from Japan was sent to Manchuria, more than a quarter of her vegetable and fruit exports, more than an eighth of her fine sugar exports and more than two-thirds of her exports of *saké*.⁵ The actual figures of these exports are, however, by no means high.

¹ ORCHARD, *op. cit.*, page 300.

² See *Tokyo Asahi*, June 14th, 1932.

³ Statistics supplied by the Ministry of Commerce and Industry, Tokyo. See page 106.

⁴ See page 106.

⁵ See page 107.

Cotton fabrics are by far the most important commodity sold by Japan to Manchuria.¹ More than 31,000,000 yen's worth of cotton fabrics and piece goods were exported to the Three Provinces in 1931. Japan is Manchuria's largest supplier of cotton piece goods, 53 per cent of the piece goods imported into the Three Provinces in 1930 being of Japanese origin. China, which supplied 40 per cent, came second. These are cheap stuffs at prices which compete on advantageous terms with those of American or European exporters. Nevertheless, important as they are, Japan's exports of manufactured cottons to Manchuria occupy a comparatively low position in her total exports under this heading.¹ In 1930, Manchuria imported only 11 per cent of Japan's exports of cotton fabrics and piece goods.

Second among Japan's exports to the Three Provinces come iron and steel, but their figure is six times lower than that of cotton goods.¹ In 1930, Japan exported to Manchuria 5,840,000 yen's worth of iron and steel,¹ 5,157,000 yen's worth of machinery¹ and 2,593,000 yen's worth of other iron goods.¹ Although of less importance in value than exports of cotton goods, these articles occupied a far higher place in comparison with Japan's total exports of the same products, 65 per cent of the iron and steel exported from Japan in 1930 and 37 per cent of the machinery being consigned to Manchuria.¹ Japan receives cast iron from the Three Provinces, and sends it back to its place of origin after manufacture. Manchuria consumes the products she originally supplied after they have been worked up. The Japanese metallurgical industry is expanding and taking a more and more important place in the supply of material to Manchurian factories and railways. The South Manchuria Railway Company is now able to order from Japan a large part of the locomotives, wagons and even rails it requires, and, in fact, has ceased to be dependent on America or Europe, except for the more special materials.²

Finally, Manchuria is an important customer for Japanese paper and copper, and likewise for many cheap minor products.

Future of the Manchurian Market.

This export trade to Manchuria has undoubtedly one incontestable advantage — its comparative security.

Part of Japan's exports to the Three Provinces is consigned to Japanese customers or to customers dependent on Japanese capital. That is true of iron and steel exports.

Its importance.

Not even the recent disturbances have caused any falling off in Japanese exports. On the contrary, they have very definitely increased. In 1932, they exceeded those for 1931 by 30 per cent in January, 72 per cent in February, 49 per cent in March, 36 per cent in April and 45 per cent in May,³ though it is true that this increase is partly due to the needs of the Japanese army in Manchuria.

This security which exporters believe to exist in the Manchurian market encourages them to concentrate on this outlet, smaller though it is than that of China proper. Exports to Manchuria, as compared with those to China proper, occupy a very important place. Between 1927 and 1930, China proper bought on an average each year Japanese products to the value of 328,700,000 yen.⁴ Manchuria, with a population ten to fifteen times less, imported 159,386,000 yen's worth — *i.e.*, almost half (48 per cent).⁴ Her purchases of iron and steel were three and a half times greater than those of China proper, while purchases of machinery were 96 per cent of those of the Celestial Republic; cotton yarn, 59 per cent; cotton fabrics, 35 per cent; wheat, 39 per cent; sugar, 16 per cent; paper, 19 per cent.⁴

The Japanese have the greatest confidence in the outlook for their exports to Manchuria, and, indeed, if we may judge by the rapid rise in the value of Japanese exports to the Three Provinces, their optimism seems justified. With the restoration of order, the probable increase in the population and a rise in the standard of living, Japanese industrialists will find a steadily increasing sale in this territory.

And possible limits.

The progress of Japanese sales may, however, in time be restricted by two factors.

1. There is the possibility, as we have already seen, of a local industry growing up in Manchuria. To take, for instance, the case of iron and steel goods, Manchuria's purchases will decline as soon as there are steel works utilising on the spot the raw materials which the Three Provinces now send to the Japanese islands. Again, Manchuria will cease to order her paper from Japan, and will, instead, manufacture it herself, since there are important timber reserves in the country. Cheap labour and the proximity of raw materials will make it advantageous for new industries to establish themselves in the Three Provinces. Manchuria may even sooner or later become a redoubtable rival to Japanese industry.

¹ See page 107

² See "Supplementary Notes on Manchurian Railways and the Trade in Railway Materials", by C. Walter Young, in *The International Trade of Manchuria*, by Dr. Herbert Feis, page 266.

³ See page 106

⁴ The value of Japanese exports to China is quoted from the "Statistical Summary of the Japanese Empire", page 67 and pages 70 to 75. The figures for these exports are those to China as a whole, minus those to Kwantung.

2. The second factor is a psychological one. Almost the entire population of Manchuria is Chinese. Without employing the method of the organised boycott, the inhabitants may, if undue hostility to the Japanese gains ground, reduce their purchases in the Island Empire, and turn to the Celestial Republic instead. Hostility on the part of the population might even cause the Japanese trader to lose everything he has gained from the restoration of order. Over-drastring measures on the part of Japan might do more to hamper her trade than encourage it.

At present, Manchuria is an important outlet for Japanese industry. For the Japanese, this market has the advantages of proximity, variety and comparative security. Its importance may grow with the increase of prosperity in the Three Provinces, but it must not be forgotten that, in recent years (*e.g.*, from 1927 to 1930), Japan exported more to India than to Manchuria, twice as much to China proper and five times as much to the United States.

V. CONCLUSION.

The part played by the Three Provinces in the economic life of Japan is an important one ; but its importance should not be exaggerated. ¹

Manchuria was not peopled by Japanese settlers. The first comers were farmers and coolies from Shantung and Chihli, who, in the last few decades, settled in large numbers in the Three Provinces. Japanese settlers are, and for many years to come will be, business men, officials and salaried employees ; they are there to look after the money invested in Manchuria, the development of business enterprises and the exploitation of the wealth of the country.

As regards the purchase of agricultural products, Japan to-day really depends on Manchuria for one only of her products — the soya bean. This is undoubtedly an important product. Its use as an article of food and as fodder may even increase in the future. As a fertiliser (this is to-day one of its chief uses), its importance is bound to decrease with the growth of chemical industries in Japan. But the food question is not at the moment a very acute one, the acquisition of Korea and Formosa having, at least for a time, satisfactorily solved the Japanese rice problem. If at some future date this problem should become urgent for the Empire, Manchuria will be able to assist the Japanese islands. But a large amount of capital would have to be spent in transforming the character of Manchurian agricultural production.

Still more capital will be required for the creation of a Japanese heavy industry, if it is one day to become largely independent of foreign countries with the help of Manchuria's resources. Japan seeks, above all, to push forward in the Three Provinces the exploitation of the raw materials indispensable to her national defence. Manchuria, no doubt, will never be able to supply Japan with the raw materials of which, economically, she stands in greatest need — *i.e.*, textiles. That territory can, however, supply her with coal, oil and, above all, iron. The economic advantages of such supplies are uncertain. Manchurian pig-iron is produced at a loss. It costs Japan more than it brings in. But economic considerations are not the only ones which influence the Japanese Government. The resources of Manchuria are intended to assist in the development of an independent metallurgic industry. In any case, Japan must seek abroad part of her coke and certain non-siliceous ores. The Three Provinces can, however, give her greater security in regard to the supply of certain products which are indispensable for her national defence, though this will mean heavy financial sacrifices.

Manchuria itself is the country in which such an industry is likely to develop in the future. Once this territory is organised on economic lines, Japan will not long continue to hold the position of an industrialised country in relation to a new country. If the Three Provinces develop economically, a new industry must inevitably spring up in the vicinity of the resources actually available — namely, iron, coal, oil and timber. The nature of the Japanese exports to Manchuria will thus inevitably be transformed. The Three Provinces may continue to provide a regular market for Japanese manufactured goods ; the importance of this market may even increase with the growth of Manchurian prosperity. But Osaka in the past has always depended more on Shanghai than on Dairen. The Manchurian market may perhaps offer more security, but it is more restricted than the Chinese market.

The idea of economic *blocs* has largely penetrated from the West into Japan. The possibility of such a *bloc* comprising the Japanese Empire and Manchuria is often found in the writings of Japanese statesmen, journalists and university professors. In an article published shortly before he took office, the present Minister of Commerce and Industry pointed to the formation in the world of such economic groups — American, Soviet, European and British. He stated that Japan should also create an economic *bloc* with Manchuria.

There is nothing at present to show that this is practicable. Warning voices have recently been heard in Japan itself and the Japanese have been told not to harbour dangerous illusions. The islands depend for the bulk of their commerce far less on Manchuria than they do on British India, China proper and the United States.

Manchuria may prove of great economic assistance to an over-populated Japan in the future. But it is as dangerous to overlook the limitations of those possibilities as it is to underestimate their importance.

¹ Document No. 10, supplied by the Chinese Assessor in order to show that Japan does not depend on the Three Eastern Provinces for the supply of her raw materials and food products, contains correct statistics, but does not deal with the question of the future possibilities of Manchuria.

STATISTICS.

Note. — The comments which either precede or follow the various statistics are furnished by the same authorities as the statistics themselves and are not to be taken as conclusions arrived at by the author of the special study.

NUMBER AND PROFESSION OF JAPANESE IN THE KWANTUNG TERRITORY
AND IN THE SOUTH MANCHURIA RAILWAY ZONE (END OF 1930).¹

| | In the Kwantung Territory | In the South Manchuria Railway Zone | Chinese in the Province of Kwantung |
|--|---------------------------------|---|---|
| Agriculture | 725 | 1,979 | 408,865 |
| Industry of marine products | 933 | 7 | 48,761 |
| Mining industry | 329 | 2,131 | 3,636 |
| Industry | 26,070 | 19,508 | 93,998 |
| Commerce | 24,190 | 17,768 | 89,755 |
| Communications and transport industry | 23,082 | 27,676 | 42,317 |
| Officials and liberal professions | 29,123 | 19,778 | 21,552 |
| Other professions | 5,082 | 3,229 | 92,216 |
| Domestic service | 1,121 | 928 | 10,081 |
| No profession | 4,882 | 2,845 | 9,353 |
| Total | 115,537 | 95,849 | 820,534 |

TABLE SHOWING THE WAGES OF WORKMEN AT DAIREN (MAY 1932).²

| Professions | Japanese | | | Chinese | | |
|--|----------|---------|---------|---------|---------|---------|
| | Maximum | Minimum | Average | Maximum | Minimum | Average |
| | yen | yen | yen | yen | yen | yen |
| Carpenters | 4.50 | 2.50 | 3.10 | 1.20 | 0.75 | 0.95 |
| Masons | 4.00 | 3.00 | 3.10 | 1.10 | 0.85 | 0.95 |
| Joiners | 4.00 | 2.70 | 3.00 | 1.15 | 0.80 | 0.95 |
| Tailors | 3.67 | 1.10 | 2.00 | 2.30 | 0.60 | 1.23 |
| Roof-builders, thatchers, etc. | 3.50 | 2.50 | 2.95 | 1.15 | 0.70 | 0.90 |
| Founders | 4.60 | 1.50 | 2.92 | 1.76 | 0.37 | 0.77 |
| Coolies | — | — | — | 0.75 | 0.40 | 0.55 |

YEARLY EXPORTS OF SOYA BEANS, OIL, CAKES, FROM MANCHURIA TO JAPAN, CHINA
AND EUROPE FROM 1926 TO 1932.³
(In metric tons.)

| Year | Destinations | | | Total |
|----------------|--------------------|-----------|---------|-----------|
| | Japan | Europe | China | |
| | <i>Soya Beans.</i> | | | |
| 1926 | 353,157 | 670,675 | 246,453 | 1,364,856 |
| 1927 | 399,972 | 956,939 | 229,431 | 1,665,318 |
| 1928 | 341,068 | 1,450,617 | 174,519 | 2,241,284 |
| 1929 | 486,762 | 1,711,796 | 248,249 | 2,534,505 |
| 1930 | 468,794 | 1,309,563 | 262,906 | 2,145,803 |
| 1931 | 445,573 | 1,451,267 | 376,512 | 2,370,402 |
| 1932 | 265,011 | 525,279 | 246,500 | 1,079,762 |
| | <i>Bean Cakes.</i> | | | |
| 1926 | 1,457,772 | 3,046 | 351,078 | 1,833,741 |
| 1927 | 1,469,674 | 1,138 | 438,072 | 1,938,560 |
| 1928 | 1,137,226 | 2,551 | 194,813 | 1,582,977 |
| 1929 | 994,701 | 2,886 | 233,016 | 1,391,762 |
| 1930 | 1,144,266 | 17,658 | 242,657 | 1,502,236 |
| 1931 | 1,152,678 | 34,854 | 377,378 | 1,646,646 |
| 1932 | 493,453 | 28,115 | 102,139 | 639,056 |

¹ Statistics supplied by the Ministry of Overseas Affairs, Tokyo. (Taken from Statistic No. 25 of the Kwantung Government.)

² Statistics supplied by the Ministry of Overseas Affairs, Tokyo. (Taken from the *Monthly Economic Bulletin*, No. 203, of the Dairen Chamber of Industrial Commerce.)

³ Figures supplied by the Industry and Commerce Office of the South Manchuria Railway Company.

| Year | Destinations | | | Total |
|------------------|--------------|---------|--------|---------|
| | Japan | Europe | China | |
| <i>Bean Oil.</i> | | | | |
| 1926 | 258 | 121,207 | 8,503 | 144,143 |
| 1927 | 127 | 152,719 | 17,780 | 177,048 |
| 1928 | 386 | 68,976 | 24,554 | 100,483 |
| 1929 | 288 | 31,409 | 31,779 | 76,437 |
| 1930 | 93 | 111,273 | 10,852 | 130,589 |
| 1931 | 128 | 76,437 | 49,617 | 131,293 |
| 1932 | 37 | 26,180 | 45,410 | 71,959 |

YEARLY EXPORTS OF SOYA BEANS, OIL AND CAKES IN METRIC TONS FROM 1926 TO 1932
AS ESTIMATED BY THE MITSUI & CO.¹

Export of Soya Beans from Manchuria.

| Calendar year | Whole Japan | Europe | China | South Seas | Others | Total |
|----------------|-------------|-----------|---------|------------|--------|-----------|
| 1926 | 395,944 | 750,357 | 207,125 | 88,312 | 60 | 1,441,798 |
| 1927 | 386,313 | 1,195,654 | 296,939 | 104,866 | 60 | 1,983,832 |
| 1928 | 491,296 | 1,702,037 | 288,500 | 100,687 | 233 | 2,582,753 |
| 1929 | 540,924 | 1,831,911 | 275,509 | 102,412 | 195 | 2,750,951 |
| 1930 | 423,641 | 1,083,704 | 287,825 | 89,663 | 82 | 1,884,915 |
| 1931 | 578,924 | 1,495,873 | 505,068 | 95,612 | 132 | 2,675,609 |
| 1932 Jan.-Apr. | 278,900 | 381,683 | 149,116 | 26,766 | — | 836,465 |

Remarks. — Not including those beans exported by Union of Soviet Socialist Republics via Siberia.

One will see from above statistics that exports of soya beans have been increasing steadily year after year, keeping pace with the development of agriculture in Manchuria.

There is one exception, that is in the year of 1930. This was chiefly due to decrease of its demands in Europe, exports for Europe in that year being about 75,000 tons less than the previous year. This decrease was caused by the general depression in that year, c.i.f. Europe price of soya beans dropped to nearly one-half of that in the previous year. In 1931, exports improved greatly in quantity, due to the fact that abundant supply of beans on this side enabled us to sell at prices comparatively cheaper, but not quite up to the figures in 1929, there having been no fundamental recovery yet in European market.

*Exports of Bean Oil from Manchuria.*²

(In metric tons.)

| Calendar year | Europe | Japan | China | U. S. A. | Total |
|----------------|---------|-------|--------|----------|---------|
| 1926 | 155,020 | 76 | 5,412 | 11,026 | 171,534 |
| 1927 | 152,291 | 98 | 6,415 | 8,877 | 167,681 |
| 1928 | 50,236 | 417 | 33,264 | 10,383 | 94,300 |
| 1929 | 61,738 | 179 | 32,273 | 13,085 | 107,275 |
| 1930 | 98,975 | 27 | 19,173 | 6,062 | 124,237 |
| 1931 | 81,696 | 84 | 85,742 | 3,163 | 170,685 |
| 1932 | 20,068 | 28 | 39,277 | 208 | 59,581 |

One of the chief features of bean oil from Manchuria is the fact that its exports of recent years to Europe and U. S. A. were much smaller than they used to be. This is due to :

- (1) Higher import duties in U. S. A. as well as in most of the European countries ;
- (2) Cheaper prices of several kinds of oil competing with bean oil, especially whale oil, peanuts oil and olive oil ;
- (3) Larger supplies of bean oil by domestic mills, produced from Manchurian soya beans imported ;
- (4) Difference in rates of ocean freight for bean oil and soya beans might have some bearing on this respect. The former is fixed at 48s. net, while the latter is free rate, present rate being about 20s.

¹ Figures supplied by the Mitsui Bussan Kaisha of Dairen. It will be seen that the estimates supplied by the Mitsui & Co. of Dairen are widely different from those furnished by the South Manchuria Railway Company as regards the export of soya beans, cakes and oil.

² Figures supplied by the Mitsui Bussan Kaisha of Dairen.

On the other hand, its exports to China have been increasing rapidly. Over supplies of bean oil on this side, caused by less demands from Europe and U. S. A., found their way to China, which is capable of absorbing larger quantities of oil according to prices and where no such keen competitions have been existing as in Europe.

*Exports of Bean Cakes.*¹

(In metric tons.)

| Calendar year | Japan proper | Formosa | Korea | China | Europe and others | Total |
|----------------------|--------------|---------|-------|---------|-------------------|-----------|
| 1926 | 1,205,203 | 166,577 | — | 308,678 | 4,737 | 1,685,195 |
| 1927 | 1,152,664 | 160,250 | 5,107 | 367,723 | 2,083 | 1,687,827 |
| 1928 | 953,851 | 167,829 | 4,736 | 277,137 | 2,356 | 1,405,909 |
| 1929 | 795,761 | 170,161 | 3,628 | 179,505 | 28,015 | 1,177,070 |
| 1930 | 891,914 | 179,604 | 6,827 | 229,306 | 40,607 | 1,348,258 |
| 1931 | 1,023,113 | 200,948 | 4,853 | 355,423 | 69,994 | 1,654,331 |
| 1932 (January—April) | 415,270 | 78,055 | 5,307 | 123,941 | 17,897 | 640,470 |

Remarks. — Actual shipments to Korea should be larger than those figures shown above, as shipments from as well as through Antung are not included in above statistics.

Yearly exports of bean cakes have been rather irregular in quantity, chiefly due to Japan's demands, which are very much affected by the prices of rice and silk yarn in Japan.

In the years of 1928, 1929 and 1930, especially in 1929, Japan demands greatly decreased, due to keen competitions of sulphate of ammonia.

Recently, among farming families in Japan, poultry and hog-raising are becoming very popular as their subsidiary business and the quantity of bean cakes used for feeding purposes, instead of manuring as heretofore, are increasing steadily.

COMPARISON OF EXPORTS OF SOYA BEANS, OIL AND CAKES SINCE THE OUTBREAK OF HOSTILITIES IN MANCHURIA UP TO END OF APRIL 1932, WITH THOSE FOR THE CORRESPONDING PERIOD OF THE PREVIOUS YEAR.¹

(In metric tons.)

| | Soya beans | Bean cakes | Bean oil | Total |
|----------------------------------|------------|------------|----------|-----------|
| October 1930—April 1931. | 1,369,569 | 931,396 | 80,800 | 2,381,765 |

Figures for respective article are as follows :

*Exports of Soya Beans.*¹

(In metric tons.)

| | Whole Japan | Europe | China | South Seas | Others | Total |
|--------------------------|-------------|---------|---------|------------|--------|-----------|
| October 1930—April 1931. | 322,229 | 761,284 | 237,225 | 48,758 | 73 | 1,369,569 |
| October 1931—April 1932. | 451,315 | 737,228 | 348,228 | 52,517 | 30 | 1,589,318 |

*Exports of Bean Cakes.*¹

(In metric tons.)

| | Japan proper | China | Formosa | Korea | Europe and others | Total |
|--------------------------|--------------|---------|---------|-------|-------------------|---------|
| October 1930—April 1931. | 585,955 | 191,122 | 123,144 | 2,923 | 28,252 | 931,396 |
| October 1931—April 1932. | 558,006 | 200,079 | 135,016 | 5,383 | 45,417 | 943,901 |

*Exports of Bean Oil.*¹

(In metric tons.)

| | Europe | America | Whole Japan | China | Total |
|--------------------------|--------|---------|-------------|--------|---------|
| October 1930—April 1931. | 50,742 | 2,939 | 44 | 27,075 | 80,800 |
| October 1931—April 1932. | 35,858 | 208 | 45 | 71,441 | 107,552 |

One might feel somewhat strange to see that the quantities of exports of those three staple Manchurian products since the outbreak of the hostilities show an increase as compared with those for the corresponding period of the previous year. This does not mean that business

¹ Figures supplied by the Mitsui Bussan Kaisha of Dairen.

has been carried out without any disturbances. On the contrary, it was endangered so often. However, those disturbances did not fortunately occur all over Manchuria at the same time, so far as actual business concerned, thus always leaving some quarters without actual hindrances to business. Moreover, there was the largest carry-over on record brought into this season, and there was also some inclinations on the part of farmers of selling their crops hurriedly, due to intense uneasiness as well as want of money. Most dealers in principal markets in Manchuria could not, in turn, hold their beans in their hands on account of shortage of funds. All of these facts above mentioned encouraged exports at the early part of this season in spite of the unsettled conditions in Manchuria, which naturally resulted in smaller supplies for the remainder of the season. There is another good reason for the increase of exports of this season over the last. The exports for the period under review of last season were rather on the smaller side, due to very small stocks at the beginning of that season.

VISIBLE STOCKS OF SOYA BEANS AND CAKES IN MANCHURIA AND VLADIVOSTOK
AT THE END OF APRIL 1932 AND 1931. ¹

(In metric tons.)

| <i>Soya beans.</i> | 1932 | 1931 | Comparison |
|-----------------------------------|---------|-----------|------------|
| Dairen | 350,000 | 240,000 | 110,000 |
| South Manchuria, excluding Dairen | 140,000 | 350,000 | 210,000 |
| Harbin | 70,000 | 290,000 | 220,000 |
| North Manchuria, excluding Harbin | 230,000 | 340,000 | 110,000 |
| Vladivostok | 10,000 | 140,000 | 130,000 |
| <i>Bean cakes.</i> | | | |
| Whole Manchuria | 150,000 | 80,000 | 70,000 |
| Total | 950,000 | 1,440,000 | 490,000 |

The present unsettled conditions, together with poorer crop of this year (the crop now being shipped), point to further smaller arrivals of beans at the markets from farms as well as from those remote places along the Sungari River for the remainder of the cereal year or from May to September next. For last year, these new arrivals at the markets amounted to about 600,000 tons, while this year they will not, in our opinion, exceed 400,000 tons.

With regard to supplies for five months, or from May to September of this year and last year, figures stand as follows : ¹

| | 1932 | 1931 |
|---|-------------------|-----------|
| | (In metric tons.) | |
| Visible stock at end of April | 950,000 | 1,440,000 |
| Further arrivals | 400,000 | 600,000 |
| Total | 1,350,000 | 2,040,000 |

COMPARISON OF THE PRICE OF JAPANESE SOYA BEANS WITH THAT OF MANCHURIAN
SOYA BEANS IN TOKYO ON MAY 30TH, 1932. ¹

(Basis per picul.)

| | Yen |
|---------------------------------|------|
| Japanese soya beans | 5.25 |
| Manchurian soya beans | 4.58 |

Estimated charges of transporting the latter from Dairen warehouse to Tokyo on that day :

| | Yen |
|---|------|
| 1. Shipping charges at Dairen | 0.07 |
| 2. Export duty at Dairen | 0.11 |
| 3. Freight from Dairen to Yokohama | 0.08 |
| 4. Insurance | 0.01 |
| 5. Japanese import duty | 0.70 |
| 6. Landing charges, including lighterage from Yokohama to Tokyo | 0.12 |
| Total | 1.09 |

Remarks. — First and second items fluctuate according to exchange rates of Japanese silver yen.

Third item subject to fluctuations of the local freight market, fifth item most likely to be increased shortly.

¹ Figures supplied by the Mitsui Bussan Kaisha of Dairen.

FIGURES ON RESPECTIVE PRICE OF SULPHATE OF AMMONIA AND SOYA-BEAN CAKES IN JAPAN. ¹

1. Percentage of soya-bean cakes used in Japan for feeding purposes on whole consumption in that country is, in our opinion, in the neighbourhood of 20 per cent.

| | Price per ton of 2,240 lbs. ex. godown in Japan Yen | Percentage of nitrogen |
|-------------------------------|---|---------------------------|
| Sulphate of ammonia | 50 | 20-21 |
| Soya-bean cakes | 47 | 6½ |

It will be found from above figures that, if one compares prices simply on basis of nitrogen sulphate of ammonium is much cheaper than soya-bean cakes.

IMPORTS OF SULPHATE OF AMMONIA AND BEAN CAKES IN JAPAN (IN TONS). ²

| | 1927 | 1928 | 1929 | 1930 | 1931 |
|-------------------------------|-----------|---------|---------|---------|-----------|
| Sulphate of ammonia | 247,574 | 282,227 | 377,638 | 300,602 | 222,368 |
| Bean cakes | 1,175,976 | 973,783 | 825,375 | 919,646 | 1,015,544 |

PRODUCTION OF SULPHATE OF AMMONIA (IN TONS). ²

| 1929 | 1930 | 1931 |
|---------|---------|---------|
| 249,200 | 368,200 | 599,000 |

SUPPLY AND DEMAND OF RICE IN JAPAN PROPER. ³

| | 1928 | 1929 | 1930 (In koku) | 1931 (estimated) |
|-----------------------------|------------|------------|-------------------|---------------------|
| Import of rice to Japan : | | | | |
| Foreign countries | 1,753,001 | 1,277,748 | 1,248,444 | 250,000 |
| Chosen | 7,068,709 | 5,377,978 | 5,167,025 | 8,000,000 |
| Taiwan | 2,430,569 | 2,253,232 | 2,185,424 | 2,278,000 |
| Re-import | 3,240 | 452 | 1,528 | — |
| Total | 11,255,519 | 8,908,958 | 8,600,893 | 10,528,000 |
| Export : | | | | |
| Foreign countries | 39,195 | 32,446 | 101,422 | 60,000 |
| Colonies | 429,522 | 506,727 | 438,519 | 480,000 |
| Re-export | 516,447 | 134 | 22 | — |
| Total | 985,164 | 539,307 | 539,963 | 540,000 |
| Consumption | 70,298,245 | 69,485,827 | 68,930,592 | 72,000,000 |

PRODUCTION AND RESERVES OF THE FUSHUN COAL MINES. ⁴

1. Actual Production.

Yearly output of Fushun coal from 1926 to 1931, each fiscal year of our company being from April 1st to March 31st of the following year (output of the Yientai and Nanchang Mines excluded).

| Fiscal year | Open pits | (In tons) | |
|----------------|-----------|-----------|-----------|
| | | Shafts | Total |
| 1926 | 2,583,610 | 3,903,850 | 6,487,460 |
| 1927 | 2,730,300 | 4,188,500 | 6,918,800 |
| 1928 | 2,871,100 | 3,919,800 | 6,790,900 |
| 1929 | 3,236,400 | 3,653,200 | 6,889,600 |
| 1930 | 3,183,000 | 3,415,100 | 6,598,100 |
| 1931 | 2,795,300 | 3,063,480 | 5,858,780 |

2. Reserves (reserves of coal in the Yientai Mine excluded).

(a) Estimated amount of reserves of coal, March 31st, 1932 :

| | Original reserves | Coal already mined | Existing reserves |
|---------------------|----------------------|-----------------------|----------------------|
| Open pits | 190,977,000 | 26,451,000 | 164,526,000 |
| Shafts | 847,268,000 | 60,421,000 | 786,847,000 |
| Total | 1,038,245,000 | 86,872,000 | 951,373,000 |

¹ Figures supplied by the Mitsui Bussan Kaisha of Dairen.

² Figures from the Ministry of Commerce and Industry, Tokyo.

³ Figures from the Economic Research Department — Mitsubishi Goshi Kaisha (*Monthly Circular* No. 88, February 1931).

⁴ Figures from the management of the Fushun coal mines.

YEARLY EXPORT OF COAL FROM MANCHURIA TO JAPAN WITH THE PERCENTAGE AGAINST COAL USED IN JAPAN FROM 1926-1931.¹

| Fiscal year | Total exports from Manchuria Tons | Exports from Manchuria to Japan Tons | Percentage of coal exported from Manchuria against coal used in Japan (%) | Total consumption in Japan Tons |
|-------------|--------------------------------------|---|--|------------------------------------|
| 1926 . . . | 3,172,422 | 1,482,050 | 4.6 | 32,022,647 |
| 1927 . . . | 3,746,339 | 1,803,131 | 5.3 | 33,817,417 |
| 1928 . . . | 3,713,464 | 1,802,369 | 5.3 | 33,765,908 |
| 1929 . . . | 4,016,134 | 2,072,499 | 5.9 | 35,341,268 |
| 1930 . . . | 3,831,254 | 1,777,494 | 5.6 | 31,619,289 |
| 1931 . . . | 4,280,901 | 1,803,895 | 6.4 | 28,000,000 |

The increase in exportation of coal in 1927, when compared with that of the preceding year, was chiefly due to the increased shipment of Fushun coal to Japan proper and Korea. During the four years previous to 1931, the figures remained almost the same only with a falling tendency which was attributable to the world-wide business depression, money fluctuations, and to the fact that the coal was being supplanted in part by oil and electricity. Also, the production restriction, gold embargo, a series of conflicts among Chinese military cliques, inundation of the Yangtze River, etc., might have all conspired to retard the growth of coal consumption in Japan as well as in China.

PRICE OF FUSHUN COAL.¹

(In yen and per ton.)

| Remarks | Run of mine | Lump | Nuts | No. 1 dust | No. 2 dust |
|-------------------|-------------|-------|-------|------------|------------|
| C.i.f. | | | | | |
| Tokyo or Yokohama | | | | | |
| 1926 | 12.55 | 13.77 | 13.05 | 9.81 | — |
| 1927 | 12.71 | 13.97 | 12.87 | 10.36 | — |
| 1928 | 11.86 | 13.28 | 13.09 | 10.48 | 10.12 |
| 1929 | 11.47 | 13.50 | 13.18 | 9.68 | 8.58 |
| 1930 | 10.62 | 10.58 | 11.56 | 7.96 | 6.37 |
| 1931 | 8.62 | 8.08 | 8.24 | 6.76 | 6.35 |
| C.i.f. | | | | | |
| Ise Bay | | | | | |
| 1926 | 12.69 | 13.15 | 13.14 | 9.99 | — |
| 1927 | 12.97 | 13.38 | 13.19 | 10.94 | — |
| 1928 | 12.09 | 13.33 | 13.56 | 10.61 | 9.39 |
| 1929 | 11.70 | 13.31 | 13.65 | 9.42 | 9.02 |
| 1930 | 10.54 | 11.33 | 10.40 | 7.46 | 6.85 |
| 1931 | 9.11 | 8.07 | 7.90 | 6.81 | 6.23 |
| C.i.f. | | | | | |
| Kobe or Osaka | | | | | |
| 1926 | 10.57 | 13.07 | 13.36 | 9.72 | — |
| 1927 | 10.89 | 12.30 | 12.51 | 10.05 | — |
| 1928 | 10.82 | 13.12 | 12.92 | 10.18 | 8.91 |
| 1929 | 10.47 | 13.10 | 13.05 | 9.09 | 8.42 |
| 1930 | 8.53 | 9.98 | 11.74 | 6.95 | 6.48 |
| 1931 | 7.49 | 8.21 | 7.78 | 6.43 | 6.16 |

CHARGES ON FUSHUN COAL EXPORTED FROM MANCHURIA TO JAPAN.¹

(In yen and per ton.)

| Remarks | Cost of railway | Ship's freight | Insurance | Export tax | Others | Total |
|-------------------|-----------------|----------------|-----------|------------|--------|-------|
| C.i.f. | | | | | | |
| Tokyo or Yokohama | | | | | | |
| 1926 | 5.545 | 1.990 | 0.020 | 0.143 | 0.645 | 8.343 |
| 1927 | 5.545 | 2.110 | 0.020 | 0.167 | 0.656 | 8.498 |
| 1928 | 5.545 | 2.200 | 0.020 | 0.160 | 0.657 | 8.582 |
| 1929 | 5.545 | 2.070 | 0.015 | 0.136 | 0.700 | 8.466 |
| 1930 | 5.545 | 1.720 | 0.011 | 0.083 | 0.710 | 8.069 |
| 1931 | 5.545 | 1.590 | 0.010 | 0.088 | 0.654 | 7.887 |

¹ Figures supplied by the Research Bureau of the South Manchuria Railway in Dairen.

| Remarks | Cost of railway | Ship's freight | Insurance | Export tax | Others | Total |
|----------------------|-----------------|----------------|-----------|------------|--------|-------|
| C.i.f. | | | | | | |
| Ise Bay | | | | | | |
| 1926 | 5.545 | 1.990 | 0.020 | 0.143 | 0.645 | 8.343 |
| 1927 | 5.545 | 2.110 | 0.020 | 0.167 | 0.656 | 8.498 |
| 1928 | 5.545 | 2.200 | 0.020 | 0.160 | 0.657 | 8.582 |
| 1929 | 5.545 | 2.070 | 0.015 | 0.136 | 0.700 | 8.466 |
| 1930 | 5.545 | 1.720 | 0.011 | 0.083 | 0.710 | 8.069 |
| 1931 | 5.545 | 1.590 | 0.010 | 0.088 | 0.654 | 7.887 |
| C.i.f. | | | | | | |
| Kobe or Osaka | | | | | | |
| 1926 | 5.545 | 1.640 | 0.020 | 0.143 | 0.645 | 7.993 |
| 1927 | 5.545 | 1.760 | 0.020 | 0.167 | 0.656 | 8.148 |
| 1928 | 5.545 | 1.850 | 0.020 | 0.160 | 0.657 | 8.232 |
| 1929 | 5.545 | 1.720 | 0.015 | 0.136 | 0.700 | 8.116 |
| 1930 | 5.545 | 1.370 | 0.011 | 0.083 | 0.710 | 7.719 |
| 1931 | 5.545 | 1.290 | 0.010 | 0.088 | 0.654 | 7.587 |

1. Cost of railway — Railway freight from Fushun to Dairen.
2. Export duty — Average duties actually paid per ton.
3. Insurance — Average premium actually paid per ton (the premium, from 12.5 sen to 15 sen per 100 yen).
4. Others — Petty charges.

ANNUAL PRODUCTION OF COAL IN MANCHURIA FROM 1926 TO 1931, CLASSIFIED BY PROVINCES AND BY MINES AND INCLUDING SPECIFICATIONS OF THE QUALITIES.¹

Coal Production in Kirin Province (metric tons).

| | | 1927 | 1928 | 1929 | 1930 | 1931 |
|--|-----|---------|---------|---------|---------|---------|
| Muleng Coal Mining Co., Muleng | (B) | 208,633 | 281,037 | 313,585 | 322,600 | 338,000 |
| Yutung " " " Kirin | (B) | 100,000 | 120,000 | 47,500 | 76,000 | |
| Yuki " " " " | (B) | 9,200 | 20,000 | 12,000 | 14,868 | |
| Neitzeshan " " " | (B) | 9,000 | 10,000 | 81,387 | 75,459 | |
| Laotoukou " " Yenki | (B) | 17,986 | 18,000 | 16,000 | 20,000 | |
| Huali " " " " | (B) | — | — | 15,000 | 12,000 | |
| Shansungkai " " Kirin | (B) | — | — | 7,000 | 25,000 | |
| Other mines in Hoshiling and Machiakow | (B) | 3,000 | 3,000 | 5,000 | 5,000 | |
| Kangyao Shulan | (C) | 13,400 | 17,000 | 12,940 | 13,440 | |
| Pangchueikou " " | (C) | 4,800 | 5,000 | 5,000 | 3,000 | |
| Yupien Coal Co., Mishan | (B) | 600 | 600 | 6,000 | 5,000 | |
| Santoakou and Liutaokou, Holung | (B) | 5,000 | 7,000 | 7,100 | 9,500 | |
| Shahotze Nantakou, Yitung | (B) | 1,250 | 1,250 | 10,500 | 2,000 | |
| Ertaokou Kuanmantzui, Hunchun | (B) | — | — | 6,800 | 4,200 | |
| Tungpin, Pin, Huatien, Mongkiang, Changchun, Shuangyang, Poli, Fuchin, Tungning, Hulin and other districts | | 25,000 | 23,000 | 50,000 | 50,000 | |
| Total lignite | | 30,700 | 33,500 | 42,940 | 41,440 | 30,000 |
| Total bituminous | | 367,169 | 472,387 | 552,872 | 596,627 | 550,000 |
| Combined total | | 397,859 | 505,887 | 595,812 | 638,067 | 580,000 |

Coal Production in Leilungkiang Province (metric tons).

| | | 1927 | 1928 | 1929 | 1930 | 1931 |
|----------------------------------|-----|---------|---------|---------|---------|---------|
| Hokang Coal Mining Co., Tangyuan | (B) | 170,000 | 100,000 | 199,555 | 187,574 | 230,000 |
| Chalainor " " " Luping | (C) | 239,250 | 269,400 | 186,496 | 5,800 | 5,000 |
| Chahanora " " " " | (C) | 10,000 | 5,000 | 8,000 | 12,000 | 3,000 |
| Luopei and other districts | | 11,000 | 16,000 | 3,000 | 3,500 | — |
| Total lignite | | 254,750 | 282,400 | 195,996 | 19,550 | 8,000 |
| Total bituminous | | 175,500 | 108,000 | 201,055 | 189,324 | 230,000 |
| Combined total | | 430,250 | 390,400 | 397,051 | 208,874 | 238,000 |

¹ Figures supplied by the *Geological Survey of China*.

Coal Production in Liaoning Province (metric ton).

| | | 1927 | 1928 | 1929 | 1930 | 1931 |
|--|---------------|-----------|-----------|-----------|-----------|-----------|
| Fushun coal-mine | Fushun (BC) | 7,412,210 | 6,844,300 | 6,785,000 | 6,864,100 | 7,200,000 |
| Yentai „ „ | Liaoyang (BC) | 141,000 | 154,900 | 135,800 | 178,200 | 180,000 |
| Other mines | Fushun (BC) | 296,691 | 245,000 | 546,572 | 365,011 | 300,000 |
| Penhsihu Coal Mining Co. | Penchi (B) | 394,000 | 486,000 | 521,000 | 582,000 | 580,000 |
| Weimingshan coal-mine | Liaoyang (A) | 45,000 | 48,000 | 49,300 | 54,660 | } 30,000 |
| Fanshengpu coal-mine | „ (A) | 15,000 | 15,000 | 23,490 | 35,590 | |
| Fechowwan coal-mine | Fuhsien (A) | 161,857 | 180,000 | 198,191 | 214,814 | 150,000 |
| Sian Coal Mining Co. | Sian (BC) | 79,000 | 90,000 | 152,199 | 205,646 | 95,000 |
| Patachao Coal Mining Co. | Heishan (BC) | 61,937 | 65,946 | 66,348 | 77,035 | 35,000 |
| Niuhsintai coal-mine | Penchi (A) | 55,000 | 55,000 | 68,000 | 41,191 | — |
| Tienschifukou coal-mine | „ (B) | 15,000 | 16,500 | 13,000 | 7,000 | 3,000 |
| Saimatai coal-mine | „ (A) | | | 2,500 | 4,000 | } 30,000 |
| Shangsungkang coal-mine | Huinan (B) | | | 10,000 | 15,000 | |
| Sifeng | Sifeng (BC) | | | 5,000 | 8,000 | |
| Other mines | Sian (BC) | | | 10,268 | 12,500 | |
| Aishang | Chinsi (A) | | | 12,200 | 10,800 | |
| Other mines | Penchi (AB) | 80,000 | 80,000 | 4,500 | 3,200 | |
| Mines of | Liuho (A) | | | 5,500 | 4,500 | |
| „ „ | Tunghua (AB) | | | 2,000 | 2,000 | |
| „ „ | Huanjen (A) | | | 1,200 | 1,800 | |
| Tieling, Hsingcheng, Kangping Taoan, Chian, Tsingyuan, Hailun and other districts | | | | 10,100 | 10,800 | |
| Total bituminous | (B and BC) | 8,531,695 | 8,122,646 | 8,250,487 | 8,324,742 | 8,373,000 |
| Total anthracite | | 155,000 | 158,000 | 369,681 | 374,105 | 230,000 |
| Combined total | | 8,686,695 | 8,280,646 | 8,620,168 | 8,698,847 | 8,603,000 |

(A)-Anthracite ; (B) Bituminous ; (C) Lignite.

YEARLY AMOUNT OF MANCHURIAN COAL PRODUCED IN OPEN CUTS FROM 1927 TO 1931. ¹

| | 1927 | 1928 | 1929 | 1930 | 1931 |
|---------------------|-----------|-----------|-----------|-----------|-----------|
| Fushun | 3,219,245 | 2,735,900 | 3,039,200 | 3,306,700 | 3,500,000 |
| Sian | — | — | 65,000 | 110,000 | 30,000 |
| Hokang | 170,000 | 100,000 | 199,555 | 187,574 | 230,000 |
| Chalainor | 120,000 | 150,000 | 70,000 | 5,800 | 5,000 |
| Total | 3,509,245 | 2,985,900 | 3,373,755 | 3,610,074 | 3,765,000 |

Remarks. — Except a part of production of Fushun, Sian, Chalainor and Hokang, all the others are produced under shafts.

ESTIMATED MINING COST OF PRODUCTION OF COAL (PER TON) IN MANCHURIA. ¹

| | Fushun | | Other mines of Manchuria (average) | | Japan (average) | North and Central China |
|--------------------------|-------------------|-----------|------------------------------------|-----------|-----------------|-------------------------|
| | Underground works | Open cuts | Underground works | Open cuts | | |
| | Yen | Yen | \$ | \$ | Yen | \$ |
| Labour | 0.70 | 0.35 | 1.60 | 0.95 | | |
| Timbering | 0.80 | | 0.94 | | | |
| Machinery | 0.82 | 0.80 | 1.40 | 1.10 | | |
| Transportation | 0.45 | 0.40 | 0.60 | 0.70 | | |
| Other expenses | 1.50 | 1.30 | 2.20 | 2.50 | | |
| Total | 4.27 | 2.85 | 6.74 ² | 1.8-4 | 6.5-11.0 | 3.5 |

¹ Figures supplied by the Geological Survey of China.

² Cost at Chalainor very high owing to rouble currency.

ESTIMATED COAL RESERVES IN MANCHURIA CLASSIFIED BY PROVINCES
AND BY MINES AND INCLUDING SPECIFICATION OF THE QUALITIES. ¹

(a) *Coal Reserves of Heilungkiang Province* (in thousands of tons).

| | | Anthracite | Bituminous | Lignite | Total |
|---------------|----------------------------------|------------|--------------|-------------|-----------|
| Lupinh sien | Chalainor | | | (C) 332,000 | 332,000 |
| " | Chahanora | | | (C) 27,400 | 27,400 |
| " | Tsagan | | | (C) 12,000 | 12,000 |
| Pusihsien | Kiufengshan | | (Bl) 5,300 | | 5,300 |
| Nenkianghsien | Pokenli | | (Bl) 5,600 | | 5,600 |
| " | Tiehkaoshan | | (Bl) 6,960 | | 6,960 |
| Tungpeihsien | Jenhoying | | | (C) 5,600 | 5,600 |
| Payenhsien | Shuangyanshan | | (Bm) 2,300 | | 2,300 |
| Tunghingsien | Shimentze | | (Bm) 14,000 | | 14,000 |
| Tangyuanhsien | Hokang | | (Bm) 546,700 | | 546,700 |
| Luopeihsien | West of City | | (Bm) 5,500 | | 5,500 |
| " | Hamaho | | (Bm) 2,000 | | 2,000 |
| " | Chinniushan | | | | |
| Tichlihsien | Maanshan | (AB-Ah) | | | |
| | Hueihuangshan | 6,000 | | | 6,000 |
| Hulunhsien | Mientuho, Yaluhsien, | | | | |
| | Chingsingsien Nientzeshan, | | | | |
| | Hoho, Koshan, etc. | | | (C) 30,000 | 30,000 |
| Tangyuanhsien | Wutungchen Feng- | | | | |
| | mingho, Tunghingsien Taiping- | | | | |
| | chuang, Mulanhsien Chengchiatun, | | | | |
| | Payenhsien, Changtzekou, etc. | | (B) 30,000 | | 30,000 |
| Total | | 6,000 | 618,360 | 407,000 | 1,031,360 |

(b) *Coal Reserves of Kirin Province* (in thousands of tons).

| | | Anthracite | Bituminous | Lignite | Total |
|-----------------------------|------------------|------------|-----------------|---------------|-----------|
| Mulenghsien | Lishukou | | (Bl) 75,000 | | 75,000 |
| Mishanhsien | Hsiao chuangniho | | (Bm) 114,000 | | 114,000 |
| " | Titaoho, etc. | | (Bl-Bm) 100,000 | | 100,000 |
| Omuh sien | Kiaoho | | (Bl) 456,000 | | 456,000 |
| Yungkihsien | Huoshiling (A) | 2,000 | (Bl) 8,000 | | 10,000 |
| " | Pangchuikou | | | (C) 150,000 | 150,000 |
| " | Kangyao, etc. | | | | |
| Yenkihsien | Laotoukou | | (Bc-Bm) 25,000 | | 25,000 |
| " | Santaokou | | | | |
| " | Chuensinku, etc. | | (Bc-Bl) 5,000 | | 5,000 |
| Holunghsien | Hsiaoliutaokou | | (Bc) 1,000 | | 1,000 |
| Polih sien and Fuchinhsien | | | (B) 100,000 | | 100,000 |
| Tungninghsien | | | (Bl) 50,000 | | 50,000 |
| Itung | Nantakou | | (Bl) 2,000 | | 2,000 |
| Changchun, Yungki, Hunchun, | | | | | |
| Pinhsien Mongkiang, etc. | | | (B) 50,000 | (C-BC) 55,000 | 55,000 |
| Total | | 2,000 | 986,000 | 155,000 | 1,143,000 |

(c) *Coal Reserves of Liaoning Province.*

| | | Anthracite | Bituminous | Lignite | Total |
|---------------|-------------------|------------|--------------|---------|---------|
| Fushunhsien | Fushun | | (BC) 839,000 | | 839,000 |
| " | Shimenchai | | (BC) 3,498 | | 3,498 |
| Tielinghsien | Yilu | | (BC) 700 | | 700 |
| Sianhsien | | | | | |
| S.fenghsien | Hsiaolishuho (Al) | 3,400 | (BC) 30,000 | | 33,400 |
| Sianhsien | Ertaoho | | (BC) 1,300 | | 1,300 |
| Sianhsien | Sian | | (BC) 62,400 | | 62,400 |
| Huinanhsien | Shansungkang | | (Bm) 46,800 | | 46,800 |
| Liuhoh sien | Pantsiehho (A) | 520 | | | 520 |
| " | Yuliantze | | (BC) 2,400 | | 2,400 |
| Tunghuah sien | Wutaokou (AB) | 4,381 | | | 4,381 |
| " | Tiehchangtze | | (Bh) 1,440 | | 1,440 |
| Huanjinh sien | Nanhotze (Ah) | 5,850 | | | 5,850 |
| " | Santaoling | | (Bm) 6,825 | | 6,825 |
| Penchihsien | Tienshifukou | | (Bh O AB) | | |
| | | | 19,230 | | 19,230 |

¹ Figures supplied by the *Geological Survey of China.*

| | | Anthracite | Bituminous | Lignite | Total |
|---|-----------------------|----------------|------------------|---------------|------------------|
| Penhsih sien | Tienschifukou (Ah-AB) | 43,000 | | | 43,000 |
| " | Saimatsi (Ah) | 3,000 | (Bm) 7,140 | | 10,140 |
| " | Penhsihu | | (Bh) 226,000 | | 226,000 |
| " | Shanchengkou | (Am) 15,600 | | | 15,600 |
| " | Hsiaoshi (A) | 5,616 | | | 5,616 |
| " | Tsuensuihotze | | (Bh) 2,548 | | 2,548 |
| " | Niusintai (Am) | 8,740 | | | 8,740 |
| " | Penlingtze | 1,560 | | | 1,560 |
| " | Yaotzeyu | | (Bm) 7,200 | | 7,200 |
| Liaoyanghsien | Yentai | | (Ab-Bh) 4,000 | | 4,000 |
| Fuhsien | Wuhutsui (Al) | 19,000 | | | 19,000 |
| " | Wafangtien | | (Bm) 1,000 | | 1,000 |
| Chinsih sien | Shakuotun | | (Bl) 95,300 | | 95,300 |
| " | Hungluohsien (Ah) | 49,000 | | | 49,000 |
| " | Fuerkou (AB) | 10,000 | | | 10,000 |
| Heishanhsien | Pataohao | | (BC) 200,000 | | 200,000 |
| Kangpinghsien | Sanchiatze | | (BC) 2,000 | | 2,000 |
| Taoanhsien | Erlungkou | | (BC) 500 | | 500 |
| Changtu Shahotze Tauankou, Sifeng Shijinkou Tiehling Tataishan Tapao-shan, Yihsien, Fenchi Weishan, Huanjin Santaoyangcha Putaoling, Tunghua Taluochuankou, Linkiang, Chatzeyao, Hsiaopolatze, Liuho Sienjunkou, etc. | | | (B) 15,000 | (C) 15,000 | 30,000 |
| Total | | 169,667 | 1,609,901 | 15,000 | 1,794,568 |

CHEMICAL ANALYSES OF COAL IN THE MAIN MINES OF MANCHURIA. ¹

| | Moisture | Volatile matter | Fixed carbon | Ash | Sulphur | Caloric power |
|-------------------------|----------|-----------------|--------------|-------|---------|---------------|
| Chalainor. | 38.00 | 29.02 | 27.22 | 5.76 | 0.50 | 4,874 |
| Hokang | 1.70 | 34.55 | 55.60 | 8.40 | 0.35 | 7,900 |
| Muleng | 3.10 | 23.12 | 52.08 | 16.10 | 0.60 | 6,600 |
| Mishan. | 1.27 | 24.57 | 67.44 | 6.79 | — | 8,000 |
| Omu. | 7.68 | 28.68 | 47.73 | 15.91 | | 6,386 |
| Kangyao | 11.78 | 56.01 | 21.15 | 11.06 | 0.47 | 5,445 |
| Laotoukou | 10.22 | 27.58 | 50.07 | 12.13 | 0.40 | |
| Sian | 10.25 | 33.81 | 51.50 | 4.44 | | 6,956 |
| Fuhsien | 0.65 | 8.97 | 81.46 | 8.92 | | 7,805 |
| Fushun. | 6.73 | 39.34 | 48.15 | 5.25 | | 6,780 |
| Penchiu. | 0.68 | 23.95 | 64.07 | 11.20 | | 7,508 |
| Yentai | 1.15 | 12.00 | 71.20 | 15.65 | | 7,198 |
| Pataohao. | 9.83 | 34.33 | 48.22 | 7.62 | 0.12 | 7,151 |
| Tienschifukou | 1.01 | 10.49 | 66.95 | 21.55 | 0.42 | 7,409 |
| Shansungkang | 0.93 | 22.03 | 73.64 | 3.40 | 0.74 | 8,390 |
| Shakuotun | 3.29 | 32.75 | 53.41 | 10.29 | 0.59 | 7,040 |

JAPAN'S OIL PRODUCTION. ²

(In tons.)

| | Japan Proper alone | Including Formosa | Including Formosa and North Saghalien |
|----------------|--------------------|-------------------|---------------------------------------|
| 1915 | 417,943 | 417,943 | 417,943 |
| 1916 | 420,243 | 420,243 | 420,243 |
| 1921 | 320,173 | 320,173 | 320,173 |
| 1922 | 278,957 | 278,957 | 278,957 |
| 1923 | 257,349 | 257,349 | 257,349 |
| 1924 | 257,829 | 257,829 | 257,829 |
| 1925 | 265,567 | 265,567 | 265,567 |
| 1926 | 257,535 | 257,535 | 287,364 |
| 1927 | 233,714 | 247,143 | 325,843 |
| 1928 | 241,428 | 285,415 | 389,415 |
| 1929 | 258,040 | 291,100 | 478,100 |
| 1930 | 226,584 | 277,609 | 470,649 |
| 1931 | 274,634 | 280,877 | 555,877 |

¹ Figures supplied by the *Geological Survey of China*.

² Nippon Oil Company figures, with exception of that for Russian Saghalien, which is from the North Saghalien Oil Company.

IRON ORE PRODUCTION. ¹
(In metric tons.)

| | Home | Korean | Manchurian | Total |
|--------------|---------|---------|------------|-----------|
| 1913 | 153,101 | 142,049 | — | 295,150 |
| 1914 | 121,636 | 182,034 | — | 303,670 |
| 1919 | 362,949 | 417,000 | 263,865 | 1,043,814 |
| 1920 | 314,858 | 447,249 | 175,966 | 938,073 |
| 1921 | 86,977 | 232,692 | 206,243 | 525,912 |
| 1922 | 39,744 | 185,584 | 140,128 | 365,456 |
| 1923 | 55,174 | 306,255 | 213,731 | 575,160 |
| 1924 | 57,922 | 323,636 | 220,384 | 601,942 |
| 1925 | 75,765 | 376,207 | 220,999 | 672,971 |
| 1926 | 130,420 | 387,717 | 566,543 | 1,084,680 |
| 1927 | 159,005 | 422,560 | 630,604 | 1,212,169 |
| 1928 | 157,706 | 559,331 | 673,624 | 1,390,661 |
| 1929 | 177,556 | 559,218 | 781,258 | 1,518,032 |
| 1930 | 245,991 | 581,960 | 883,497 | 1,711,448 |

PIG-IRON DEMAND, INCLUDING IRON ALLOYS.
(In tons.)

| | Home | Imports | Exports | Balance | Percentage of home |
|---------------------------|-----------|---------|---------|-----------|--------------------|
| 1913 | 242,676 | 273,309 | 358 | 515,627 | 47 |
| 1914 | 301,726 | 172,137 | 186 | 473,677 | 64 |
| 1919 | 612,609 | 348,707 | 17,034 | 944,282 | 65 |
| 1920 | 529,875 | 390,466 | 9,785 | 910,556 | 58 |
| 1921 | 480,300 | 276,284 | 5,768 | 750,816 | 64 |
| 1922 | 559,310 | 409,606 | 5,282 | 963,634 | 58 |
| 1923 | 610,751 | 429,442 | 5,231 | 1,034,962 | 59 |
| 1924 | 599,029 | 520,122 | 7,270 | 1,111,881 | 54 |
| 1925 | 696,720 | 402,568 | 6,503 | 1,092,785 | 64 |
| 1926 | 821,832 | 508,412 | 4,686 | 1,325,558 | 62 |
| 1927 | 912,183 | 580,670 | 4,325 | 1,488,528 | 61 |
| 1928 | 1,109,627 | 712,734 | 4,904 | 1,817,457 | 61 |
| 1929 | 1,112,437 | 794,861 | 3,771 | 1,903,527 | 58 |
| 1930 | 1,187,491 | 518,011 | 5,412 | 1,700,090 | 70 |
| 1931 ² | 917,649 | 495,864 | — | — | — |

FIGURES CONCERNING THE PRODUCTION OF IRON ORE IN ANSHAN AND PENHSIHU. ³

Production of Iron Ore (metric tons).

| | 1927 | | 1928 | | 1929 | | 1930 | |
|----------------|---------|---------|---------|---------|---------|---------|---------|---------|
| | Rich | Poor | Rich | Poor | Rich | Poor | Rich | Poor |
| Anshan . . . | 155,009 | 734,000 | 76,286 | 528,000 | 97,071 | 739,954 | 167,273 | 523,893 |
| Penhsihu . . . | 91,900 | | 115,000 | | 148,646 | | 141,061 | |

Percentage of F^e contained in Ore (average).

| Anshan Poor ore Per cent | Anshan Rich ore Per cent | Penhsihu Rich ore Per cent |
|--------------------------------|--------------------------------|----------------------------------|
| 36 | 58 | 65 |

Mining Cost of Iron Ore per Ton.

| | | | |
|--------------------|------------------|--|-------------------------|
| Penhsihu | S.\$5.32 | | (S.\$ = Chinese dollar) |
| Anshan | (Rich ore) Y2.93 | | |
| | (Poor ore) Y0.57 | | (Y = Japanese yen). |

By ore dressing, the poor ore is concentrated to about 62 per cent F^e, and this costs about 8 yen per ton after dressing.

¹ Figures supplied by the Research Bureau of the South Manchuria Railway.

² Estimated figures.

³ Figures supplied by the Geological Survey of China, June 1932.

FIGURES CONCERNING THE PRODUCTION OF PIG-IRON IN ANSHAN AND IN PENHSIHU.¹

Production of Pig-iron (metric ton).

| | 1927 | 1928 | 1929 | 1930 |
|--------------------|---------|---------|---------|---------|
| Anshan | 165,054 | 220,637 | 217,858 | 262,994 |
| Penhsihu | 63,224 | 84,345 | 76,300 | 85,060 |

Cost of Pig-iron (per ton).

| | (Rich ore) S.\$ | (Poor ore) Y. | (Rich ore) Y. |
|------------------------------|--------------------|--------------------|------------------------------|
| Penhsihu: Iron ore | 8.58 | Anshan 14.82 | 5.98 |
| Coke | 11.81 | 6.65 | 6.65 |
| Limestone | 0.42 | 0.22 | 0.22 |
| Labour | 0.46 | 0.21 | 0.21 |
| Machinery | 2.53 | 2.10 | 2.10 |
| Official expenses | 0.61 | 0.40 | 0.40 |
| Other expenses | 2.99 | 2.89 | 2.89 |
| Total | 27.40 | 27.29 (average) | 18.45 Y24.98 ² |

Estimated Cost of Pig-iron compared with Japan and India.

| Anshan (average) | Japan | India |
|------------------|--------|-----------------|
| Y24.98 per cent | Y38.30 | Y23.40 (\$G.11) |

The Anshan pig-iron costs about 38.5 yen when handed to Japan.

CHEMICAL ANALYSIS OF IRON ORES.¹

| | Total F* | Ma | SiO ₂ | Al ₂ O ₃ | C*O | P | S |
|----------------------------------|----------|-------|------------------|--------------------------------|-------|-------|-------|
| Miaokou: (rich ore) | 59.75 | 0.100 | 20.17 | 1.68 | trace | 0.050 | 0.052 |
| (rich ore) | 71.12 | 0.067 | 3.29 | 1.52 | trace | 0.016 | 0.278 |
| (poor ore) | 38.83 | 0.085 | 40.33 | 2.89 | 0.03 | 0.048 | 0.035 |
| (poor ore) | 33.87 | 0.083 | 47.80 | 2.96 | — | 0.045 | — |
| Kungchangling: | | | | | | | |
| (poor ore) | 29.33 | | 57.83 | | | 0.087 | 0.213 |
| (rich ore) | 68.99 | | 0.87 | | | 0.009 | 0.290 |
| Kuotishan | 32.33 | | 52.85 | | | 0.112 | 0.20 |
| Hsuchiatun | 46.84 | | 30.17 | | | 0.064 | 0.006 |
| Anshan: | | | | | | | |
| West of Anshan. | 38.17 | 0.16 | 43.72 | 0.34 | 0.62 | 0.034 | 0.011 |
| Takushan | 41.01 | 0.16 | 40.12 | 0.46 | trace | 0.024 | 0.034 |
| Takushan (rich ore) | 65.37 | — | 11.08 | | | | |
| Yingtaoyuan (rich ore) | 57.62 | 0.19 | 17.05 | 1.17 | 0.29 | 0.024 | 0.069 |

INCOME, EXPENDITURE, LOSS OR PROFIT OF THE IRONWORKS AT ANSHAN.³

| Year | Income Yen | Expenditure Yen | Loss or Profit Yen |
|------------------|---------------|--------------------|-----------------------|
| 1919-20. | 2,796,224 | 4,283,392 | — 1,487,168 |
| 1920-21. | 1,580,655 | 8,003,233 | — 6,422,577 |
| 1921-22. | 3,606,999 | 6,430,725 | — 2,873,726 |
| 1922-23. | 3,386,935 | 6,585,278 | — 3,198,343 |
| 1923-24. | 3,703,690 | 5,944,588 | — 2,240,897 |
| 1924-25. | 4,430,753 | 7,886,361 | — 2,955,607 |
| 1925-26. | 3,986,931 | 7,706,920 | — 3,719,989 |
| 1926-27. | 6,896,504 | 10,703,098 | — 3,806,594 |
| 1927-28. | 9,223,114 | 9,380,656 | — 157,542 |
| 1928-29. | 9,740,521 | 8,524,910 | + 1,215,611 |
| 1929-30. | 8,939,706 | 8,397,103 | + 542,603 |
| 1930-31. | 6,641,289 | 7,307,922 | — 666,633 |

¹ Figures supplied by the Geological Survey of China, June 1932.

² For 1 ton of pig iron, 0.687 ton rich ore and 1.091 ton dressed ore being used. Percentage cost of pig-iron is 28.409 yen per ton as reported by Japanese.

³ Figures supplied by the South Manchuria Railway Company.

PRICE OF PIG-IRON EXPORTED FROM MANCHURIA TO JAPAN.¹

| C.i.f. Kobe or Osaka | Price |
|-------------------------|-------|
| 1926 | 44.32 |
| 1927 | 44.32 |
| 1928 | 45.18 |
| 1929 | 44.29 |
| 1930 | 34.85 |
| 1931 | 24.57 |

CHARGES ON PIG-IRON EXPORTED FROM MANCHURIA TO JAPAN.¹

| Remarks C.i.f. Kobe or Osaka | Cost of railway ² | Ship's freight | Insurance ³ | Export tax ⁴ | Others ⁵ | Total |
|------------------------------------|---------------------------------|-------------------|------------------------|----------------------------|---------------------|--------|
| | Y. | Y. | Y. | Y. | Y. | Y. |
| 1926 | 4.570 | 2.000 | 0.055 | 1.698 | 4.750 | 13.073 |
| 1927 | 4.570 | 2.000 | 0.055 | 1.734 | 4.734 | 13.093 |
| 1928 | 4.570 | 2.000 | 0.056 | 1.975 | 4.712 | 13.313 |
| 1929 | 4.570 | 1.947 | 0.055 | 1.690 | 4.015 | 12.277 |
| 1930 | 4.570 | 1.473 | 0.046 | 1.442 | 3.887 | 11.418 |
| 1931 | 4.570 | 1.363 | 0.033 | 1.998 | 3.662 | 11.626 |

EXPORT OF PIG-IRON.¹

| Fiscal year | Total exports from Manchuria | Exports from Manchuria to Japan | Percentage of pig-iron exported from Manchuria against that used in Japan Percentage | Total consumption in Japan Kilotons |
|----------------|---------------------------------------|--|--|---|
| 1926 . . . | 176,032 | 160,992 | 12.1 | 1,325,558 |
| 1927 . . . | 219,326 | 195,805 | 13.2 | 1,488,528 |
| 1928 . . . | 244,449 | 212,999 | 11.7 | 1,817,457 |
| 1929 . . . | 229,625 | 197,838 | 10.4 | 1,903,527 |
| 1930 . . . | 223,044 | 177,776 | 10.5 | 1,700,090 |
| 1931 . . . | 289,746 | 244,173 | 16.8 | 1,450,000 |

1927. — As compared with that of the preceding year, the exported quantity of pig-iron increased. One of the reasons was the extended market at Shanghai owing to the output stoppage of the Taiye and Hanyang Ironworks, and the other was the co-operative aid of the Yawata Imperial Steel-Works by which the South Manchuria Railway Company cleared up the stock.

1928-30. — No sharp fluctuations in these three years.

1931. — *The increase was principally due to the successful check of Indian pig-iron from importation to Japan, and to the Company's untiring efforts for the sale.*

INDEX OF THE AMOUNT OF PRODUCTION OF PIG-IRON IN ANSHAN IRON-WORKS AND OF THE COST OF PRODUCTION PER TON.⁶

| Year | Cost of production | Amount of production |
|----------------|-----------------------|-------------------------|
| 1919 | 100 | 100 |
| 1920 | 70.5 | 237 |
| 1921 | 60.4 | 182 |
| 1922 | 53.3 | 210 |
| 1923 | 41.7 | 229 |
| 1924 | 44.4 | 299 |
| 1925 | 51.5 | 279 |
| 1926 | 39.3 | 514 |
| 1927 | 35.6 | 633 |
| 1928 | 21.8 | 699 |
| 1929 | 24.8 | 655 |
| 1930 | 21.7 | 897 |
| 1931 | 18.6 | 839 |

¹ Figures from the Ministry of Commerce and Industry, Tokio.

² Cost of railway — railway freight from Anshan to Dairen.

³ Insurance — average premium actually paid per ton.

⁴ Export — average duties actually paid per ton.

(The tariff was modified three times during six years ending 1931; 5 per cent *ad valorem* from January 1926, to January 1930, 7.5 per cent *ad valorem* from February 1st to December 3rd, 1930, and, lastly, 8.25 per cent *ad valorem* from December 4th, this being in force to-day.)

⁵ Others — petty charges.

⁶ Figures supplied by the management of the mine of Anshan.

ESTIMATED RESERVES OF IRON ORE IN MANCHURIA WITH THE
PROBABLE PERCENTAGE OF Fe CONTAINED IN THE ORE.¹

Iron Reserves (metric ton)

| Liaoning Province : | | Poor ore | Rich ore | Total |
|--|----------------|----------------------------|--------------------------|-------------|
| Liaoyanghsien | Houtaikou | 267,700,000 (Fe 29-40%) | | 270,020,000 |
| | Yangmukou | | | |
| Talatze | | | | |
| Hsiaolatze | | | | |
| Kingchangling | | | | |
| Tapo Tayang | | | | |
| Huangnikang | | | | |
| Maoshikou | | | | |
| Kungchangling | between | | | |
| | Houtaikou | | | |
| | Houtaikou | | | |
| | between | | | |
| Yanmukou | | | | |
| Liaoyang and Haichenghsien | Tayanmukou | | | |
| | Hsiaoyangmukou | | | |
| Anshan | Sianshan | 410,000,000 (Fe 30-40%) | 2,000,000 (Fe 50-60%) | 412,000,000 |
| | Tunganshan | | | |
| | Takushan | | | |
| | Yingtaoyuan | | | |
| | Wangchiaoputze | | | |
| Haichenghsien | Kuanpaoshan | | | |
| | Yitanshan | | | |
| Haichenghsien | Kuotishan | 1,950,000 (Fe 20-35%) | | 1,950,000 |
| Penhsihsien | Miaoerkou | 68,000,000 (Fe 30-35%) | 2,000,000 (Fe 65-70%) | 70,000,000 |
| Chuanghohsien | Waitoushan | 14,000,000 (Fe 20-30%) | | 14,000,000 |
| Penhsihsien | Waitoushan | 13,000,000 (Fe 20-35%) | 1,000,000 | 14,000,000 |
| Penhsihsien | Hsungtishan | | 500,000 (Fe 40%) | 500,000 |
| Huinan | Yaoantze | 500,000 (Fe 30-40%) | 1,007,500 (Fe 60%) | 1,507,500 |
| Penhsihsien | Huapiyu | | 750,000 (Fe 60%) | 750,000 |
| Penhsihsien | Lotuopei | | 50,000 (Fe 54%) | 50,000 |
| Fushien | Wungchengtze | 300,000 (Fe 42%) | | 300,000 |
| Linkianghsien | Talitzekou | 600,000 (Fe 50%) | | 600,000 |
| Tunghuahsien | Chitaokou | | 1,240,000 (Fe 55%) | 1,240,000 |
| Chinchow Lienhuapao, Fuhsien, Hsuchiatung, Taoan, Pulakotai, Fengchen, Huanjin, Penchi, Kuantien, Sinpin, etc. | | 260,000 | 240,000 | 500,000 |
| Total | | 776,310,000 | 11,107,500 | 787,417,500 |
| Kirin Province : | | | Rich ore | Total |
| Penhsihsien | Polihotao | | 200,000 | 200,000 |
| Achenghsien | Shitouho | | 1,257,000 | 1,257,000 |
| Total | | | 1,457,000 | 1,457,000 |

¹ Figures supplied by the Geological Survey of China, June 1932.

TABLE SHOWING THE JAPANESE TRADE WITH MANCHURIA (INCLUDING THE KWANTUNG TERRITORY) DURING THE LAST FIVE YEARS. ¹
(In 1,000 yen.)

| | Trade with Manchuria | | Total amount of foreign trade of Japan | | Percentage | |
|----------------|----------------------|---------|--|-----------|------------|---------|
| | Exports | Imports | Exports | Imports | Exports | Imports |
| 1927 | 166,591 | 177,600 | 1,992,317 | 2,179,153 | 7.3 | 8.1 |
| 1928 | 179,318 | 212,183 | 1,971,955 | 2,196,314 | 9.0 | 9.0 |
| 1929 | 189,248 | 216,899 | 2,168,618 | 2,216,238 | 8.8 | 9.7 |
| 1930 | 122,389 | 166,602 | 1,469,852 | 1,546,070 | 8.3 | 10.7 |
| 1931 | 77,415 | 132,113 | 1,146,981 | 1,235,675 | 6.7 | 10.6 |

FOREIGN TRADE OF MANCHURIA DURING THE FIVE-YEAR PERIODS. ¹
(In 1,000 Haikwan taels.)

| Year | Exports | | Imports | | Excess of exports | |
|---------------------|---------|-----|---------|-----|-------------------|-------|
| | | | | | | |
| 1911-1915 | 70,052 | 100 | 60,684 | 100 | 9,368 | 100 |
| 1916-1920 | 132,637 | 189 | 109,346 | 184 | 23,293 | 248 |
| 1921-1925 | 196,227 | 280 | 126,798 | 289 | 69,329 | 740 |
| 1926-1930 | 302,317 | 431 | 201,735 | 332 | 100,582 | 1,074 |

Source : Chinese trade statistics.

MONTHLY VALUE OF THE EXPORTS FROM JAPAN TO MANCHURIA (INCLUDING THE KWANTUNG TERRITORY). ¹
(In 1,000 yen.)

| | Exports from Japan. | | Increase Percentage |
|--------------------|---------------------|--------|---------------------|
| | 1931 | 1932 | |
| January | 5,003 | 6,496 | 30 |
| February | 4,682 | 8,044 | 72 |
| March | 8,308 | 12,374 | 49 |
| April | 7,305 | 9,947 | 36 |
| May | 6,346 | 9,263 | 45 |
| Total | 31,643 | 46,118 | 45 |

Source : Japanese Ministry of Finance.

ARTICLES EXPORTED AND IMPORTED BETWEEN JAPAN AND MANCHURIA IN 1930. ¹
(In 1,000 Haikwan taels.)

| Articles | Imports from Japan | | Exports to Japan | |
|--|--------------------|------------|------------------|------------|
| | | Percentage | | Percentage |
| Foodstuffs and articles of luxury | 19,563 | 16.8 | 36,352 | 24.2 |
| Raw materials and products thereof | 21,620 | 18.6 | 109,042 | 72.5 |
| Manufactured goods | 72,866 | 62.6 | 4,699 | 3.1 |
| Miscellaneous | 2,344 | 2.0 | 260 | 0.2 |
| Total | 116,393 | 100.0 | 150,363 | 100.0 |

Source : Chinese trade statistics.

¹ Figures supplied by the Ministry of Trade and Industry, Tokyo.

EXPORT OF STAPLE COMMODITIES FROM JAPAN TO MANCHURIA (INCLUDING THE KWANTUNG TERRITORY).¹

(In 1,000 yen)

| Description of Goods | A. Exports to Manchuria | | | | | B. Total Exports | | | | | Percentage of A to B | | |
|--|-------------------------|------------|------------|---------------|------------|------------------|------------|------------|------------|------------|----------------------|------------|------------|
| | Unit | 1929 Value | 1930 Value | 1931 Quantity | 1931 Value | Unit | 1929 Value | 1930 Value | Quantity | 1931 Value | 1929 Value | 1930 Value | 1931 Value |
| Wheat flour | 100 kin | 15,919 | 3,990 | 1,303,963 | 3,295 | 100 kin | 26,815 | 14,479 | 2,252,011 | 9,517 | 59.3 | 27.5 | 34.6 |
| Other flours, cereals and seeds | | 581 | 1,382 | | 1,328 | | 16,939 | 14,877 | | 21,728 | 3.4 | 9.2 | 6.1 |
| Marine products | 100 kin | 2,241 | 1,726 | 44,000 | 926 | 100 kin | 22,342 | 18,067 | 690,219 | 10,152 | 10.0 | 9.5 | 9.1 |
| Fine sugar and sugar candy | 100 kin | 6,975 | 3,684 | 466,437 | 2,674 | 100 kin | 30,877 | 27,456 | 2,649,933 | 15,257 | 22.5 | 13.4 | 17.5 |
| Japanese wine (" saké ") | koku | 1,632 | 1,549 | 10,275 | 1,365 | koku | 2,529 | 2,290 | 13,251 | 1,794 | 64.5 | 67.6 | 76.0 |
| Beer | koku | 1,340 | 1,215 | 11,206 | 937 | koku | 3,755 | 3,439 | 36,637 | 3,034 | 35.6 | 35.3 | 30.8 |
| Vegetables and fruits | | 3,232 | 2,346 | | 1,482 | | 9,453 | 8,202 | | 5,729 | 34.1 | 28.6 | 25.8 |
| Canned and bottled foodstuffs | kin | 962 | 670 | 1,646,055 | 483 | kin | 25,680 | 21,762 | 43,382,500 | 18,948 | 3.7 | 3.0 | 2.5 |
| Other foodstuffs and tobacco | | 2,423 | 1,761 | | 1,623 | | 3,992 | 5,011 | | 3,968 | 60.6 | 35.1 | 92.1 |
| Toilet goods (oil fats, and wax products) | | 452 | 608 | | 128 | | — | — | | — | — | — | — |
| Other oil, waxes and fats and their products | | 978 | 303 | | 784 | | — | — | | — | — | — | — |
| Medicine and explosives | | 3,604 | 3,039 | | 2,070 | | 7,171 | 10,058 | | 5,877 | 50.2 | 30.2 | 35.2 |
| Dyes, paints and colours | | 1,378 | 923 | | 573 | | 3,815 | 4,137 | | 2,982 | 36.1 | 22.3 | 19.2 |
| Cotton yarn | 100 kin | 3,087 | 1,527 | 9,136 | 543 | 100 kin | 26,755 | 15,032 | 95,177 | 8,510 | 11.5 | 10.1 | 6.3 |
| Cotton thread | 100 kin | 72 | 38 | 230 | 28 | | 624 | 400 | 267,925 | 287 | 11.5 | 9.5 | 9.7 |
| Miscellaneous yarn, threads, and materials thereof | | 1,959 | 1,317 | | 957 | | 8,210 | 4,159 | | 2,110 | 23.8 | 31.6 | 45.3 |
| Cotton fabrics | | 56,883 | 31,105 | | 9,716 | 1,000sq. yds. | 412,706 | 272,116 | 1,413,780 | 198,731 | 13.7 | 11.4 | 4.8 |
| Other piece goods | | 6,884 | 3,770 | | 2,501 | | — | — | | — | — | — | — |
| Clothing and accessories thereof | | 6,840 | 3,890 | | 3,340 | | 103,282 | 84,090 | | 73,832 | 6.6 | 4.6 | 4.5 |
| Papers | 100 kin | 4,451 | 3,492 | 140,612 | 2,243 | 100 kin | 26,282 | 27,553 | 1,409,075 | 20,990 | 16.9 | 12.6 | 10.6 |
| Books and magazines | | 718 | 619 | | 745 | | 1,585 | 1,433 | | 1,649 | 45.2 | 43.1 | 45.1 |
| Other printed matter and paper products | | 2,318 | 1,468 | | 971 | | 5,422 | 4,154 | | 2,831 | 42.7 | 35.3 | 34.2 |
| Potteries | | 1,820 | 916 | | 573 | | 36,962 | 27,171 | | 19,307 | 4.9 | 3.3 | 2.9 |
| Iron | 100 kin | 2,858 | 5,864 | 408,865 | 2,736 | 100 kin | 5,252 | 9,059 | 1,230,499 | 7,609 | 54.4 | 64.7 | 36.9 |
| Copper | 100 kin | 1,691 | 1,684 | 17,261 | 563 | 100 kin | 7,409 | 21,280 | 443,386 | 12,009 | 22.8 | 7.9 | 4.6 |
| Insulated wires | 100 kin | 1,687 | 380 | 18,756 | 769 | 100 kin | 3,529 | 3,626 | 62,392 | 2,366 | 47.8 | 10.4 | 32.5 |
| Iron products | | 3,594 | 2,593 | | 1,485 | | 15,195 | 14,095 | | 10,246 | 23.6 | 18.3 | 14.4 |
| Other metal products | | 1,399 | 1,939 | | 543 | | 6,469 | 4,701 | | 3,400 | 21.6 | 41.2 | 15.9 |
| Scientific articles | | 1,959 | 1,739 | | 1,772 | | — | — | | — | — | — | — |
| Machines and parts thereof | | 6,068 | 5,157 | | 4,380 | | 13,615 | 13,956 | | 13,641 | 44.5 | 36.9 | 32.1 |
| Other vehicles and ships | | 7,156 | 3,728 | | 3,624 | | 19,662 | 16,346 | | 12,401 | 37.5 | 22.8 | 29.2 |
| Timber | | 2,722 | 898 | | 573 | | 21,138 | 14,622 | | 9,953 | 12.8 | 6.1 | 5.7 |
| Lamps and parts thereof | | 923 | 824 | | 731 | | 9,291 | 7,970 | | 7,673 | 9.9 | 10.3 | 9.5 |

¹ Figures supplied by the Ministry of Trade and Industry, Tokyo.

STUDY No. 3.

CHINESE MIGRATIONS TO MANCHURIA.

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NOTE.

This memorandum is not a detailed description of the Chinese migrations into Manchuria. Numerous studies have been published on this subject during the last few years — annual reports by the Economic Research Bureau of the South Manchuria Railway Company, articles by Dr. C. W. Young, investigations by Professor Franklin L. Ho, and by Yashnow, and publications by the Economic Bureau of the Chinese Eastern Railway. The primary object of this memorandum is to demonstrate the nature of the demographic links between Manchuria and China proper, their importance and their future prospects.

The words "emigration" and "emigrants" have been used here and there for convenience. It must be understood that these expressions do not prejudice the political status of Manchuria.

1. NATURE OF THE CHINESE MIGRATIONS TO MANCHURIA.

Chinese population of Manchuria.

So far as its population is concerned, Manchuria is a Chinese country. There is, indeed, no census which gives an accurate figure for the population of the Three Provinces or the proportion of Chinese among them. The South Manchuria Railway Company estimated the population at 29,198,000 in 1930, and the Ministry of Foreign Affairs at Tokio estimated the proportion of Chinese at nearly 97 per cent. This total does not include many Manchus. A contemporary historian of the Three Provinces estimates that for every inhabitant of native stock there are more than thirty of the stock of China proper. Pushed back to the confines of Mongolia or the Amur, the ancient nomad tribes are now a racial element of little importance. The present population of the Three Provinces is mainly the result of recent migrations.

Smallness of the exodus until the twentieth century.

These migrations are not, of course, a new factor in the history of China. Ancient Chinese documents speak of the settlement of Chinese in the south and east of what is now Manchuria, even before the Han dynasty; but little is known of these migrations, regarding which we have practically no detailed information, though doubtless they were never very large before the

Manchu dynasty came to power in 1644. In the reign of the first Manchu Emperor, numerous Chinese crossed the Great Wall. China was then linked to Manchuria by the personal link of the reigning dynasty. In 1648, the Emperor even issued a decree encouraging, for financial or military reasons, the movement of the people of Shantung to Manchuria. The Manchus did not long, however, remain favourable to Chinese colonisation. In 1776, the Emperor Chien Lung prohibited the Chinese from entering the Three Provinces. The Manchu conquerors may have thought that the duration of their conquest and the strength of their authority depended on the survival of Manchurian particularism. The cradle of the reigning dynasty was to remain peopled by native tribes. In point of fact, the policy pursued by the Manchu Emperors for a century was not entirely respected. As early as the middle of the Emperor Chien Lung's reign, a great famine drove the people of Shantung and Chihli northward. The need of money even induced the Emperors to sell land to the newcomers. The Taiping rebellion also led to mass emigration to Manchuria. None the less, the policy of the Emperors explains the fact that down to the middle of the nineteenth century the Three Provinces were comparatively sparsely populated.

It was during the last quarter of the nineteenth century, in 1878, that the last restrictions on the admittance of Chinese were removed. The Emperor Kwangsu even promulgated laws laying down the conditions for the sale or leasing of land. Since then, Chinese settlers have been establishing themselves in the Three Provinces in large numbers. Facilitated by the building of railways and the economic development of Manchuria, the exodus assumed enormous proportions a few years ago. It has greatly strengthened the bonds between China proper and the Three Provinces. Manchuria is largely populated by newcomers who were born in China proper and have not yet lost the customs and traditions of their native provinces.

Hence, the character of the recent Chinese migrations can alone explain the nature of the demographic links between Manchuria and China proper.

Mass character of the exodus during the last few years.

The most striking feature of the recent exodus of Chinese to Manchuria is its mass character. This is illustrated by abundant statistics of arrivals in the South Manchurian ports or by the Peiping-Mukden Railway, supplied by the South Manchuria Railway Company. The emigrants have special tickets at reduced rates, and can therefore easily be counted, and the information supplied by the South Manchuria Railway is comparatively accurate. Some emigrants do, of course, arrive on foot, and it is difficult to keep a check on these ; but their number is negligible compared with the total number of arrivals, and even a rough estimate of it does not alter the mass character of the exodus.

From 443,000 in 1923, the number of Chinese emigrants arriving in Manchuria rose to 532,000 in 1926 and 1,178,000 in 1927. In 1928 and 1929, it still stood at about a million (938,000 and 1,046,000), but in 1930, in consequence of the Manchurian economic crisis, it dropped to 810,000, and probably to something like 200,000 in 1931. It will be seen that this movement of population has assumed extremely large proportions during the last few years.

Transformation of the seasonal exodus into permanent settlement.

The Chinese, however, have not merely entered the Three Provinces in large numbers ; the proportion that has remained there has also increased. Their migration, which was temporary before and immediately after the war, has changed to a growing extent into permanent settlement in recent years. From 1923 to 1926, the South Manchurian Railway Company still estimated that more than four-fifths of the emigrants were seasonal workers. In 1927, on the other hand, it found that the greater number of the arrivals remained in Manchuria. The returns were, of course, numerous, but more than 50 per cent below the arrivals. Between 1923 and 1930, the population of Manchuria increased through the migrations by 388,000 per annum on an average, and by 635,000 per annum in 1927, 1928 and 1929. The proportion of men, though still very high (85 per cent on an average from 1925 to 1929), is lower than formerly. Whole families move in search of homes beyond the Great Wall.

The migration mainly rural.

Moreover, these newcomers are attaching themselves more firmly to the land itself. The Economic Bureau of the South Manchuria Railway finds that the proportion of peasants is increasing year by year. Coming from the rural regions of China, the emigrants are more and more frequently attempting to settle in the rural parts of Manchuria. This rural settlement is of a different kind from the immigration of miners, navvies, and railwaymen, of whom so many arrived before and immediately after the war.

Localised at the start — dispersed on arrival.

Furthermore, this movement of population is both localised at the start and dispersed on arrival. Almost all the Chinese emigrants to Manchuria come from the provinces of Shantung and Hopei alone. With the exception of Honan, which has sent some tens of thousands of emigrants during the last few years, no other province of China has recently made any appreciable contribution to the population of Manchuria. On their arrival, however, the

settlers scatter all over the vacant lands in the Three Provinces, though most of them pass through South Manchuria without stopping. According to the South Manchuria Railway Company, more than half the newcomers between 1927 and 1929 settled north of Harbin. Most of them remain near the roads and railways. Between 1927 and 1930, the largest group of settlers went to the Lower Sungari area, while the lands in the neighbourhood of the eastern and western lines of the Chinese Eastern Railway also afforded shelter to a large number of refugees.

Thus the mass rural migrations of Chinese, permanent as they now are, have helped to strengthen the bonds between Manchuria and China proper, or, rather, two of its provinces. They have peopled Manchuria with peasants who have not had time to lose touch with their native land and with their families, who have often remained in their native villages.

2. VALUE OF THE EXODUS TO MANCHURIA FOR THE PEOPLE OF SHANTUNG AND HOPEI.

By providing an outlet for the populations from the south, the Three Provinces have thus played an important part in the actual life of China. During the recent famines, they have offered a refuge to the poor of Shantung and Hopei.

SMALL INFLUENCE OF ORGANISED PROPAGANDA ON THE ORIGIN OF THE MOVEMENT.

The spontaneous character of the migrations to Manchuria makes it clear that the exodus has answered a real need. It has been a flight. Propaganda from outside has had no decisive influence on the actual origin of the exodus. The organisation of recruiting or assistance has always been extremely sporadic. The movement has often been used — but not, taken as a whole, aroused — by outside influences.

The assistance that the emigrants have received has come from very different sources. Japanese firms in Manchuria, the provincial authorities and private societies in Shantung and Hopei, the Manchurian authorities and the big transport companies have been concerned in the recruiting, transport and settlement of the new colonists. Except for the transport companies, however, they have not played an extremely important part.

Recruiting by the Japanese.

The extent to which the Japanese have recruited Chinese labourers for the Fushun mines, the harbour works at Dairen, or the construction of railway lines, has always been very limited. Moreover, the practice was discontinued in 1927, since when the local reserves of labour have been found adequate. The Japanese had in the provinces of Shantung and Hopei some ten agencies which instructed foremen to secure Chinese coolies for the Fushun mines. These foremen also undertook to replace the labourers if they broke their contracts. Between 1918 and 1927, this organisation attracted to Liaoning not more than 70,000 coolies, and many of those returned to their home provinces when their contracts came to an end.

Part played by the Manchurian authorities.

The Manchurian provincial authorities, who were interested in peopling Manchuria, have frequently taken steps to organise the provision of employment for Chinese emigrants. The new colonisation could serve both the interests of the province and those of the officials, many of whom had personal connections with the big landowning companies. A number of Manchurian officials gave valuable assistance to the newcomers. In 1927, for example, the head of the district of Lo-pei offered free land to farmers who would undertake to clear it, together with houses and agricultural implements, which were only to be paid for after a term of years. The construction of a new railway line has also at times led the Manchurian authorities to organise agencies to settle colonists near the newly-opened areas. For instance, the Colonisation Office at Hsingan made arrangements to receive the newcomers as soon as they arrived at Taonan, to provide them with temporary accommodation and food there, to secure passports (*huchao*) for them, to settle them on the land, and to supply them with houses or implements to be paid for in three years. Marshal Chang Hsueh-liang himself attempted to use on the land soldiers discharged from his father's army, but from January to June 1931 this land-clearing army brought only 800 hectares under cultivation. From January to June 1930, the Hsingan Colonisation Office contributed to the settlement of not more than 5,000 persons. The Manchurian private societies, organised in a number of towns in the Three Provinces, have, for the most part, confined themselves to assisting the settlers on their journey; their resources have always been very limited. The regulations promulgated at the beginning of 1930 by the North-Eastern Council with regard to the settlement of Manchurian lands seem to have remained a dead letter. In any case, they were issued at a time when the migratory movement was beginning to slacken.

Part played by the Chinese authorities and societies.

Taken as a whole, the peasants of Shantung and Hopei have not been induced to emigrate by propaganda from Manchuria, nor by reports from China proper. The plans drawn up by

the Peking Government for the encouragement of family settlement in Manchuria (an extremely detailed plan, for example, was prepared by the Minister of Communications in 1922) have scarcely been put into effect at all. During the great famines in Shantung, Hopei and Honan in 1927, 1928 and 1929, philanthropic societies were formed to assist the starving and destitute to emigrate to the Three Provinces. The Shantung Local Relief Organisation, consisting chiefly of retired officials and landowners, provided a number of peasants with the cost of transport and subsistence on the way. They also spread reports about Manchuria through district officials. In 1928, the Honan Relief Organisation at Peking is stated to have sent 35,000 emigrants to Manchuria. Charitable societies doubtless helped a number of families to escape starvation; but they were not at the origin of the migratory movement.

Reduced railway rates.

Reduced railway rates were of great assistance to the emigrants. Since 1915, the South Manchurian Railway Company has granted a reduction of about 35 per cent on the fare for Chinese passengers entraining at Dairen or Yingkow. The Chinese railways have also granted reductions of over a third on the Tsingtao-Tsinanfu, Tsinanfu-Tientsin, and Tientsin-Mukden lines. The Chinese Eastern Railway Company has followed the same example. At first, the reduction was granted only between February 15th and November 15th, because, the migrations being seasonal, there was no need for this privilege to be granted during the whole year. Since 1925, however, the reductions have, in practice, been granted from the beginning to the end of the year. The concession of these advantages to the newcomers clearly demonstrates that, at all events till the end of 1931, the Japanese railways, the Manchurian authorities and the Chinese Government looked with favour upon the exodus. All profited by the peopling of the Three Provinces. The Japanese railways found in the settlers new customers or a fresh supply of labour; the authorities were delighted to see the Three Provinces daily more closely linked, from the point of view of population, to China proper, and to observe the appreciation of land values. Moreover, the exodus provided a refuge for the starving people of Shantung and Hopei. The reductions of railway rates were undoubtedly most helpful to the emigrants. They were not the cause of exodus, but they facilitated it.

THE CAUSES OF THE EXODUS.

The extent of the exodus can only be explained by the poverty prevailing in the emigrants' home provinces, and by the repeated famines.

Over-Population of Shantung.

The density of the rural population of Shantung on the cultivated land is very high — 928 per square mile, according to Chinese statistics. This figure is exceeded only by those for Kwangtung, Chekiang (1,266), Kiangsu (1,221), Fukien (964) and Yunnan (960). Moreover, the agricultural yield of the land in Shantung is less high than in most of the southern and central provinces. The cultivation is less intensive. The Shantung peasant produces practically no paddy. The fields of kaoliang, soya and millet give a lower yield than the rice-fields.

Peasant poverty.

The smallholders, who form the great majority of the rural population of Shantung (apparently more than three-quarters), lack capital and reserves. According to a study made by one of the most able Chinese economists, out of 500 rural holdings in the districts of Chang Yi and Yi Tu, two-fifths of the farmers had a capital of less than 50 Mexican dollars. Most of this was invested in implements and draught animals. In the same district, the average net income of a farmer's family was 142 dollars, of which 17 per cent came from subsidiary sources, such as journeyman work on neighbouring farms. The wages of an agricultural labourer are low — apparently not more than 30 to 40 dollars per annum. Except during harvest, the agricultural labourer does not earn more than 20 cents a day.

This shortage of capital and reserves is not a very serious matter in normal times, in a country where machinery plays little part, where fertilisers are not much used, and where working expenses are low, but it becomes highly alarming as soon as an agricultural depression develops; the Shantung peasant is defenceless against a famine.

Famines.

Now Shantung is one of the traditional famine areas of China. The climate is extraordinarily irregular. Normally the region is adequately watered, the average annual rainfall being between 45 and 70 cm.; but in some years this figure is more than halved, while in others it rises by two-thirds or even by over 100 per cent. For instance, at Howki, according to meteorological statistics that have been kept for the last 50 years, the minimum rainfall is 27 cm. and the maximum 114 cm. More than half the year's rainfall takes place in July and August. The success of the harvest depends on the rainfall during this period. Rain is particularly needed because the winter and spring winds, with the sand-storms they carry, dry up the soil.

When the summer rains are small, or even merely late, the harvest is considerably reduced. Great famines occurred in Shantung in 1919, 1920, 1926, 1927 and 1928. In 1928, according

to the report of the China International Famine Relief Commission, the agricultural production in more than half the districts did not exceed 10 per cent of the normal figure. More than two-thirds of the population were totally destitute. The whole population of some villages wandered about the roads looking for something to eat. Peasants sold their wives and children and sought the first opportunity to escape from their poverty to the north.

Maladministration.

It is difficult to say how far these famines could be prevented by a better organisation of the province. The enclosed villages of Shantung, isolated in the middle of the open country, will suffer less shortage when they are connected with the towns by roads. There can be no doubt that military disturbances, banditry and arbitrary and anticipated taxation have contributed to the depopulation of the province during the last few years. Between 1925 and 1928, for example, the peasants of Shantung had to pay seven times as much in taxes as in normal times.

During the recent famines, the exodus to the Three Provinces has provided a great relief to the peasants of Shantung and Hopei. It has delivered many families from starvation and perhaps death.

It has also helped to raise the standard of living of those who have remained behind in the province ; for the emigrants send considerable remittances to their families in their native villages.

MONEY REMITTED FROM MANCHURIA TO SHANTUNG OR HOPEI.

It is impossible to estimate the amount of these remittances, but it is undoubtedly large. Family ties remain strong, even when the members are separated. The Chinese who settle on Manchurian soil are no doubt obliged during the first years of their colonisation to devote all their profits to initial expenses, but once they are settled they can think of their families. Moreover, seasonal workers bring back part of their earnings from Manchuria to Shantung or to Hopei.

The returning emigrants bring with them the silver coins, the Mexican dollars and yens which they have earned or which have been entrusted to them by their friends. According to the South Manchurian Railway Company, each seasonal worker after remaining six months in Manchuria can take back a sum of 80 dollars on returning to his native country. At least twenty million dollars must on an average have thus been brought each year into Shantung and Hopei.

A large part of the transfers are effected by the banks. We have been unable to ascertain from the Bank of China the figure of the money transfers effected by it from one side of the Great Wall to the other. The statistics of the Chinese Post Office, on the other hand, give us interesting particulars. They provide us with little information as to the total amounts despatched, for only a very small part of the funds transferred are sent by post. But they show us the relative importance of the amounts sent from Manchuria to Shantung and Hopei as compared with those coming from all the provinces of China. In the last three months of 1928, 611,500 dollars were sent from Liaoning to Shantung and 502,000 dollars from the Province of Kirin. Nearly one third (31%) of the postal orders cashed in Shantung came from the provinces of Liaoning and Kirin. As another third of the postal orders came from the actual provinces in which they were cashed, Liaoning and the province of Kirin sent to Shantung in postal orders a sum approximately equivalent to that sent to the same province by all the other provinces of China.

These money remittances form an important economic link between Manchuria and China proper. They are also an indication of contact between the exiles and their families. As a matter of fact, the individual ties between the Chinese of the Three Provinces and those of Shantung or Hopei have kept the closeness of family relations. The extent of the money transfers is a sign of this, and the large number of Chinese returning to their province of origin at the time of the lunar New Year is another. Manchuria is a refuge for the inhabitants of Shantung and of Hopei in times of famine. Even during normal years it may be a source of income for the peasants remaining in their native villages.

3. COMPARISON BETWEEN CONDITIONS OF LIFE IN MANCHURIA AND IN CHINA PROPER.

The Chinese in Manchuria keep touch the more easily with their native villages, inasmuch as the conditions of life do not differ very greatly on either side of the Great Wall. The settler feels quite at home in the Three Provinces. The social conditions of Shantung and of Hopei have been transplanted without great change into Manchuria. The peasant is not obliged to abandon his old customs. The products of the soil are for the most part identical.

Similarity of crops and of agricultural labour.

The crops grown in Manchuria were, indeed, almost all introduced by the old settlers : the soya bean (the sowings of which covered in 1931 37 per cent of the cultivated area of Northern Manchuria and 26 per cent of Southern Manchuria), kaoliang (13% and 30%), wheat (13% and 3%), millet (19% and 17%) and maize (7% and 10%). The technique of agricultural labour is the same. The preparation of the soil in undulated layers, which makes

it possible to sow each year only half the field and thus avoid fallow land, is characteristic of Manchurian farming, as it is of that of Shantung. The implements are the same : wooden ploughs which turn over the surface of the soil, primitive sowing appliances, rollers for flattening the earth and preventing the wind from carrying away the seed, short sickles with which the peasant cuts the plants one by one.

The most material differences between conditions of agriculture in Manchuria and in Shantung are due to the diversity of climate, the unequal density of the population and the unequal development of economic life.

Differences due to climate.

The diversity of climate does not exercise a decisive influence. The severe cold of the Manchurian winter has, however, one important consequence : it does not permit the peasant of the Three Provinces to harvest two crops a year as in his country of origin. There is no winter wheat in Manchuria as there is in Shantung. The rigour of the climate renders cultivation less intensive.

Differences due to the unequal density of the population.

The lesser density of the population leads to the same result, but in a more definite and direct fashion. The population is twenty times less dense in Heilungkiang than in Shantung.

Manchurian farming is much more extensive than that of China proper. The peasant does not need to demand a very high yield from the soil. Farming by machinery has made its appearance in the Three Provinces, and, however undeveloped it may still be, it has none the less already given good results. Over 200 tractors are said to have been employed in Northern Manchuria since 1925 to break up new ground.

Another result of the inequality in the density of the population is the difference in the size of the areas farmed. The area farmed is, generally speaking, much larger in the Three Provinces than in China proper. While the average area farmed is 24 mows (or rather less than 1½ hectares) in Shantung, it is about five times larger in the Provinces of Heilungkiang and Kirin (127.5 mows in the former and 110.5 mows in the latter).

The average size of an estate, as well as that of tenures, is greater in Manchuria than in Shantung.

There are in Northern Manchuria some very large landowners. It has been the centre of big speculations in land. Generals and officials have bought public land in the hope of seeing a rapid rise in price as a result of an increase in the population or of the construction of lines of communication. These owners, most of whom are absent, leave a large part of their land uncultivated.

In practice, a certain number of small properties have been formed at the expense of these large estates. A newly-arrived settler in Manchuria rarely has sufficient funds to buy a piece of land (in 1929 the price of good land in Northern Manchuria was from 30 to 50 dollars per hectare *i.e.*, from 90 to 150 dollars for a plot of three hectares ; taking initial expenses into account, the settler had to possess a sum of 500 to 600 dollars to be able to buy a piece of land in the Three Provinces). But the landlord often comes to an agreement with the newcomer and gives him ownership of about 40 per cent of a piece of land, which he agrees to cultivate. Others succeed in buying at the end of a few years the field on which they had settled as tenants. As a matter of fact, the number of small owners on this new land seems relatively smaller than in the Province of Shantung. According to the *China Year-Book* of 1928, out of 2,549,000 farmers in the Three Provinces, nearly 43.8 per cent were owners, 28.6 per cent tenants and 27.6 per cent both tenants and owners. In Shantung, as we have seen, more than three-quarters of the farmers were owners.

Many new colonists settle as tenants. The owner often exempts them from rent during the first five years, or in some cases, while obliging them to pay part of their rent, he supplies them with some of the money required for the purchase of implements and seed, livestock and the building of the house. Payment is almost always in kind, as in the North of China, but is usually fixed and is calculated on the basis of the area cultivated and not on the basis of the harvest. The unit is usually larger than in Shantung.

The proportion of agricultural labourers on these farms, which are bigger than those of China proper, is also larger. Their wages seem on an average to be higher, varying from 80 Harbin dollars per annum for a newly-arrived young assistant to 170 dollars for a labourer of longer standing. The ambition of agricultural labourers is naturally to settle on the land, either as farmers or as small landlords, and this population of labourers is chiefly recruited from the immigrants who have recently arrived in the Three Provinces.

This agricultural community of the Three Provinces is displaying a growing tendency to resemble that of Shantung and Hopei in proportion as the colonial character of the farming disappears as a result of the increase in population. The large estates break up to form smaller holdings ; the proportion of small owners in relation to the total number of farmers increases ; that of agricultural labourers diminishes. In Liaoning, whose population has long been settled on the land, the conditions of farming are closer to those of Shantung than in Heilungkiang, which has been more recently colonised.

Differences due to the more open character of the country.

Lastly, the three Provinces are more open economically than Shantung or Hopei. They are crossed by numerous railway lines. Agriculture itself has a more marked commercial

character. The production of commercial crops plays a greater part in Manchurian farming than in that of China proper. From 1929 to 1931, the value of commercial crops amounted to 40 per cent of the total value of agricultural output. The settler of the Three Provinces therefore depends more than the Shantung peasant on the local trader.

The organisation of the local trade in agricultural produce is similar in Manchuria to that of China proper. In the Three Provinces, this trade is in the hands of the Chinese. They alone buy direct from the peasants. The difference between Manchuria and Shantung for this trade, as for agriculture itself, is chiefly one of degree. The number of middlemen is greater in Manchuria. The local merchants — the “*lien chang*” — who buy cereals in the rural centres usually resell them to other traders established near railway stations. The broker of the town is himself in many cases Chinese, although numerous Russians or Japanese now carry on this trade. Only when it comes to exportation do the Chinese lose their control of the market.

As in China proper, credit also plays an important part in this local trade in the Three Provinces; in fact, sales are more speculative in the latter than in the former. Until the present economic crisis, they were nearly always effected in advance. As early as the end of July, farmers need money to meet the cost of labour, which is often considerable. Moreover, on their arrival, settlers often contract for their initial establishment debts, which are a drag on them for many years. They are therefore the more closely dependent on local traders.

This similarity of commercial structure between Manchuria and China proper is also seen, not only in the local rural trade, but in the large-scale trade of the cities. The same mutual associations for professional co-operation, assistance and corporate police exist on both sides of the Great Wall.

The Chinese community of Manchuria is a transplanted community which has kept the customs of its native soil, its dialect and its methods. It has only to adapt itself to the conditions of a more spacious land, more sparsely populated and more open to outside influence.

4. FUTURE POSSIBILITIES OF CHINESE EMIGRATION.

Has this movement of population been only a no doubt important but passing episode in the life of China, or is it destined to continue in the future?

COLONISATION AREA AVAILABLE.

Extent of reserves of land.

There can be no doubt that the Three Provinces still contain large tracts of virgin soil capable of cultivation.

According to the estimates of the South Manchuria Company, the total cultivable land in Manchuria amounts to nearly 30 million hectares. As the cultivated area was estimated by the same services at about 13 million hectares, 17 million hectares, or about 56 per cent of the arable land still remains to be cultivated. The greater part of the available land is, of course, in Northern Manchuria. In Heilungkiang, according to the same sources, 69 per cent of the arable land still remains to be cleared; in Kirin, the proportion is only 54 per cent and, in Liaoning, 30 per cent.

The Economic Bureau of the Eastern Chinese Railway undertook an enquiry in Northern Manchuria from 1925 to 1928. Such an investigation in a province still so little known as Heilungkiang or Northern Kirin must necessarily be incomplete. The district authorities often find it to their advantage to underestimate the area of land cultivated so as to avoid taxation. Moreover, the notion of arable land is ill-defined and its limits are naturally difficult to determine. According to this enquiry, 22 per cent of the total area of Northern Manchuria was capable of cultivation, whereas only 9½ per cent was at present cultivated. About one-fifth of the fallow arable land is covered by forests.

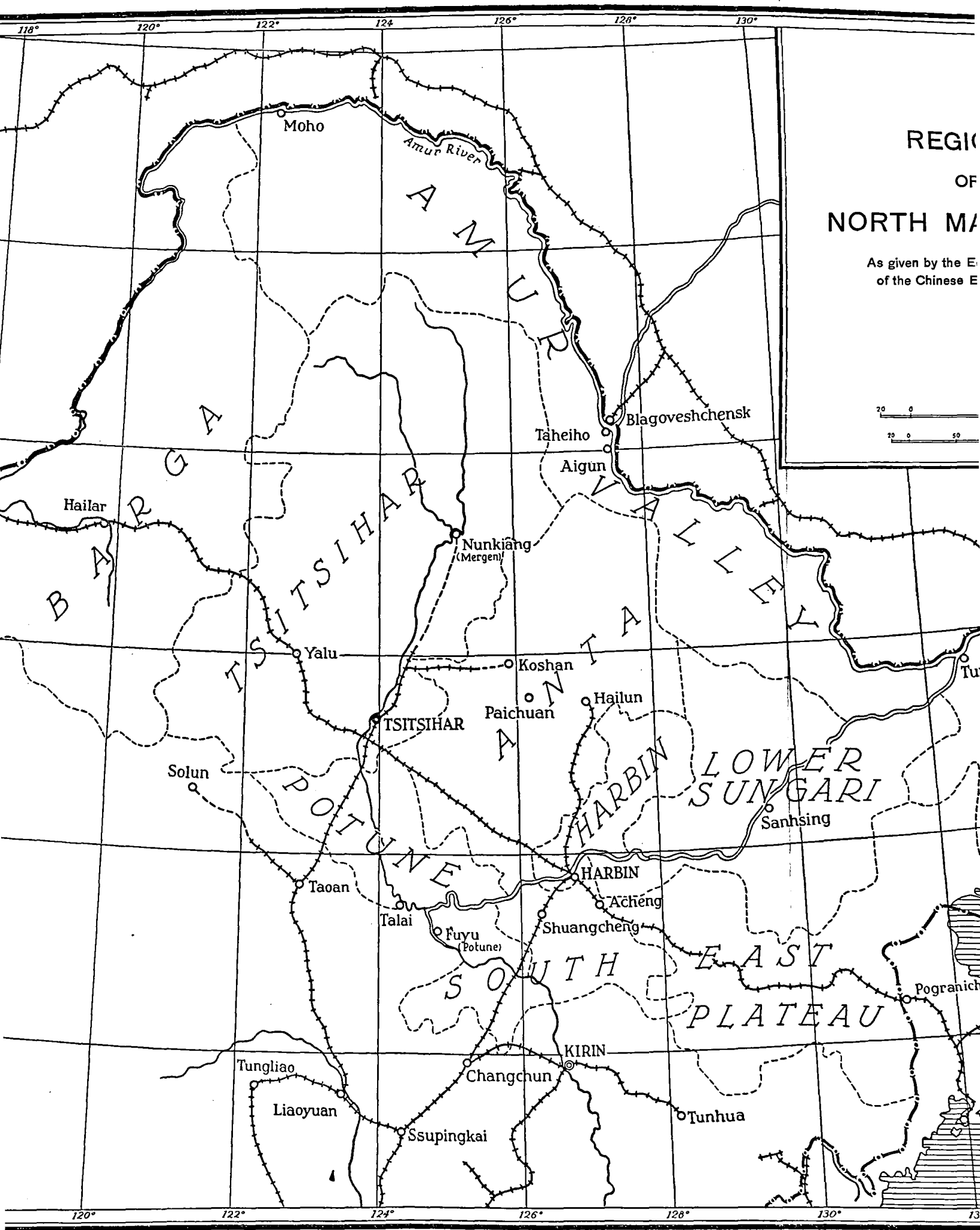
In 1931, according to the statistics of the Chinese Eastern Railway, the area available for colonisation in Northern Manchuria amounted to about 18 million hectares, the cultivated area amounting to only 8½ millions. The uncultivated arable land is stated to be most extensive in the district of Tsitsihar (5,500,000 hectares), in that of the lower Sungari (2,500,000 hectares), along the Eastern Railway line (2,200,000) and on the banks of the Ussuri (2,000,000). The land situated near the central line of the Chinese Eastern Railway is naturally the most cultivated. The area available in the districts between Changchun and Harbin (where 86 per cent of the arable land is cultivated) and round Harbin (55%) and Anda (89%) is comparatively small.

Quality of the area available : Soil and climate.

The value of this area available for colonisation naturally varies considerably according to the quality of the soil and the climate.

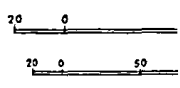
From the point of view of the quality of the soil, Northern Manchuria may be divided into three main regions. The south-west is of poor quality. The southern part of the Barga districts and the western part of the Potune district is sandy and dry. Towards the borders of Mongolia, the country becomes more and more like a desert. The districts to the south of Tsitsihar and Anda are formed of vast uncultivated areas with clayey soil and of an alkaline character.

In the northern part of Heilungkiang and on the right bank of the Amur, nothing much is known of the soil. To the west, the mountainous character of the country makes cultivation



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difficult. To the east, agricultural conditions are better, but the climate of this region only permits of the cultivation of early cereals which grow in the spring and are harvested at the end of July, mainly wheat, barley and oats. Neither kaoliang, soya, millet nor maize, which form the wealth of Manchuria, grow in these latitudes. This area comprises about one-eighth of the estimated colonisation area of Heilungkiang, but the climate limits its agricultural possibilities.

The great colonisation area of the future, that which, according to the Chinese Eastern Railway, still possesses more than two-thirds of the reserve land of Northern Manchuria, is the rich plain which lies between the borders of the great Khingan in the west and the plain of the Sungari in the east and covers nearly 40,000,000 hectares. The soil is formed of the fertile black earth covered with a deep humus. It comprises the central part of the Barga district, the plains to the north of Tsitsihar and Anda, the region of Heilungkiang, that of the Ussuri, the lower Sungari and the east of the Potune district. Protected by the ranges of the Greater and Lesser Khingan against the dry west and north winds, it is exposed to the influence of the damper south-west winds. The rainfall is therefore comparatively large (between 50 and 60 centimetres per annum). The average temperature during the period of vegetation is fairly high (17°).

Theoretical possibilities of settlement.

Taking into account the regions of Central Manchuria and of certain valleys of the east and south like those of the Sungari, the Liao and the Mutanchiang, which can still receive a certain number of settlers, there can be no doubt that, from the mere point of view of agricultural possibilities, Manchuria is capable of receiving a large number of additional settlers. According to one of the most competent experts of the Chinese Eastern Railway, the population may, in forty years, reach the figure of 75 millions, which would give Manchuria a population of 187 persons per square mile (about one-third of that of the three provinces of Shantung, Hopei and Honan), but geographical conditions cannot alone determine the future possibilities of colonisation. Economic conditions may limit in the future the rapid increase in the Manchurian population.

Future of the Manchurian crops which are at present the most important.

The chief crop of the Three Provinces, the soya bean, sowings of which have rapidly increased in Manchuria until recently, has uncertain future prospects. As we have already seen, the importance of the soya bean is probably destined to decline. It is not at all certain that even a considerable growth in the world consumption of the soya bean as forage can counterbalance the decline in the consumption of oil-cake as a fertiliser. The production of kaoliang has materially fallen off since the beginning of the world crisis, and that of millet still more (from 4,600,000 tons, the annual average from 1926 to 1928, to 3,400,000 tons from 1929 to 1931). The recent extension of the cultivation of wheat has given rise to great hopes. The area sown with wheat has increased during the last few years as well as the total crop (from 1,217,000 tons, the annual average for 1926 to 1928, to 1,486,000 tons from 1929 to 1931). But wheat-growing is a speculative business in Northern Manchuria. Spring in Manchuria is dry; wheat often lacks water during the period of germination. Moreover, rust often compromises the harvest. In 1923, for example, a very large part of the crop was destroyed by this parasite. The production of wheat is much less regular in the Three Provinces than that of soya. Economic conditions render the future of the Manchurian soya uncertain, while geographical conditions render that of wheat equally doubtful.

Future of recently introduced crops.

Crops more recently introduced into Manchuria are no doubt capable of development. We have seen that rice-growing may find wide scope for development in the south-east of the Three Provinces. But the Koreans rather than the Chinese seem destined to be the rice-growers of the future. The hopes which certain Japanese have placed on an increase in cotton production must be considered with caution. Manchuria to the south of Mukden at present only produces 24 to 25 million kins of cotton. The Liaotung Peninsula is certainly warm and sunny during the summer. But the chills of autumn often supervene before the plant is open. American cotton, which takes 150 days to open, cannot be picked in Manchuria before the end of October or the beginning of November. About two-fifths of the American cotton planted in southern Manchuria is not open before the first frosts of autumn and is thus destroyed. Chinese cotton, which can be picked at the beginning of October, for it only takes 100 to 130 days to open, is more suitable for the Manchurian climate. But it can only be produced on an economic basis in the Liaotung Peninsula or the neighbouring districts, where it would have to take the place of other crops. In any case, cotton-growing will not attract a large amount of labour to Manchuria in the future.

A knowledge of the theoretical possibilities of Manchuria, however extensive, must not lead us to forget that economic or technical factors can to a certain extent limit the influx of newcomers into the Three Provinces.

The economic depression in Manchuria.

The economic depression has for a time reduced the possibilities of colonisation. The price of all Manchurian cereals has fallen sharply. The value of the soya-bean crop has fallen by half from 1929 to 1930 (from 200 million to 100 million yens) and that of wheat in the

same proportions (from 45 millions to 22 millions). The unsold stocks of cereals in the whole of Manchuria are large. The stocks of soya beans and oil-cake at Mukden and Vladivostok alone amounted to nearly 1,500,000 tons in April 1931. According to an expert of the Chinese Eastern Railway, the price of land fell, generally speaking, to just over half the previous level between 1930 and 1931 (and even to one-third in the Fushun district and one-fifth in the Tsitsihar district). In 1931, according to the same expert, the earnings of the North-Manchurian peasant are estimated to have covered only 60 per cent of his expenses.

Political events are not the sole cause of the decline in the Chinese exodus to Manchuria. Already during the first six months of 1931 the economic depression had considerably reduced migration. The world depression has only aggravated an inevitable local crisis. The absorption of a large mass of emigrants during the years preceding the crisis is no doubt a proof of the abundance of the resources of Manchuria. But this influx of labourers was in any case bound to slacken off. The economic depression followed by the political events have merely brought this movement to a more abrupt stop.

* * *

Once the economic crisis has passed and order has been restored, Manchuria will again be able to serve as a refuge for the people of China proper. The possibilities of the Three Provinces must not be exaggerated, but they are great. The Chinese form the element best adapted to Manchurian colonisation. They find beyond the Great Wall the environment to which they are accustomed — the same work and the same social conditions as in their country of origin. Economic factors may reduce the extent of their migration. But an artificial interruption of the exodus by arbitrary political measures would be as detrimental to Manchuria as to the Provinces of Shantung and Hopei.

ANNEX.

Total Number of Chinese Coolies arriving in South Manchuria. ¹

| Year | Dairen | | Yingkou | | Antung | | Peking-Mukden Railway | | Total Number |
|----------------|---------|----|---------|----|--------|----|-----------------------|----|--------------|
| | Number | % | Number | % | Number | % | Number | % | |
| 1923 | 172,014 | 40 | 77,087 | 18 | 46,577 | 11 | 138,011 | 31 | 433,689 |
| 1924 | 167,206 | 34 | 61,904 | 13 | 42,641 | 9 | 210,719 | 44 | 482,470 |
| 1925 | 197,392 | 37 | 96,647 | 18 | 40,740 | 8 | 197,991 | 37 | 532,770 |
| 1926 | 267,062 | 44 | 124,743 | 20 | 48,287 | 8 | 167,260 | 28 | 607,352 |
| 1927 | 599,452 | 51 | 182,558 | 15 | 68,599 | 6 | 327,645 | 28 | 1,178,254 |
| 1928 | 506,553 | 54 | 152,556 | 16 | 52,703 | 6 | 226,660 | 24 | 938,472 |
| 1929 | 512,947 | 49 | 148,557 | 14 | 53,557 | 5 | 331,210 | 32 | 1,046,271 |
| 1930 | 377,841 | 47 | 140,161 | 17 | 34,703 | 4 | 257,295 | 32 | 810,000 |

Number of Migrants entering in Manchuria, returning Home and Number remaining in Manchuria as Settlers. ¹

| Year | Migrants arriving | Returning home | Remaining in Manchuria |
|----------------|-------------------|----------------|------------------------|
| 1923 | 433,689 | 240,565 | 193,124 |
| 1924 | 482,470 | 200,045 | 282,435 |
| 1925 | 532,770 | 237,746 | 295,024 |
| 1926 | 607,352 | 323,694 | 183,658 |
| 1927 | 1,178,254 | 341,959 | 936,295 |
| 1928 | 938,472 | 394,247 | 544,225 |
| 1929 | 1,046,271 | 621,897 | 424,374 |
| 1930 | 810,000 | 560,000 | 250,000 |

Number of Immigrant Labourers taking Train for Departure at Dairen, Antung and Yingkou. ²

| | 1926 | 1927 | 1928 | 1929 | 1930 | 1931 |
|-------------------|---------|---------|---------|---------|--------|--------|
| Dairen | 104,034 | 275,592 | 169,738 | 152,260 | 72,694 | 41,118 |
| Yingkou | 87,500 | 91,772 | 96,997 | 94,823 | 56,176 | 42,990 |

Number of Immigrant Labourers leaving Train at Mukden. ²

| 1926 | 1927 | 1928 | 1929 | 1930 | 1931 |
|--------|--------|--------|--------|--------|--------|
| 47,699 | 59,867 | 43,263 | 46,061 | 22,525 | 16,750 |

¹ "Third Report on Progress in Manchuria to 1932". South Manchuria Railway, page 17.

² Figures supplied by the Research Bureau of the South Manchuria Railway.

*Number of Immigrant Labourers leaving Train at Changchun*¹.

| 1926 | 1927 | 1928 | 1929 | 1930 | 1931 |
|------|------|---------|---------|---------|------|
| — | — | 327,485 | 268,090 | 168,115 | — |

*Number of Immigrant Labourers distributed in the Chinese Eastern Railway Zone.*¹

| Localities | 1927 First half-year | 1928 | 1929 | 1930 |
|---|-------------------------|---------|---------|---------|
| Eastern zone and back regions | 200,000 | 155,000 | 73,000 | 26,000 |
| Western zone and back regions | 100,000 | 71,000 | 100,000 | 89,000 |
| Lower Reaches of the Sungari and the Amur basin | 10,000 | 185,000 | 129,000 | 52,000 |
| Hohai Railway zone and back regions . . | 10,000 | 32,000 | 39,000 | 33,000 |
| Harbin and vicinity | 40,000 | 12,000 | 9,000 | 28,000 |
| Other regions | — | — | 39,000 | 7,000 |
| Total | 360,000 | 435,000 | 389,000 | 235,000 |

*Presumed Number of Immigrants to Manchuria coming on Foot*¹ (chiefly along the Peiping-Mukden (Shanhaikwan) Railway).

| 1927 First half-year | 1928 | 1929 | 1930 |
|-------------------------|--------|-------|-------|
| 26,000 | 24,000 | 7,000 | 3,500 |

*Table giving the Monthly Percentage of Immigrants landing at Dairen.*¹

| | 1927 | 1928 | 1929 | 1930 |
|---------------------|------|------|------|------|
| January | 2.2 | 3.1 | 3.9 | 3.8 |
| February | 6.4 | 18.4 | 4.1 | 12.9 |
| March | 25.8 | 25.6 | 27.3 | 24.7 |
| April | 11.6 | 9.7 | 12.3 | 12.0 |
| May | 6.7 | 5.1 | 8.8 | 8.0 |
| June | 2.8 | 4.4 | 6.3 | 5.2 |
| July | 3.5 | 4.3 | 7.0 | 5.1 |
| August | 5.4 | 5.3 | 6.0 | 5.0 |
| September | 7.7 | 5.8 | 5.7 | 5.5 |
| October | 11.5 | 6.2 | 6.7 | 5.5 |
| November | 10.0 | 6.6 | 6.7 | 5.5 |
| December | 6.3 | 5.5 | 4.4 | 5.7 |
| | 100 | 100 | 100 | 100 |

*Number of Immigrant Labourers from Manchuria.*¹

| | 1927 | 1928 | 1929 | 1930 |
|--|---------|---------|---------|---------|
| By sea (embarking at Dairen and Yingkou) . | 202,200 | 273,200 | 307,800 | 311,100 |
| By land (by the Peiping Railway) | 221,200 | 158,400 | 160,800 | 199,300 |
| Total | 423,400 | 431,600 | 468,600 | 510,400 |

*Length of Stay of Chinese Immigrant Labourers in Manchuria.*²

| | Per cent |
|---------------------------|----------|
| One year | 10 |
| Two years | 20 |
| Three years | 40 |
| Four years | 15 |
| Five years | 10 |
| Seven years | 3 |
| Ten years | 1 |
| Above ten years | 1 |
| Total | 100 |

¹ Figures supplied by the Research Bureau of the South Manchuria Railway.

² From Nakajima Sorchi: "Migration to Manchuria in the Sixteenth Year of the Chinese Republic", page 148 (in Japanese), quoted by Franklin L. Ho in "Population Movement to the North-Eastern Frontier in China", page 9.

List of Domestic Money Orders cashed in Shantung and Hopei during the fourth quarter of 1928; traced to all Issuing Districts.

| Issuing district | Cashing districts | |
|-----------------------|-------------------|--------------|
| | Hopei | Shantung |
| | (In dollars) | |
| Peiping | 307,064.42 | 273,490.75 |
| Hopei | 121,480.31 | 342,499.30 |
| Shansi | 64,535.04 | 36,103.80 |
| Honan | 66,318.49 | 95,256.81 |
| Shensi | 11,089.30 | 40,788.33 |
| Kansu | 14,711.42 | 31,211.00 |
| Sinkiang | 2,742.00 | 625.00 |
| Liaoning | 234,866.64 | 611,448.53 |
| Ki-Hei | 84,125.97 | 502,105.87 |
| Shantung | 163,637.15 | 1,168,568.80 |
| E. Szechwan | 1,219.40 | 1,853.00 |
| W. Szechwan | 766.86 | 390.00 |
| Hupeh | 29,970.71 | 53,695.48 |
| Hunan | 4,880.76 | 10,175.60 |
| Kiangsi | 7,012.00 | 2,940.00 |
| Kiangsu | 99,722.05 | 125,109.29 |
| Shanghai | 101,148.35 | 114,286.04 |
| Anhwei | 46,297.40 | 110,182.30 |
| Chekiang | 9,160.81 | 10,060.60 |
| Fukien | 8,988.65 | 11,830.52 |
| Kwangtung | 5,876.76 | 2,489.00 |
| Kwangsi | 2,777.19 | 110.00 |
| Yunnan | 839.50 | 570.00 |
| Kweichow | 112.50 | 81.00 |
| Total | 1,389,343.68 | 3,545,871.02 |

Proportion of Areas covered by the Principal Cereals in Manchuria. ¹

| | North Manchuria | | | | | | Middle and South Manchuria | | | | | |
|------------------------|-----------------|------|------|------|------|------|----------------------------|------|------|------|------|------|
| | 1926 | 1927 | 1928 | 1929 | 1930 | 1931 | 1926 | 1927 | 1928 | 1929 | 1930 | 1931 |
| Beans | 35.0 | 35.1 | 35.5 | 37.0 | 37.8 | 37.0 | 24.0 | 26.9 | 26.6 | 20.5 | 26.0 | 25.7 |
| Kaoliang | 15.0 | 14.8 | 14.7 | 13.5 | 13.7 | 13.0 | 28.5 | 24.3 | 29.5 | 30.5 | 30.5 | 30.5 |
| Millet | 21.0 | 19.7 | 19.2 | 19.8 | 18.1 | 19.4 | 21.8 | 18.7 | 16.9 | 17.0 | 17.3 | 17.3 |
| Wheat | 9.0 | 11.0 | 12.0 | 12.3 | 12.1 | 13.0 | 2.7 | 3.9 | 3.4 | 2.8 | 2.7 | 2.8 |
| Corn | 8.5 | 7.6 | 7.3 | 7.2 | 7.3 | 7.4 | 12.5 | 10.7 | 10.6 | 9.9 | 9.9 | 9.8 |
| Rice: Others | 11.5 | 10.6 | 11.1 | 10.2 | 10.3 | 10.2 | 7.5 | 12.1 | 10.2 | 7.9 | 11.1 | 13.9 |
| Total | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |

Lands in Regions gravitating to the Chinese Eastern Railway. ²

(In square kilometres.)

| Regions gravitating to the Chinese Eastern Railway | Total area | Timber land in 1931 | Cultivated in 1931 | Agricultural area free for colonisation | | | Grand total |
|--|------------|---------------------|--------------------|---|----------|---------|-------------|
| | | | | Not forested | Forested | Total | |
| 1. Barga | 155,600 | 30,000 | 60 | 17,930 | — | 17,930 | 17,990 |
| 2. Tsitsihar | 208,360 | 58,750 | 9,216 | 38,634 | 16,995 | 55,629 | 64,845 |
| 3. Anda | 28,828 | — | 16,958 | 2,027 | — | 6,027 | 18,985 |
| 4. Harbin | 67,389 | 13,450 | 16,589 | 10,101 | 3,318 | 13,419 | 30,008 |
| 5. Lower-Sungari | 85,932 | 24,660 | 11,797 | 21,639 | 3,834 | 25,473 | 37,270 |
| 6. Southern | 31,814 | 880 | 17,142 | 2,765 | — | 2,765 | 19,907 |
| 7. Eastern | 86,116 | 32,470 | 12,718 | 18,618 | 3,944 | 22,562 | 35,280 |
| 8. Ussuri | 42,733 | 18,230 | 1,200 | 16,918 | 3,945 | 20,863 | 22,063 |
| 9. Amour | 137,434 | 70,450 | 750 | 17,461 | | 17,461 | 18,211 |
| Total | 844,206 | 248,890 | 86,430 | — | — | 178,129 | 264,559 |

¹ Figures from the Chinese Eastern Railway and the South Manchuria Railway.

² Figures from the Economic Bureau of the Chinese Eastern Railway.

Population, Grain Crop, Consumption and Surplus of Grain in Manchuria during 1931. ¹
(In metric tons.)

| Regions | Population both sexes (000's omitted) | Grain crop of all cereals | Consumption of grain | | | | Deficit (—) or surplus (+) |
|--|---------------------------------------|---------------------------|----------------------|-----------|---------|------------|----------------------------|
| | | | Feeding | Fodder | Seeded | Total | |
| <i>South Manchuria.</i> | | | | | | | |
| 1. South of Mukden | 7,148 | 2,424,440 | 2,082,440 | 341,380 | 54,340 | 2,478,160 | — 53,720 |
| 2. Peiping-Mukden Railway | 2,358 | 1,000,180 | 686,910 | 161,340 | 21,310 | 869,560 | + 130,620 |
| 3. Kaiyuan | 2,836 | 1,524,070 | 826,330 | 146,880 | 32,990 | 1,006,200 | + 517,870 |
| 4. Mukden-Hailun Railway | 1,210 | 655,080 | 352,600 | 84,390 | 13,760 | 450,750 | + 204,330 |
| 5. Changchun-Kungchuling | 2,631 | 1,556,090 | 766,490 | 133,710 | 40,080 | 940,280 | + 615,810 |
| 6. Ssu-tao Railway | 1,313 | 1,153,420 | 382,430 | 68,710 | 27,240 | 478,380 | + 675,040 |
| 7. Chi-Chang Railway | 1,267 | 1,041,750 | 369,270 | 49,240 | 26,950 | 445,460 | + 596,290 |
| 8. Chientao | 585 | 355,590 | 170,330 | 50,120 | 8,830 | 229,280 | + 126,310 |
| Total | 19,348 | 9,710,620 | 5,636,800 | 1,035,770 | 225,500 | 6,898,070 | + 2,812,550 |
| <i>North Manchuria.</i> | | | | | | | |
| 1. Southern line of Chinese Eastern Railway | 2,164 | 1,709,170 | 861,500 | 322,750 | 50,930 | 1,235,180 | + 473,990 |
| 2. Harbin | 498 | 45,510 | 198,860 | 23,030 | 1,210 | 223,100 | — 177,590 |
| 3. Eastern line of the Chinese Eastern Railway | 1,716 | 1,533,620 | 685,570 | 204,480 | 44,970 | 935,020 | + 598,600 |
| 4. Lower Sungari | 1,514 | 1,341,590 | 617,590 | 173,620 | 44,230 | 835,440 | + 506,150 |
| 5. Huhai Railway | 1,445 | 1,203,360 | 579,290 | 194,960 | 39,590 | 813,840 | + 389,520 |
| 6. Anda | 1,624 | 1,674,590 | 667,510 | 251,630 | 58,380 | 977,520 | + 697,070 |
| 7. Tsitsihar-Keshan Railway | 1,114 | 1,058,310 | 448,950 | 145,040 | 39,010 | 633,000 | + 425,310 |
| 8. Others | 418 | 207,070 | 152,510 | 47,650 | 7,120 | 207,280 | — 210 |
| Total | 10,493 | 8,773,220 | 4,211,780 | 1,363,160 | 285,440 | 5,860,380 | + 2,912,840 |
| Grand total | 29,841 | 18,483,840 | 9,848,580 | 2,398,930 | 510,940 | 12,758,450 | + 5,725,390 |

Total Crop of Cereals harvested in the Past Six Years. ²

All Manchuria.

(In thousands of metric tons.)

| | 1926 | 1927 | 1928 | 1929 | 1930 | 1931 |
|---------------------|--------|--------|--------|--------|--------|--------|
| All beans | 6,162 | 5,746 | 6,554 | 5,829 | 6,151 | 5,605 |
| Kaoliang | 5,284 | 5,593 | 5,828 | 5,026 | 5,688 | 5,290 |
| Millet | 5,312 | 4,250 | 4,342 | 3,493 | 3,370 | 3,405 |
| Corn | 2,790 | 2,592 | 2,560 | 2,070 | 2,367 | 3,602 |
| Wheat | 989 | 1,412 | 1,251 | 1,091 | 1,172 | 1,397 |
| Others | 1,470 | 2,539 | 2,510 | 3,054 | 3,504 | 4,910 |
| Total | 22,007 | 22,132 | 23,045 | 20,673 | 22,252 | 21,232 |

¹ Figures from the South Manchurian Railway.

² Figures from the Chinese Eastern Railway.

Cultivated Area under the Principal Cereals in Regions of Manchuria in 1931.¹

Total cultivated (in hectares, 000's omitted) in 1931.

| Regions | Yellow beans | Other beans | Kaoliang | Millet | Maize | Wheat | Rice | | Others | Total |
|---|--------------|-------------|-----------|-----------|---------|-----------|--------|---------|-----------|------------|
| | | | | | | | Paddy | Upland | | |
| <i>South Manchuria :</i> | | | | | | | | | | |
| 1. South of Mukden | 357,770 | 59,600 | 562,320 | 171,380 | 246,530 | 30,250 | 22,710 | 18,140 | 174,260 | 1,642,960 |
| 2. Peiping-Mukden Railway | 71,280 | 17,890 | 413,140 | 74,950 | 46,060 | 11,180 | 700 | 6,810 | 69,830 | 711,840 |
| 3. Kaiyuan | 291,100 | 24,990 | 281,830 | 144,520 | 95,740 | 12,490 | 5,980 | 7,360 | 61,500 | 925,960 |
| 4. Mukden-Hailun Railway | 122,090 | 14,200 | 73,020 | 58,160 | 55,090 | 10,850 | 13,180 | 11,660 | 27,060 | 385,310 |
| 5. Changchun-Kungchuling | 383,390 | 44,600 | 287,020 | 188,820 | 66,880 | 57,510 | 1,080 | 23,010 | 42,470 | 1,094,780 |
| 6. Su-Tao Railway | 136,410 | 41,040 | 261,400 | 212,280 | 49,720 | 39,600 | 2,960 | 9,940 | 111,170 | 864,510 |
| 7. Chi-Chang Railway | 287,690 | 11,960 | 99,650 | 158,410 | 51,050 | 23,340 | 6,780 | 16,540 | 53,080 | 708,500 |
| 8. Chientao | 76,910 | 6,430 | 15,760 | 66,700 | 22,340 | 14,920 | 11,810 | 4,120 | 29,740 | 248,730 |
| Total | 1,726,640 | 220,710 | 1,994,140 | 1,075,220 | 633,410 | 200,590 | 65,200 | 97,580 | 569,110 | 6,582,600 |
| <i>North Manchuria :</i> | | | | | | | | | | |
| 1. Southern line of the Chinese Eastern Railway | 403,640 | 32,290 | 336,360 | 222,000 | 55,160 | 157,420 | 1,350 | 6,730 | 130,500 | 1,345,450 |
| 2. Harbin | 11,280 | 2,440 | 40 | 7,140 | 2,520 | 8,270 | 70 | 40 | 5,790 | 37,590 |
| 3. Eastern line of the Chinese Eastern Railway | 541,040 | 15,740 | 133,140 | 175,510 | 114,990 | 164,610 | 7,350 | 3,630 | 54,380 | 1,210,390 |
| 4. Lower Sungari | 362,590 | 16,340 | 161,640 | 174,740 | 54,610 | 254,470 | 3,810 | 4,370 | 59,580 | 1,092,150 |
| 5. Huhai Railway | 305,200 | 9,970 | 99,740 | 186,510 | 39,890 | 241,360 | 200 | 1,990 | 112,510 | 997,370 |
| 6. Anda | 471,680 | 14,080 | 199,930 | 225,280 | 49,280 | 302,720 | 300 | 2,820 | 141,900 | 1,407,980 |
| 7. Tsitsihar-Keshan Railway | 351,310 | 1,760 | 50,060 | 140,520 | 35,130 | 193,220 | 420 | 1,340 | 104,520 | 878,280 |
| 8. Others | 27,210 | 160 | 5,440 | 25,400 | 2,720 | 63,500 | 3,100 | — | 53,900 | 181,430 |
| Total | 2,473,950 | 92,780 | 986,350 | 1,157,100 | 354,300 | 1,385,570 | 16,600 | 20,920 | 663,080 | 7,150,650 |
| Grand Total | 4,200,590 | 313,490 | 2,980,490 | 2,232,320 | 987,710 | 1,586,160 | 81,800 | 118,500 | 1,232,190 | 13,733,250 |

¹ Figures from the South Manchuria Railway.

Total Harvest in Manchuria in 1931 (in metric tons).¹

| Regions | Yellow beans | Others | Kaoliang | Millet | Corn | Wheat | Rice | | Others | Total |
|---|--------------|---------|-----------|-----------|-----------|-----------|---------|---------|-----------|------------|
| | | | | | | | Paddy | Upland | | |
| <i>South Manchuria :</i> | | | | | | | | | | |
| 1. South of Mukden | 429,320 | 58,050 | 859,790 | 232,050 | 433,890 | 27,530 | 41,810 | 23,800 | 318,200 | 2,424,440 |
| 2. Peiping-Mukden Railway | 70,350 | 18,050 | 623,840 | 89,270 | 74,480 | 9,410 | 1,130 | 8,490 | 105,160 | 1,000,180 |
| 3. Kaiyuan | 387,160 | 28,840 | 538,300 | 253,490 | 179,030 | 11,250 | 11,420 | 10,520 | 104,060 | 1,524,070 |
| 4. Mukden-Hailun Railway | 184,600 | 18,350 | 126,690 | 110,040 | 112,930 | 11,010 | 26,580 | 16,980 | 47,900 | 655,080 |
| 5. Changchun-Kungchunling | 473,870 | 48,880 | 467,270 | 268,690 | 130,420 | 56,590 | 1,790 | 31,110 | 77,470 | 1,556,090 |
| 6. Ssu-Tao Railway | 148,280 | 40,750 | 390,530 | 241,580 | 81,340 | 39,960 | 4,640 | 12,790 | 193,550 | 1,153,420 |
| 7. Chi-chang Railway | 389,530 | 15,060 | 180,170 | 224,780 | 83,520 | 22,520 | 10,920 | 20,770 | 94,480 | 1,041,750 |
| 8. Chientao | 91,220 | 5,400 | 27,060 | 98,050 | 39,900 | 15,040 | 22,320 | 6,550 | 50,050 | 355,590 |
| Total | 2,174,330 | 233,380 | 3,213,650 | 1,517,950 | 1,135,510 | 193,310 | 120,610 | 131,010 | 990,870 | 9,710,620 |
| <i>North Manchuria :</i> | | | | | | | | | | |
| 1. Southern line of the Chinese Eastern Railway | 504,550 | 30,680 | 464,180 | 278,610 | 91,010 | 157,420 | 2,840 | 10,230 | 169,650 | 1,709,170 |
| 2. Harbin | 14,040 | 2,290 | 50 | 8,960 | 4,160 | 8,270 | 150 | 60 | 7,530 | 45,510 |
| 3. Eastern line of the Chinese Eastern Railway | 670,890 | 14,640 | 181,740 | 217,630 | 187,430 | 166,260 | 16,170 | 5,450 | 73,410 | 1,533,620 |
| 4. Lower Sungari | 451,420 | 15,200 | 220,640 | 216,680 | 89,010 | 257,010 | 7,620 | 6,560 | 77,450 | 1,341,590 |
| 5. Huhai Railway | 378,450 | 8,970 | 129,660 | 229,410 | 64,620 | 242,570 | 400 | 3,020 | 146,260 | 1,203,360 |
| 6. Anda | 570,730 | 11,970 | 239,920 | 277,090 | 79,830 | 305,750 | 600 | 4,230 | 184,470 | 1,674,590 |
| 7. Tsitsihar | 435,620 | 1,500 | 60,070 | 172,840 | 56,560 | 195,150 | 800 | 1,980 | 133,790 | 1,058,310 |
| 8. Others | 27,750 | 140 | 6,260 | 30,730 | 4,350 | 63,500 | 5,890 | — | 68,450 | 207,070 |
| Total | 3,053,450 | 85,390 | 1,302,520 | 1,431,950 | 576,970 | 1,395,930 | 34,470 | 31,530 | 861,010 | 8,773,220 |
| Grand Total | 5,227,780 | 318,770 | 4,516,170 | 2,949,900 | 1,712,480 | 1,589,240 | 155,080 | 162,540 | 1,851,880 | 18,483,840 |
| Grand total in 1931 | 5,360,150 | 369,600 | 4,771,470 | 3,299,320 | 1,588,930 | 1,384,120 | 154,410 | 157,810 | 1,779,500 | 18,865,310 |

¹ Figures from the South Manchuria Railway.

STUDY No. 4.

MEMORANDUM ON PUBLIC FINANCE IN MANCHURIA PRIOR TO AND AFTER SEPTEMBER 18TH, 1931

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Section I.

THE PUBLIC FINANCES OF THE MANCHURIAN PROVINCES PRIOR TO SEPTEMBER 1931.

Conditions of public finance prevailing in Manchuria prior to the Mukden incidents of September 18th, 1931, did not differ essentially from those in China proper; that is, there existed financial legislation inspired by modern principles which, however, for various reasons, was either imperfectly or not applied, while, on the other hand, an infinite number of traditional habits and practices prevailed, varying from one province or district to another and without any apparent unity of system. The principal difference to be noted is that, since the financial reform plans of 1928 established by the National Government, the North-Eastern Provinces, owing to their particular political development, had remained behind as compared to other parts of nationalist China in the application of the new system.

The 1931 *Year-Book* of the North-Eastern Provinces, an unofficial Chinese publication published in Chinese gives the following description of the general financial organisation:

GENERAL ORGANISATION.

In each of the Provincial Governments, there is a department of finance, which administers the financial matters of the province. In each province, there are also a salt inspectorate and an office of the superintendent of Customs house. All of them are under the direction and

supervision of the Ministry of Finance and the North-Eastern Political Committee. Under the department of finance, there are three classes of organisations :

1. The bureau collecting the taxes of the National Government and the taxes of the Provincial Government ;
2. The financial bureaux of the *hsiens* ;
3. The Fishing Tax Bureau and the Shipping Bureau.

With regard to taxation and its legal basis, and methods of assessment, the Chinese Assessor, in a document submitted to the Commission in answer to a questionnaire, says in part :

In the North-Eastern Provinces, taxes which are eventually paid to the Central Government include :

Tobacco and wine taxes ;
Stamp duty ;
The *Gabelle* ;
Consolidated taxes.

All these are collected and their rates fixed in accordance with the laws of the Central Government ; provincial taxes include :

Land taxes ;
Deed taxes ;
Business taxes ;
Production taxes.

Land taxes are collected according to old usage ; deeds and business taxes are collected according to the orders of the Central Government. Production taxes are levied on goods as they come out from places of production : this system of taxation was in use in the north for over 30 years and was abolished on April 1st, 1930. Taxes paid to Municipal and District Governments include :

Extra land taxes ;
House taxes ;
Land lease taxes ;
Miscellaneous taxes.

Extra land taxes are collected to cover school and police expenses ; house taxes are a form of income tax, and miscellaneous taxes are extra taxes on the production of goods. Land lease taxes are levied on Government-owned lands, limited to the special area of the North-Eastern Provinces. No uniform rate of taxation of the districts is fixed yet, and so, with each particular case, the approval of the Provincial Government must be first obtained.

The administration of the *Gabelle* of the North-Eastern Provinces is the function of the Salt Comptroller at Yingkow, but actually the salt revenue is collected by the different inspectorates — the rate is \$6.00 for every 100 *kin*. The fee for the monopoly of tobacco and wine is collected at 6 per cent *ad valorem*, with an additional tax of 11 per cent *ad valorem*. The stamp duty is levied from one cent to a dollar. Consolidated taxes are collected in accordance with the regulations of the Central Government and business taxes are collected from 5 to 0.5 per cent. For the above three items, the Department of Finance for each province establishes special bureaux for their collection. Land taxes are collected at the rate of 15 cents to 3.3 cents per *mow*. Deeds for sale are taxed at 9 per cent and for long-term lease at 6 per cent. These two items are collected by the District Governments. Extra land taxes vary from 14.6 to 6.7 cents per *mow*. Miscellaneous taxes are of two classes: by value and by quantity, the highest is not to exceed 3 per cent. The financial bureaux in the district make the collection. House taxes are collected on the basis that for each *chien* or room of high class, 30 cents should be collected, and of lower class, 5 cents. The municipalities collect them.

This quotation shows the state of evolution in which Manchurian public finance found itself since 1928 and prior to September 1931, and information obtained on the spot even gives the impression that the Chinese Assessor's report is still too optimistic as to the extent to which the new regulations were applied.

*The Old Financial Organisation as it continued to exist in Manchuria until
September 1931.*

As old China lacked unity and centralisation in every field of State administration, so it lacked unity in its financial organisation. From the financial point of view, each governor was responsible for the finances of his own province, and only owed to the Emperor a certain contribution. How he collected the money for the needs of his province and for the imperial contribution was a matter of local custom. Moreover, there was no distinction between the public finances of the province and the governor's private finances. If he was a capable administrator — and there have been several governors of this type in Chinese history (one example was Wang Yung Chiang in Mukden Province, 1917-1925), he would approximately

balance revenue and expenditure and see to it that the people were not overtaxed. If he was not, the financial affairs of the province were conducted in a haphazard way and gave rise to all kinds of abuses. There was no proper budget system nor did there exist a proper system of assessment and collection. Further, the practice of collecting taxes according to the "contract"¹ system existed on a large scale, and besides that, owing to the absence of a properly unified budget system, it was a general habit to levy taxes of a temporary nature for local and "special" purposes. These latter taxes were not based on proper regulations, nor was there effective control over the way they were levied. Even the rate might vary according to the circumstances or to the whim and needs of the person levying them. There was no clear distinction between "duties" and "taxes" and often there was no proper nomenclature of commodities. The taxation system was so unwieldy that frequently the larger portion of taxation revenue was used to defray the costs of collection. Finally, it often happened that military authorities covered their financial needs by imposing tributes in an absolutely arbitrary manner. Since the revolution of 1912 and especially since the establishment of the National Government, serious attempts have been made to put an end to this situation, and more in particular to the "contract" system, by paying adequate salaries to officials and by the introduction of proper fiscal and budgetary methods. At the time of the enquiry these attempts had not yet met, in Manchuria at least, with considerable success.

It was impossible, during the relatively short time at the disposal of the Commission on the spot, to investigate in detail the fiscal and budgetary situation — which, although interesting in itself, has not had, with the exception of disputes about taxation in the railway areas, a direct bearing on the Sino-Japanese dispute² — and existing documentation corroborated by information obtained from reliable witnesses was felt to be sufficient for the purposes of the report.

In two Russian sources of information — one a publication by the Economic Research Bureau of the Chinese Eastern Railway, dated 1927, and the other a book entitled *Chinese Taxes in North Manchuria*, by A. E. Gerasimoff, dealing with the period prior to 1922 — some examples are found which illustrate the situation depicted above.³ They also show the harmful character of the existing conditions of public finance, from an economic point of view. According to reliable witnesses on the spot acquainted with the circumstances, these sources represent the most authoritative documentation on a state of affairs which continued to exist in 1931. A brief synopsis of some of these examples follows.

At the beginning of 1922, there existed at Anda on the western section of the Chinese Eastern Railway, between Harbin and Tsitsihar, the following taxes, which may be taken as typical of all North Manchuria :

- From ½ to 1½ cent per bag of grain or 40 cents per cart of grain products, for the requirements of the local garrison ;
- From 15 to 50 dollars from every house for the guarding of the village ;
- 50 cho (1/30 cent) per bag of grain for the Chinese Red Cross ;
- 24 cents per cart of grain for heating the garrison barracks ;
- From 50 to 200 dollars per month from bean-oil mills, for the transportation and transfer of troops ;
- From 30 to 150 cents per carload of transit export cargo, for food for the employees of the control barrier ;
- From 5 to 25 cents per bushel of grain for the Chinese welfare society ;
- 25, 50, and 65 cents per carload collected from the workmen's artel in connection with the loading, checking, and re-weighing of grain . . . (this tax was collected by the military authorities through the tax office. It is not known for what purposes it was collected).

The appraising of various commodities taxable *ad valorem* is reported to have been left to the collector, who often exercises simultaneously the functions of an Expert Judiciary in case of dispute, Police, and Fiscal, as indicated by his title, the result being that, for instance, two steers of the same weight would be appraised differently — one at \$40 and the other at \$100.

A carload of live cattle for which taxes had already been paid was transferred for technical reasons to another car. This car was held up by the tax official until a second tax was paid, for the "simple reason" that the cattle were unloaded, and, once unloaded, it became necessary (in the opinion of the official), that slaughter tax be paid, despite the fact that this

¹ Under the "contract" system, which has sprung up as a result of the fact that under the Empire the Chinese officials were generally underpaid, it had become a habit to allow the officials to use for their own private purposes a fixed proportion of the moneys they received in their official capacity. Thus, for instance, tax-collectors were allowed to keep part of the fiscal revenue they cashed ; judges, part of the fines they imposed, etc. It will be noted that in themselves these practices are not exclusively Chinese ; before the French revolution, similar measures were applied in many European countries, and even to-day remnants of them are still to be found in a systematised form in the consular services of certain States.

In the course of its enquiry, the Commission has noted that the term "contract" system was also applied to the practice of farming out the right of levying and collecting taxes to private persons or corporations who were supposed to cover their outlay from the levies and receipts.

Occasionally, the expression is also applied to the practice of selling certain posts, it being left to the official who bought the post to recover his outlay in various ways, mainly by imposing local duties and taxes.

² The indirect effect, however, was so much more important, as the economic life of the country was unfavourably influenced by this state of affairs and foreign interests, Japanese in particular, suffered accordingly.

³ See, on the same subject, H. B. MORSE, *The Trade and Administration of China*, third revised edition ; Longmans, Green and Co., London, 1920 ; EDWARD THOMAS WILLIAMS, *China, Yesterday and To-day*, 5th edition, 1927, revised, New York, Thomas Y. Cromwell Co. ; SRINIVAS R. WAZEL, *Finance in China*, North China Daily News and Herald Ltd., Shanghai, 1914.

particular lot of cattle was to be exported. Examples of this kind are numerous and can be found in the archives of the Chinese Eastern Railway, commercial firms, and foreign consuls.

A tax which was particularly harmful to the economic life of the country and which has been officially abolished by the National Government in 1931, but which in Manchuria, at least, virtually existed until well after the Mukden incidents, was the famous *likin*. The *likin* was an inland transportation tax levied on commodities under transport from one district to another. Its official rate amounted to from 2 to 3 per cent at the station of departure, and 2 per cent at each other station en route, thus amounting very often to from 15 to 20 per cent of the value of the commodities. For example, near Anda there were two taxation offices on a road 30 kilometres in length, and on another road of 160 kilometres there were 15 taxation offices.

Other very heavy taxes were those on grain and cattle, the former reaching occasionally from 12 to 16 per cent of the value, and the latter, 26 per cent, without counting the slaughter and veterinary tax.

Everywhere commercial firms, merchants' associations, the police, and certain military authorities were in the habit of levying taxes. In certain cases merchants' associations collected the *likin* or the grain tax and land tax. The revenue of these tax collections was generally used for schools, the police, charity, etc., while from 5 to 20 per cent served to defray the cost of the associations themselves or for the formation of a reserve capital.

These associations also paid for the upkeep of Soldiers' Inns belonging to the Government, levying a special tax for this purpose on certain commodities. The Harbin police were in the habit of levying 40 different kinds of taxes; for instance, on rowboats, cabs, junks, motor-cars, wood for construction and heating purposes, hay, restaurants, blacksmiths, laundries, porters, vendors, cattle, etc.

The river police levied taxes of its own — for instance, on passenger tickets on steamers.

When at the end of 1928 the three northern provinces threw in their lot with Nationalist China, the Central Government at Nanking tried to establish the financial relations with them on a new system it was trying to apply everywhere in the country, a short outline of which was quoted in the beginning of this memorandum. The traditional system in the provinces, however, was too strong to allow the new organisation to take hold immediately, and the old practices virtually persisted.

With the exception of Customs revenue, which since the establishment of the Chinese Maritime Customs had always been considered as a revenue belonging to the Central Government, all the income from taxation and other sources seems to have been left to the provincial authorities, and the Central Government could count only on those contributions which, as previously, the provincial authorities consented to make. This applied even to the salt revenue, which from 1913 to 1922 had been properly remitted to the central authorities, but which from the last year onward, owing to the increasing state of disturbance in the country, had been withheld by the provincial authorities. Since 1929 the Ministry of Finance in Nanking had succeeded in making arrangements with a certain number of provinces, including the Manchurian provinces, under which they contribute by a quota system to the amount of money necessary for the payment of principal and interest of the loans secured on the salt revenue. The bulk of the locally collected salt revenue, however, continued to be retained by the Manchurian authorities under an arrangement balancing this revenue with a contribution the Central Government had consented to make for the upkeep of the armies of Marshal Chang Hsueh-liang.

Thus conditions in Manchuria in 1931 were still practically the same as the preceding description depicted them. Certain recent cases and examples to this effect were brought to the attention of the Commission, and the impression is confirmed by the list of taxes existing in Mukden Province as stated in the 1931 *Year-Book* of the North-Eastern Provinces. This tax list is reproduced in Annex I.

Exceptions to the General Conditions.

For the sake of completeness, it should be mentioned that the public finance situation dealt with in this memorandum does not prevail in either the Kwangtung Leased Territory or in the South Manchuria Railway Zone, both of which are under Japanese jurisdiction and governed according to Japanese administrative practices. The special railway zone along the lines of the Chinese Eastern Railway was abolished in 1920 and from that time onward the Chinese, White Russian and other residents not enjoying extra-territorial rights have been subjected to the Chinese financial and fiscal legislation. In certain towns, foreign residents of the latter category seem to have succeeded in making special arrangements for the payments of their taxes with the local authorities. The White Russian population in North Manchuria complained quite specially about Chinese taxation methods, alleging that they were treated even worse than the Chinese population, as they had not the same faculty nor the opportunity to negotiate with the tax-collectors. In certain towns, it was found that foreign residents enjoying extra-territorial rights had consented to make voluntary contributions to the local treasuries.¹

¹ With regard to extra-territorial rights in "Manchukuo", the authorities have made the following statement in a document submitted to the Commission and entitled *A General Outline of Manchukuo*:

"The extra-territoriality which Powers hold against the Republic of China is not an obligation of international law that "Manchukuo", which is not recognised by the Powers, should bear as one transferred from the Republic. But in view of the incomplete state of the present judicial system, the Government practically allows its application for the benefit of alien residents.

"The Government intends to negotiate with the Powers regarding the abolition of the extra-territoriality which is now actually being maintained, when a satisfactory condition of laws and their enforcement are brought about and when the lives and property of foreign residents in the State are safeguarded."

*Budgets of the North-Eastern Provinces prior to September 1931.*¹

Amongst the many evils of Chinese and Manchurian financial methods, absence of publicity was one of the most characteristic, and therefore information of a budgetary and fiscal nature is extremely scarce. Considering, moreover, that the little information that was made available was usually given by authorities immediately interested and concerned, and who were not subject to any effective control, no figure can be accepted without reserve. As a matter of fact, even the most sincere effort to produce reliable financial statements would have met with failure owing to the complete absence of regular methods or records concerning revenue and expenditure.

Turning to Annex II, the first impression gathered from a comparison of the five tables reproduced therein is the absolute hopelessness of coming to any precise conclusion as to the actual amount (or even in the vicinity of the actual amount) of revenue and expenditure of the provincial administrations.

In Table I, the Chinese Assessor, who must have had at his disposal the best official information available, supplied the Commission with figures which he gives as showing "in general the financial conditions of the North-Eastern Provinces" — but they rather give the impression of representing a situation the authorities hoped some day to establish. First of all, it will be observed that these figures do not represent the budget of a specific year, but relate apparently to an indefinite period. Furthermore, the figures are stated in terms of Mexican dollars, without any reference to the varying values of the different currencies used in the three provinces.²

Table II, obtained from the South Manchuria Railway Economic Research Bureau, which may be considered as the best source of economic and financial information in Manchuria, also mentions \$113,000,000 Mexican as revenue (comparing with Table I) but puts the expenditure at \$144,000,000 Mexican which does not compare with Table I.

Table III, quoted from a document submitted by the "Manchukuo" authorities chiefly in answer to questionnaires left them by the Commission, puts the total revenue from taxation only, without apparently counting revenue from provincial enterprises, etc., at \$94,500,000 Mexican.

Table IV represents an estimate of financial conditions as given in the Japanese-edited Manchurian *Year-Book* for 1929. The total revenue, inclusive of taxation, revenue from provincial properties, and opium (which is not mentioned in any other figures), but exclusive of the salt *Gabelle*, is \$83,385,700 Mexican and the expenditure amounts to \$62,000,000 (after converting the figures as given in local currency to Mukden silver tayang, which is equivalent to the silver dollar).²

Finally, Table V, which has been reproduced from the *Year-Book* of the North-Eastern Provinces, referring to Mukden Province *only*, shows figures which are obviously irrelevant, but which serve as another example of the kind of information available on the subject.

Leaving Table V, then, out of consideration, the figures for revenue and expenditure in Tables I, II, III and IV are still at variance, ranging from approximately \$83,000,000 Mexican to \$113,000,000 Mexican as to revenue. Whether the figure of \$113,000,000 in Tables I and II is merely coincidence or not is impossible to say, because of the entirely different way in which the totals have been obtained. Similarly, the difference between the other tables cannot be verified for the same reason.

Expenditure ranges from approximately \$62,000,000 to \$144,000,000 Mexican, an even greater discrepancy than in the case of revenue. Detailed information as to how these figures have been arrived at is given only in Table II and cannot be compared with any other table.

Turning to details of revenue, one finds that even important items such as the salt *Gabelle* are not the same, Tables I and III putting this revenue at about \$30,000,000 Mexican, which from other information on the same subject appears to be a correct figure. Table II puts the salt revenue at \$45,000,000 Mexican. Table IV does not include it at all. The figures for the tobacco and wine tax are entirely different in all four tables. It seems futile to attempt any further comparison, which anyway cannot serve any useful purpose, because of the apparent lack of reliability of any of the tables.

On the expenditure side there is one outstanding feature, and that is the strikingly high figure for military expense, ranging from \$52,000,000 Mexican in Table IV to \$98,000,000 Mexican in Table II, while the Chinese Assessor, in Table I, puts the figure at \$84,000,000 Mexican. Although the amounts in dollars show a rather wide range, in percentage of the total expenditure of each table there is a closer relationship, the percentages being 73.4 per cent in Table I, 77.7 per cent in Table II, and 83.8 per cent in Table IV. It has been impossible to

¹ With regard to the province of Jehol, which since 1929 has been part of the North-Eastern Provinces, so little information of a financial nature is available that it has not been included in the comparative budgetary study. The Harbin Special District has also been left out because of the relative unimportance of its budget figures as compared with those of the provinces.

² According to the table on currency in Manchuria at the end of December 1929, attached to the *Memorandum on Currencies of the North-Eastern Provinces*, the exchange rate against 100 silver dollars was:

| | |
|--|-----|
| Mukden tayang notes | 100 |
| Kirin tayang | 145 |
| Harbin tayang (in which figures for Heilungkiang are quoted) | 140 |

verify which of these figures closely approximates the true situation, but the conclusion may be safely drawn that the general complaint in the North-Eastern Provinces as to the excessive height of military expenditure is justified.

Finally, it is important to note that Table I shows a balanced budget, Table II shows a deficit, Table III gives no expenditure figure, and Table IV shows a surplus.

Whether or not there was an actual deficit is, of course, impossible to state, in the absence of a proper budget system. According to the impressions of generally well-informed observers on the spot, the administration occasionally found itself in the presence of an empty treasury, in which case cash was obtained either by more or less "forced" loans from local merchants and bankers, or by using revenue from railroads, mining enterprises, public utilities, or by the issuance of inconvertible currency.

Impossible to ascertain Fiscal Burden from Available Figures.

The total fiscal burden of the Manchurian population could not be computed from any of the figures given, even if they were accurate, as local taxes, the amount of which is unknown, are not included. Moreover, the Customs revenue is not counted either, which for Manchuria in 1919 represented 22,400,000 Haikwan taels, or 14.7 per cent¹ of the total revenue of the Chinese Maritime Customs of that year. Considering, finally, that the population of Manchuria, estimated at 30,000,000, is not exactly known, and that any calculation as to the revenue of this population is out of the question for lack of data, any estimate as to the fiscal burden *per capita* must be considered as impossible.

Section II.

FISCAL AND BUDGETARY REFORM PLANS OF "MANCHUKUO".

From the "Manchukuo" documentation previously referred to, it appears that the "Manchukuo" Government has planned a complete reform of Manchuria's public finance system for the purpose of doing away with the old situation and replacing it by a system of modern taxation and budget machinery, thus paralleling the intentions of the Chinese National Government. To what extent this reform plan is on its way of application at the moment of writing this memorandum is extremely difficult to say. It is evident that much depends on the development of general political conditions in the country, which at this moment are more confused than ever.

The main provisions of the plan are as follows :

1. The provinces are to be abolished as units of financial administration. There will be one general State budget and, besides, Prefectures and cities will have each one local budget, to be based upon taxes fixed by the Central Government. As a rule, expenditure of these local communities is to be based on their own financial resources.

2. All public funds (of the State, Prefectures, and cities) are to be transacted through a National Treasury. Prefectures and cities will not be allowed to balance revenue and expenditure on their own responsibility. The Treasury will keep its funds on deposit with the Central Bank of "Manchukuo".

3. The organs of the financial administration will be as follows :

(a) The Chief of General Affairs Bureau of the State Council will supervise the budget of the Government.

(b) The Finance Minister of the State Council will supervise taxation, Government monopolies and all other revenues, and subordinate organs such as the Customs Offices, the Revenue Superintendent Offices, the Taxation Bureaux, the Salt Transportation Offices, the Supervisory Bureau of Salt, the Bureau of Saltpetre, and the Public Sale Stations of Powder. He shall also control currency circulation and Government property.

(c) Financial affairs of a Prefecture or a city will be managed by the respective Financial Bureau of a Prefecture or that of a city.

4. The system of taxation under the "Manchukuo" reform plan aims at more uniformity, more stability, more economic justification, and at an elimination of the irregularities of assessment and collection which characterised the old methods. It is not intended to change the existing proportion between direct and indirect taxation estimated by the "Manchukuo" authorities at 25 and 75 per cent respectively. On the contrary, these authorities realise that in a country in the state of economic development of Manchuria, the bulk of taxation revenue will still have to come for a long time from indirect taxation. It is proposed to transfer a part of direct taxation to the Prefectures and cities. Other taxes with their corresponding surtaxes for military expenditure, etc., are to be abolished, while a third category of taxes is to be reduced by one-half.

¹ The Finance Ministry at Nanking mentions 15 per cent as an average over the past five years.

In Mukden Province, the amount of transferred taxes is estimated at :

| | | Mexican Dollars |
|-----------------------------------|-----------|-----------------|
| | | 6,045,000 |
| Abolished taxes | 775,000 | |
| Reduced taxes | 5,973,000 | 6,748,000 |
| <hr/> | | |
| In Kirin Province, | | |
| Abolished taxes | 2,922,000 | |
| Reduced taxes | 608,000 | 3,530,000 |
| <hr/> | | |
| In Heilungkiang Province, | | |
| Abolished taxes | 60,000 | 60,000 |
| <hr/> | | |
| Making a grand total of | | 16,383,000 |

These amounts are based on revenue figures for 1930.

Transitory Comparison.

To show the difference between the old situation and the one which "Manchukuo" authorities suggest should apply during the first year of the new State, they have composed three tables appearing in Annex III as Tables VI, VII and VIII.

Table VI shows the taxes and the amount of income according to the "Manchukuo" Government, as it was under the old regime (probably referring to the year 1930, but not clearly stated in the document). This table has already been given in Annex II, but is reproduced again for the sake of comparison.

Table VII, as explained by its footnotes, shows the probable amounts of income as readjusted after the Mukden incident for the province of Mukden, while the figures for Kirin and Heilungkiang have not yet been readjusted. The table probably pictures the situation as "Manchukuo" understood it to have been in 1931, which would account for the difference in the Kirin and Heilungkiang figures as compared to the corresponding items for 1930 in Table VI, but this is not clearly stated either.

Table VIII contains a rough estimate of the revenue for the first fiscal year of the new State. Comparing Tables VI and VII, one gets a picture of the fatal influence which, according to the Mukden Committee for Preservation of Local Peace and Order, the disturbed state of affairs since September 1931 was feared to exercise on the provincial finances. The decrease in revenue from \$61,000,000 Mexican to \$19,500,000 appears indeed disastrous, considering that, at the time the latter estimate was made, there had not yet been any transfer, abolition or reduction of taxes. This raises the question as to whether or not the abolition and reduction of taxes decided upon at a later stage by the "Manchukuo" authorities was really planned or the result of circumstances to which the new authorities had to conform.

Tables VI and VIII are only partially composed of the same items and consequently their totals are not comparable, but certain individual taxes are. The great reductions are found to be in the salt revenue, universal tax, production tax, mining tax, and the deed tax, while the tax on tobacco and wine has been slightly raised (for no accountable reason), the stamp duty having remained about the same. It has not been possible to obtain from the "Manchukuo" authorities detailed information as to how these estimates have been calculated, and, from a close comparison of the items on the three tables, one gains the impression that the "Manchukuo" authorities appear to have been more optimistic than the Mukden Committee of Local Peace and Order. An explanation is perhaps to be found in a statement in the "Manchukuo" documentation previously referred to, to the effect that, while it will not impose additional taxes, it nevertheless hopes to increase the State revenue available for constructive purposes by a better organisation of the budget and taxation system. It also counts on a reduction of military expenditure and on the revenue of the Manchurian Customs offices which under the old regime was reserved for the Central Government in Nanking. It even expects, once peace and order are established, and revenue restored to normal conditions, a budget surplus.

Considering that, although formerly it was impossible to have any idea of Manchuria's fiscal capacity, the country produced with inefficient fiscal methods an approximate revenue from provincial taxation ranging from \$81,000,000 to \$113,000,000 Mexican (without Customs revenues and local taxes), this optimism may perhaps justify itself, providing that peace and order are re-established and general economic conditions improve. Even then would remain, however, the problem as to the level on which "Manchukuo" will stabilise its budget, and it is to be feared, in view of its high-sounding ideals, that it will not be a low one.

In the meantime, the "Manchukuo" Government has not been able to avoid a deficit on its first year's estimate budget. After having estimated its total revenue at nearly \$65,000,000 Mexican (see Table VIII), it estimates its total expenditure, after having left out all expenses not urgently needed, at \$85,500,000 Mexican (see Table IX below), leaving a deficit of approximately \$20,500,000, "This deficit", it is said in the document, "will have to be made up by a loan from the Central Bank". As to the conditions under which it was intended to contract such a loan, no information has been furnished.

Table IX.

EXPENDITURE OF THE FIRST YEAR OF TATUNG.

Ordinary Expenditure.

| | Mexican Dollars |
|--|---------------------|
| Chief Executive Office | 1,000,000 |
| Privy Council | 300,000 |
| Legislative Council | 300,000 |
| Supervisory Council | 900,000 |
| General Affairs Board | 1,200,000 |
| Legislative Bureau | 420,000 |
| Advisory Bureau | 1,200,000 |
| Hsingan Bureau | 1,200,000 |
| Department of Civil Affairs | 8,700,000 |
| Department of Foreign Affairs | 600,000 |
| Department of National Defence | 30,600,000 |
| Department of Finance | 9,960,000 |
| Department of Industry | 780,000 |
| Department of Communications | 720,000 |
| Department of Justice | 4,476,000 |
| Capital Construction Bureau | 480,000 |
| Allowances to Local Government | 5,000,000 |
| Reserve | 5,000,000 |
| Total | <u>\$73,076,000</u> |

Temporary Expenditure.

| | |
|--|---------------------|
| Subscription for Central Bank Shares | 7,500,000 |
| Hulutao Construction | 4,000,000 |
| Payment of Debts of the old Government | 1,000,000 |
| Total | <u>\$12,500,000</u> |
| Grand total | \$85,576,000 |

With regard to the revenue from Customs, the "Manchukuo" Government has declared that it "recognises the interest of creditor Powers" and that it is prepared to take over a proportional portion of the foreign loans which China has contracted with the Customs revenue as security. As far as it has been able to ascertain, this means that the new State would assume responsibility for a fraction of the service of these loans equal to the proportion of Manchurian Customs revenue to the total Chinese Maritime Customs Revenue. (Approximately 15 per cent, as noted before.)

The Government gives a similar assurance with regard to the service of foreign loans secured on the revenue of the salt *Gabelle*. In neither one nor the other case does it say anything, however, about the domestic loans secured on both sources of revenue.

As far as the estimated revenue from Customs is concerned, the Government gives the assurance that the amount of \$19,000,000 Mexican, as mentioned in Table VIII in Annex III, will be available after the amount allotted for the service of foreign loans has been fully paid. It has not been possible, however, to obtain the exact data on which this assurance was based.

The Government has not given any detailed explanation, either, as to the way in which it has reached the figure of \$15,000,000 Mexican for the estimated revenue of the salt *Gabelle*. As compared to a revenue of \$31,000,000 under the old regime, an estimate of \$15,000,000 seems at first sight fairly conservative.

On the other hand, it will be noted from Table VII in Annex III, that the Mukden Committee for Preservation of Local Peace and Order had estimated the revenue of the salt *Gabelle* at \$10,000,000 Mexican. In this connection, it should be noted that the Mukden figures in all cases include the salt revenue from Kirin and Heilungkiang, where no salt is produced and which, consequently, receive this commodity from Mukden province. Naturally the question arises whether the figure of \$15,000,000 and even that of \$10,000,000 has been fixed after the necessary amount has been set aside for the service of the loans secured by the *Gabelle*, but it has not been possible to get any information on this subject. At the same time, the revenue from the salt *Gabelle* naturally depends on the rate of duty on this commodity which, under the Chinese regime, has been steadily raised to \$6.30 Mexican per picul, a very high rate which it seems desirable to reduce.

Finally, it must be noted that the estimate of expenditure does not contain any specific item for foreign loan service. The figure of \$1,000,000 Mexican inserted under the temporary expenditure for payment of debts of the old Government is understood to represent part of a far more considerable sum (the amount of \$12,000,000 Mexican has been mentioned) which the Government owed to private firms of various nationalities, including Japanese. Nor is any visible provision made for educational purposes.

With regard to military expenditure, it will be noted that the estimate of expenditure for the Department of National Defence amounts to \$30,600,000 Mexican, representing 41.8 per cent of the ordinary expenditure and 35.7 per cent of the total expenditure,

thus showing a considerable reduction in proportion and actual value as compared to the situation under the Chinese regime. On the other hand, it has not been possible to ascertain whether this amount contains any reimbursement to the Japanese Government for military assistance rendered by the Japanese army or whether it is solely intended for the upkeep of the "Manchukuo" army.

Another point which remains vague in the estimate of expenditure is the amount of \$7,500,000 Mexican provided for Government subscription of shares in the Central Bank, whereas, according to the information supplied by the "Manchukuo" Government in another chapter of this document, the Central Bank will be a joint-stock company with a capital of \$30,000,000 Mexican, *half* of which will be subscribed by the Government, while the rest will be sold to the general public whenever necessary, though the time and method of selling the shares have not been decided upon. This statement leads to the supposition that the Government would subscribe for \$15,000,000. The budgetary provision for only \$7,500,000 gives the impression that it has been decided either to reduce the capital of the Central Bank by half or to issue only half of the shares, for the time being. This is another point, of the highest importance from the monetary point of view, on which it has not been possible to obtain the necessary clarity.

Section III.

CONCLUSIONS.

When, in September 1931, the Sino-Japanese dispute now under investigation came to an outbreak in Mukden, the conditions of public finance in the Manchurian Provinces were essentially similar to those of China proper. The only difference was that since the financial reform plans promulgated by the National Government at Nanking, in 1928, certain provinces under the immediate control of the Government were probably in a more advanced stage of financial re-organisation than those of Manchuria, which, up to the end of the same year, had remained aloof from the revolution and where the practice of local autonomy was even stronger than in other parts of the Republic.

The Financial Situation of the North-Eastern Provinces between 1928 and 1931.

Nevertheless, the new official regulations did apply to the North-Eastern Provinces and some attempt was made to put them into practice. Beneath the surface, however, old conditions — in the form of an endless number of varying duties and taxes without system and very often without any economic justification, arbitrarily assessed and collected — still prevailed.

The same applied to the way in which the public money, once collected, was spent. There was no proper budget system, no treasury accounts, and no effective control or audit. As is shown in the comparison of the figures available, it is impossible to get any clear idea of the financial situation of the North-Eastern Provinces.

The revenue of the three provinces, without counting the local and miscellaneous taxes (the total revenue of which has apparently escaped any evaluation) varies from \$81,000,000 to \$113,000,000 Mexican in 1929, while the expenditure figures vary from \$62,000,000 to \$144,000,000 in the same year. There seems to have been a deficit as between revenue from taxation, and expenditure, but even this is not certain, as is evidenced by the different conditions shown in the available statements — deficit, surplus, and balanced. However, certain practices such as "forced loans", use of revenue from railways, mines, and public utilities, and the issue of inconvertible currency make it likely that there was expenditure which could not regularly be covered by revenue from taxation. A general feeling prevailed in the provinces that expenditure was too high as compared to the country's economic strength, and in particular that the amounts spent for military purposes (approximately 80 per cent of the total expenditure) was excessive.

Economic Effect of Prevailing Financial Conditions and their Claim on Foreign Interests.

Although again in the absence of proper data it is out of the question to estimate in a precise way the harm done by these fiscal and financial conditions to the economic life of the country, it is certain that taxes, chaotic in their absence of proper definition and nomenclature, irregularly assessed and collected discourage business enterprise; and expenditure practices which did not allow the money collected to be used in constructive purposes for the benefit of the people are also negative factors. Thus there can be hardly any doubt but that Manchuria's economic development could have reached a higher level and its population a greater degree of prosperity if it had not been retarded by defective public finance.

The state of affairs as pictured in the present memorandum was not, as such, an object of Sino-Japanese controversy.¹ Indeed, Japanese residents of Manchuria, like other foreigners enjoying extra-territorial privileges, were not directly subject to these irregularities of taxation. However, Manchuria has exerted an attraction more than that of any other part of China (with the exception of the Treaty Ports) to foreign enterprise, and in particular to Japanese enterprise, and consequently these foreign interests, especially Japanese, were bound to suffer from the adverse effect of this defective financial system on the Chinese population.

¹ The controversy about taxation in the railway areas has been dealt with separately in the report.

Quite independent of any political consideration it should be pointed out that, if the Chinese National Government, or "Manchukuo", or any regime could succeed in establishing Manchurian finances on an orderly basis, taking into account the economic needs of the country, a considerable service would be rendered to the native population as well as to foreign economic and financial interests established there. In such an eventuality, Japanese interests, being the most extensive amongst the latter, would naturally reap the major share of benefit.

The Reform Plans of "Manchukuo".

Considered on their merits, the financial reform plans announced by the "Manchukuo" authorities make an excellent impression as a declaration of principles and an announcement of good intentions. Doubt may be expressed, however, as to whether they have been planned sufficiently in conformity with the special conditions and requirements of the country, and whether they do not pre-suppose the existence of a morally and materially higher developed community life than actually exists.

To build up the "Model State" which, according to the Proclamation of Foundation, "Manchukuo" intends to create in Manchuria — a country with a well-organised and well-paid administration, where justice is rendered and crime punished; with good schools and proper sanitary conditions — is certainly a most attractive, ambitious, and very costly plan. The low standard of living of Manchuria's native population, coupled with the correspondingly low fiscal capacity (although this cannot be expressed in figures) must necessarily prevent, for several years at least, the application of these plans from going far beyond the experimental stage.

"Manchukuo" expects great financial progress from :

1. Better fiscal and budgetary methods ;
2. Lower military expenditure ;
3. The use of that part of the Customs revenue which is not taken up by the loan service.

As far as better fiscal and budgetary methods are concerned, hope is indeed justified that they will produce a better return than that of previous years.

Military expenditure has been estimated at a figure considerably lower than under the old regime. However, the new authorities have accepted Japanese military support, and it is not evident whether they have to indemnify the Japanese treasury in this connection or whether this assistance is given free of charge. At any rate, the military expenditure will depend in the future on the general political situation, and no one can tell at this moment in what direction this situation will develop. It would seem unjustified, however, on the part of the "Manchukuo" authorities to plan from now onward a low military expenditure, considering the present uncertainty.

The Customs revenue of \$19,000,000 Mexican (if this can definitely be counted upon as the amount available after deduction of the "Manchukuo" share in the loan service) actually provides a revenue which the previous local authorities did not have, and, as such, is a new and favourable element in the budgetary situation of the North-Eastern Provinces.

On the other hand, there are certain important considerations which decidedly forecast a reduction in revenue. One is the general economic depression; another, the disturbed state of the country, which is bound to react unfavourably on its fiscal capacity; and, quite apart from these two factors, a third — the necessity, recognised by the "Manchukuo" authorities, of lowering a tax burden which, even in prosperous years, was felt to be too high.

In view of these considerations, and a deficit already indicated for the first fiscal year of \$20,500,000 Mexican, it is a question whether "Manchukuo" can expect to find the necessary credit for the purpose of tiding over its financial difficulties. Considering the unsettled state of affairs now prevailing, it is difficult from a financial point of view to say that the new State offers much security for any loans. There is, of course, the possibility that Japanese banks, as has happened once already,¹ are prepared, with some form of Government guarantee, to advance the necessary amount to the Government at Changchun. This would of course be a transaction of a political rather than a financial nature. Even this possibility was apparently not available, however, for the purpose of covering the budget deficit, or certainly the Government would not have resorted to the dangerous expedient of borrowing an amount equal to nearly a-third of its revenues and a-quarter of its expenditure from its own National Bank, which at the time of the announcement of such intentions was not yet even established.

Summarising, it may be said that the financial situation of the three North-Eastern Provinces under the present regime seems to justify the hope that it will be possible to put the budgetary and fiscal methods on an orderly basis, on the condition that general political and economic conditions allow the introduction of the necessary reforms. As to the level on which it may be possible to balance the new budget, it seems hardly reasonable to expect that the country will be able to live on a much higher standard than the one to which it was used under the Chinese regime — unless, of course, the Japanese Government is prepared to cover regularly returning deficits with the help of grants from the Imperial Treasury as it is in the habit of doing in the Kwantung Leased Territory².

¹ According to information from the Japanese Press, corroborated by information collected on the spot, two Japanese banking institutions, Mitsui and Mitsubishi, acting on Government instigation and Government guarantee, opened a credit of 20,000,000 yen with the bank of Chosen for the Government of "Manchukuo" in the spring of this year. The exact terms of this arrangement have never been made public.

² The "Third Report on Progress in Manchuria" states, under the heading of "Finance of the Kwantung Leased Territory" :

"The principle is that the Government expenditure be defrayed from the revenue derived from this province, and that, if any deficit should occur, it is to be met with a grant from the Imperial Treasury of the Home Government."

A table in the same publication shows that for the last twenty-four years the Kwantung Government has enjoyed an annual grant amounting to from two to four million yen each year on a total expenditure of approximately three and a-half million yen in 1908 to twenty-two million yen in 1932.

ANNEX I.

(Translated from the *Year-Book of the North-Eastern Provinces, 1931.*)

A. NATIONAL TAXES.

| | | | | |
|-----|---|----------|----------|-------------------|
| 1. | Production tax — grains | 1-2 | per cent | <i>ad valorem</i> |
| | other goods | 3 | " | " |
| 2. | Sales tax | 4 | " | " |
| 3. | Bean tax | 5 | " | " |
| 4. | Food-oil tax | 5 | " | " |
| 5. | Ginseng tax | 5.5 | " | " |
| 6. | Tobacco tax | 11 | " | " |
| 7. | Wine tax | 11 | " | " |
| 8. | Wood tax | 7.26 | " | " |
| 9. | Silk tax | 4.2 | " | " |
| 10. | Mine tax | 5 | " | " |
| 11. | Import duties on goods from Korea | 5 | " | " |
| 12. | Mongol salt tax — 5 yuan per 100 catty. | | | |
| 13. | Fines (not over 5 times the tax rate) | | | |
| 14. | Special wine tax | 20 | " | " |
| 15. | Fines from special wine tax. | | | |
| 16. | <i>Likin</i> . ¹ | | | |
| 17. | Machine-made foreign goods tax | 5 | " | " |
| 18. | Coal tax. | | | |
| 19. | Match tax | 15 cents | | per box |
| 20. | Cigarette tax. | | | |

B. PROVINCIAL TAXES.

| | | | |
|-----|---|------------|----------------------------|
| 1. | Land taxes — first-grade land | 15 | cents per mu |
| | second-grade land | 11 | " " |
| | third-grade land | 6.6 | " " |
| | sandy land | 3.3 | " " |
| 2. | Title deeds tax | 4-6 | per cent <i>ad valorem</i> |
| 3. | Administrative fines and police fines. | | |
| 4. | Wine and tobacco licence fee | 2-8 | yuan |
| 5. | Gold and silver licence fee | 5-1,000 | yuan |
| 6. | Scissor tax (for raising wild silk worms) | \$10-\$ 20 | each |
| 7. | Pawnshop tax | \$50-\$100 | per year |
| 8. | Additional tax on wine and tobacco | 20 | per cent |
| 9. | Cattle tax | 6 | " <i>ad valorem</i> |
| 10. | Sulphur tax | 2 | " " |
| 11. | Ship tax | \$2.50 | each year " |

C. LOCAL TAXES.

| | | | |
|----|---|---------|-------------------|
| 1. | Land taxes : | | |
| | (a) first-grade land | 14.6 | cents per mu |
| | (b) second-grade land | 14 | " " |
| | (c) third-grade land | 13.4 | " " |
| | (d) sandy land | 6.7 | " " |
| 2. | Licence tax on cars : | | |
| | (a) car using more than 4 animals | 8 | dollars |
| | (b) " " " " 3 " | 5 | " |
| | (c) " " " " 2 " | 3 | " |
| | (d) " " less " 2 " | 1 | " |
| 3. | Miscellaneous taxes : | | |
| | (a) Butchery tax — for sheep | 0.50 | dollars per month |
| | " hogs | 1.00 | " " |
| | " cattle | 4.00 | " " |
| | (b) Meat tax—for sheep | 0.50 | " " |
| | " hogs | 1.00 | " " |
| | " cattle | 2.00 | " " |
| | (c) Business tax | 0.1-0.4 | per cent. |

¹ The *Likin*, an inland transportation tax well known to students of Chinese taxes as particularly harmful to the economic development of the country, has been officially abolished as from January 1st, 1931. To what extent this measure has taken effect in China proper is difficult to say. In the Manchurian Provinces the ban still existed at the moment of the Mukden incident, according to evidence given to the Commission.

| | | | |
|-----|--|------------|--|
| 4. | Licence fee for retailer's stands. | 0.20-2.00 | dollars |
| 5. | Prostitution tax. | 1.00-4.00 | " |
| 6. | House tax | 0.20-0.50 | " |
| 7. | Tax on grain | 0.05-0.10 | " per ton |
| 8. | Theatre tax. | | |
| 9. | Advertisement tax. | | |
| 10. | Market-place tax | 0.30-0.40 | " |
| 11. | Scissor tax | 3.00 | dollars per year |
| 12. | Carriage tax | 1.00-2.00 | dollars |
| 13. | Silkworm basket tax | 0.20-0.30 | " each |
| 14. | Rickshaw tax. | 0.50-0.60 | " |
| 15. | Sedan tax | 1.00 | dollar |
| 16. | Garden tax | 0.10-0.20 | dollars per mu |
| 17. | Brokers' tax | 0.50-0.60 | " |
| 18. | Cattle intestine tax | 5-6 | per cent <i>ad valorem</i> |
| 19. | Blood and hair tax (each hog) | 0.30-0.50 | dollar |
| 20. | Bridge tax. | | |
| 21. | Fur tax | 2-3 | per cent <i>ad valorem</i> |
| 22. | Fish tax | 1.5-2.2 | per cent <i>ad valorem</i> |
| 23. | Korean capitation tax (each family-year). | 4.00-10.00 | dollars |
| 24. | Wood tax. | | |
| 25. | Mountain products tax. | | |
| 26. | Cattle tax | 0.30-0.40 | dollar each year |
| 27. | Ginseng tax | 3-3.6 | per cent <i>ad valorem</i> |
| 28. | Household tax | 20-190 | dollars each year |
| 29. | Bean tax | 0.10 | dollars per tan |
| 30. | Ship tax | 0.05 | dollars per ton or 1.00-2.00 dollars per boat |
| 31. | Automobile tax | 1.00-6.00 | dollars each year |
| 32. | Coal tax. | | |

ANNEX II.

Table I.

BUDGET FOR THE THREE EASTERN PROVINCES.

(From information supplied by the Chinese Assessor's office with remarks that " the data are those after 1928, before which no data were available ".)

| <i>Income.</i> | | | | |
|----------------------------------|------------|----------------------------|--------------|-------------|
| | Mukden | Kirin (Mexican dollars) | Heilungkiang | Total |
| Salt <i>Gabelle</i> | 30,000,000 | | | 30,000,000 |
| Land tax. | 4,500,000 | 4,300,000 | 3,800,000 | 12,600,000 |
| Title deeds tax. | 1,000,000 | 1,000,000 | 800,000 | 2,800,000 |
| Business tax | 8,000,000 | 4,200,000 | 3,200,000 | 15,400,000 |
| General tax | 7,500,000 | 3,000,000 | 3,000,000 | 13,500,000 |
| Tobacco and wine production tax. | 15,500,000 | 11,000,000 | 8,000,000 | 34,500,000 |
| Stamp duty | 1,500,000 | 1,500,000 | 1,200,000 | 4,200,000 |
| Total income | 68,000,000 | 25,000,000 | 20,000,000 | 113,000,000 |
| <i>Expenditure.</i> | | | | |
| | Mukden | Kirin (Mexican dollars) | Heilungkiang | Total |
| Military expenses | 48,000,000 | 20,000,000 | 16,000,000 | 84,000,000 |
| Administration | 12,000,000 | 4,800,000 | 3,800,000 | 20,600,000 |
| Construction | 8,000,000 | 200,000 | 200,000 | 8,400,000 |
| Total expenditure | 68,000,000 | 25,000,000 | 20,000,000 | 113,000,000 |

Remarks : Taxes belonging to the National Government are taken into the budget for paying off military expenses.

The budgets for the Three Eastern Provinces must obtain the approval of the National Government.

The foregoing table shows in general the financial conditions of the North-Eastern Provinces. It may be observed that the budget is a balanced one. Before 1929, the expenditure of Kirin Province was less than its revenue ; and there was a surplus of \$7,000,000.

Table II.

THE BUDGET OF THE THREE EASTERN PROVINCES FOR 1930.
(Obtained from S.M.R. Economic Research Bureau.)

| <i>Revenue.</i> | | (Mexican dollars) |
|---|-------------|-------------------|
| Production taxes : | | 17,212,904 |
| Production tax | 10,485,295 | |
| Bean tax | 3,186,784 | |
| Oil-Plant tax | 206,756 | |
| Ginseng tax | 40,966 | |
| Wood tax | 2,022,959 | |
| Cocoon tax | 321,287 | |
| Mineral tax | 948,857 | |
| Consumption taxes : | | 67,502,089 |
| Salt tax | 45,884,301 | |
| Tobacco and wine monopoly fee | 1,396,323 | |
| Cigarettes tax | 5,360,355 | |
| Tobacco and wine tax | 2,969,027 | |
| Special wine tax | 35,786 | |
| Nitre tax | 202,024 | |
| Consumption tax | 11,654,273 | |
| Miscellaneous taxes : | | 5,537,437 |
| Tobacco and wine licence tax | 184,330 | |
| Live-stock tax | 2,701,364 | |
| Carriage licence tax | 694,788 | |
| Stamp tax | 1,956,955 | |
| Fees : | | 3,373,254 |
| Contract tax | 2,811,663 | |
| Licence tax | 239,271 | |
| Various fines | 322,320 | |
| Revenue from Provincial enterprises | | 715,048 |
| Miscellaneous revenue | | 19,101,905 |
| Total revenue | | 113,442,637 |
| <i>Expenditure.</i> | | |
| Finance | 18,867,717 | (13.1 per cent) |
| Army | 98,554,951 | (68.3 " ") |
| Foreign Affairs | 206,126 | (0.1 " ") |
| Education | 4,703,080 | (3.3 " ") |
| Home Affairs | 5,606,826 | (3.9 " ") |
| Judicature | 1,395,561 | (0.9 " ") |
| Construction | 339,251 | (0.2 " ") |
| Agriculture and Commerce | 154,240 | (0.1 " ") |
| North-Eastern Political Committee | 700,500 | (0.5 " ") |
| Unforeseen ¹ | 13,700,553 | (9.6 " ") |
| Total expenditure | 144,228,805 | |

Table III.

KINDS OF TAXES AND THE AMOUNT OF INCOME FROM TAXATION IN THE OLD REGIME.
(From "A General Outline of Manchukuo" by the Department
of Foreign Affairs "Manchukuo", Changchun.)
Probably for the year 1930.

| | Mukden | Kirin (Mexican dollars) | Heilungkiang | Total |
|----------------------------|------------|----------------------------|--------------|------------|
| Salt revenue | 31,382,000 | | | 31,382,000 |
| Tobacco and wine | 2,299,000 | 589,000 | 416,000 | 3,304,000 |
| Universal | 3,693,000 | 1,390,000 | | 5,083,000 |
| Production | 6,637,000 | 8,596,000 | 3,255,000 | 18,488,000 |
| Market | 7,272,000 | | 2,172,000 | 9,444,000 |
| Mining | 643,000 | 208,000 | 91,000 | 942,000 |
| Stamp duty | 1,140,000 | 76,000 | | 1,216,000 |
| Deed | 815,000 | 1,835,000 | 505,000 | 3,155,000 |
| Land | 4,103,000 | 3,620,000 | 1,731,000 | 9,454,000 |
| Trade | 155,000 | 2,200,000 | 1,837,000 | 4,192,000 |
| Cattle | 1,128,000 | 645,000 | 241,000 | 2,014,000 |
| Miscellaneous | 1,931,000 | 3,962,000 | | 5,893,000 |
| Total | 61,198,000 | 23,121,000 | 10,248,000 | 94,567,000 |

¹ Unforeseen is used for military purposes.

Table IV.

ESTIMATED STATEMENT OF FINANCIAL CONDITION OF THE THREE EASTERN PROVINCES
AS GIVEN IN THE MANCHURIA YEAR-BOOK FOR 1931.

(Figures are estimates for 1929 and all prefaced by remark that " it is impossible to state the financial condition of the Three Eastern Provinces in exact figures".)

| | <i>Revenue.</i> | | | |
|------------------------------------|---------------------------|---|---|---|
| | Mukden (Silver tayang) | Kirin (Yungheng tayang) | Heilungkiang (Harbin tayang) | Total (in units of Mukden silver tayang) |
| Land tax | 3,000,000 | 4,780,000 | 1,437,918 | 11,944,200 |
| Tungsun (production and factory). | 5,140,000 | | | 5,140,000 |
| Other taxes | 2,080,000 | 5,170,000 | | 9,576,500 |
| Goods tax | | 12,570,000 | 7,046,343 | 28,090,900 |
| Miscellaneous | 2,680,000 | 980,000 | 1,147,376 | 5,706,800 |
| Wine and tobacco. | | | 590,224 | 826,313 |
| Revenue from Provincial properties | 2,100,000 | | | 2,100,000 |
| Peking-Mukden Railway | 10,000,000 | | | 10,000,000 |
| Opium revenue | 10,000,000 | | | 10,000,000 |
| Total | 35,000,000 | 23,500,000 (34,075,000) Mukden tayang | 10,221,861 (14,310,700) Mukden tayang | 83,385,700 |
| | | <i>Expenditure.</i> | | |
| Military | 30,000,000 | 11,000,000 | 4,391,844 | 53,090,000 |
| Other | 2,600,000 | 4,000,000 | 1,961,879 | 10,155,000 |
| Total | 32,600,000 | 15,000,000 (21,750,000) Mukden tayang | 6,353,723 (8,895,000) Mukden tayang | 63,245,000 |

Table V.

A TABLE SHOWING THE REVENUES OF THE FINANCE DEPARTMENT OF MUKDEN PROVINCE,
AND THE DIFFERENT ITEMS OF EXPENDITURE, FOR THE YEAR 1928.

(Translated from the *Year-Book of the North-Eastern Provinces*, 1931.)

| | <i>Revenue.</i> | | <i>Expenditure.</i> | |
|---|-----------------|-----------------|-----------------------------|-----------------|
| | | Mexican dollars | | Mexican dollars |
| Land tax | 5,750,249 | | Diplomatic expenses. | 2,918,663 |
| Production | 58,990,710 | | Internal affairs | |
| Beer | 93,410,291 | | expenses | 79,313,763 |
| Food oil | 7,004,366 | | Financial administra- | |
| Sales | 199,135,882 | | tion expenses | 63,043,314 |
| Wood. | 22,643,411 | | Military expenses | 429,623,819 |
| Silk. | 5,766,459 | | Judicial expenses | 24,816,776 |
| Duties on goods from Korea | 114,770 | | Educational expenses | 40,577,878 |
| Foodstuffs. | 895,629 | | Agricultural and com- | |
| Ship | 121,933 | | mercial expenses | 2,747,540 |
| Foodstuff ship | 144,105 | | Construction expenses | 11,197,858 |
| Fish | 1,305,992 | | Total expenditure | 654,239,611 |
| Title deeds | 35,458,751 | | | |
| Mine sand. | 64,831 | | | |
| Coal | 9,642,025 | | | |
| Bills | 5,025,938 | | | |
| Wine | 33,834,269 | | | |
| Wine licence. | 2,114,654 | | | |
| Tobacco. | 7,506,601 | | | |
| Tobacco licence | 2,008,802 | | | |
| Fishery | 3,016,820 | | | |
| Scissor | 814,985 | | | |
| Total revenue from taxes | | 494,771,377 | | |
| Sales of public properties | 305,992 | | | |
| Rents from public properties | 438,902 | | | |
| Public property certificate charge | 386 | | | |
| Total revenue from public properties | | 745,280 | | |
| Balance from land tax expenses | 396,879 | | | |
| Receipts from bills and certificates | 11,196,393 | | | |
| Receipts from the courts | 7,178,354 | | | |
| Judicial receipts of the <i>hstiens</i> | 10,537,444 | | | |
| New certificate charge | 28,215 | | | |
| Foodstuff ship fee | 81,918 | | | |
| Fines | 4,056,646 | | | |
| Special land tax for self government | 1,001,797 | | | |
| Total miscellaneous receipts. | | 34,477,646 | | |
| Funds from the public sales bureau | | 10,498,807 | | |
| Grand total of revenues | | 540,493,110 | | |

ANNEX III.

Table VI.

KINDS OF TAXES AND THE AMOUNT OF INCOME OF THE TAXES IN THE OLD REGIME.

(From "A General Outline of Manchukuo" by the Department of Foreign Affairs, "Manchukuo", Changchun.) Probably for the year 1930.

| | Mukden | Kirin (Mexican dollars) | Heilungkiang | Total |
|---|-------------------|----------------------------|-------------------|-------------------|
| Salt revenue ¹ | 31,382,000 | | | 31,382,000 |
| Tobacco and wine ¹ | 2,299,000 | 589,000 | 416,000 | 3,304,000 |
| Universal ¹ | 3,693,000 | 1,390,000 | | 5,083,000 |
| Production ¹ | 6,637,000 | 8,596,000 | 3,255,000 | 18,488,000 |
| Market | 7,272,000 | | 2,172,000 | 9,444,000 |
| Mining ¹ | 643,000 | 208,000 | 91,000 | 942,000 |
| Stamp Duty ¹ | 1,140,000 | 76,000 | | 1,216,000 |
| Deed ¹ | 815,000 | 1,835,000 | 505,000 | 3,155,000 |
| Land | 4,103,000 | 3,620,000 | 1,731,000 | 9,454,000 |
| Trade | 155,000 | 2,200,000 | 1,837,000 | 4,192,000 |
| Cattle | 1,128,000 | 645,000 | 241,000 | 2,014,000 |
| Miscellaneous | 1,931,000 | 3,962,000 | | 5,893,000 |
| Total | 61,198,000 | 23,121,000 | 10,248,000 | 94,567,000 |

Table VII.

PROBABLE AMOUNTS OF INCOME AFTER PARTIAL READJUSTMENT OF TAXES AFTER THE MUKDEN INCIDENT.

(From "A General Outline of Manchukuo" by the Department of Foreign Affairs, "Manchukuo", Changchun.)

| | Mukden | Kirin (Mexican dollars) | Heilungkiang | Total |
|----------------------------------|-------------------|----------------------------|-------------------|-------------------|
| Salt revenue | 10,000,000 | | | 10,000,000 |
| Tobacco and wine taxes | 1,118,000 | 3,528,000 | 416,000 | 5,062,000 |
| Universal tax | 4,872,000 | | | 4,872,000 |
| Production tax | 1,998,000 | 7,910,000 | 3,234,000 | 13,142,000 |
| Trade tax | | | 2,139,000 | 2,139,000 |
| Mining tax | 414,000 | 148,000 | 148,000 | 710,000 |
| Stamp duty | 604,000 | 948,000 | | 1,552,000 |
| Deed tax | 446,000 | 2,582,000 | 505,000 | 3,533,000 |
| Land tax | | 2,920,000 | 1,733,000 | 4,653,000 |
| Trade tax | | 2,532,000 | 1,837,000 | 4,369,000 |
| Cattle tax | | 735,000 | 241,000 | 976,000 |
| Miscellaneous | 132,000 | 1,945,000 | 418,000 | 2,495,000 |
| Total | 19,584,000 | 23,246,000 | 10,671,000 | 53,501,000 |

Notes : In the Mukden Province, the amounts estimated are based on the budget made by the committee for Preservation of Local Peace and Order in 1931. Therefore, the general falling-off of income caused by the incident is counted in it.

In the Kirin and Heilungkiang Provinces, the amounts estimated are based on the budgets made by the financial bureaux of both provinces in 1931, before the incident occurred, so the amount of reduced income from the taxes abolished by the new regime, and that from the general reduction of income caused by the incident, are not included.

¹ Compare with Table VIII.

Table VIII.

A ROUGH ESTIMATE OF THE REVENUE FOR THE FIRST YEAR OF TATUNG (FISCAL YEAR, JULY 1ST, 1932, TO JUNE 31ST, 1933).

(From "A General Outline of Manchukuo" by the Department of Foreign Affairs, "Manchukuo", Changchun.)

| | Mexican dollars |
|---|-----------------|
| Customs tariff | 19,000,000 |
| Salt revenue ¹ | 15,000,000 |
| Tobacco and wine taxes ¹ | 3,600,000 |
| Universal tax ¹ | 2,800,000 |
| Production tax ¹ | 5,900,000 |
| Mining tax ¹ | 530,000 |
| Stamp duty ¹ | 1,200,000 |
| Deed tax ¹ | 1,700,000 |
| Fishery tax | 50,000 |
| Miscellaneous | 1,800,000 |
| Income on Government enterprises and properties | 9,210,000 |
| Income of the Special District of the Eastern Provinces | 3,100,000 |
| Income from Hsingan Cultivation District. | 180,000 |
| Total | 64,970,000 |

¹ Compare with Table VI.

STUDY No. 5.

THE CURRENCIES OF THE NORTH-EASTERN PROVINCES.

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INTRODUCTION. ¹

Numerous fluctuating currencies responsible for monetary chaos in Manchuria.

There are few provinces of China in which the currency chaos matches that to be found in the North-Eastern Provinces. Not only does one here find that each of the three provinces has its own peculiar — but not always mutually exclusive — currencies, but also that various cities in even the same province have theirs, and that any one of the currencies may fluctuate violently and enormously with respect to almost any and all of the others. In addition to the officially authorised Chinese and foreign currencies, there are domestic and foreign *monies of account*, such as the several *taels* and Customs *gold unit*, and the Russian *roubles* and other foreign monies. Even the token monies and notes of local exchange shops and distilleries, particularly in the villages and district towns, help add to the confusion.

Lack of currency standardisation due to historical circumstance.

In part, this lack of standardisation and unification has been due to the more or less independent economic development of the various centres in Manchuria ; their early lack of commercial intercourse and ready communication with one another, and their later coming under the political and economic domination of foreign powers. However, as in China Proper, the Chinese authorities have always lacked either the will to standardise and unify the currencies or the power and ability to do so. They have almost from the very outset consistently abused the note-issue power by turning out in endless variety ever-increasing quantities of constantly

¹ In the preparation of this report, the author relied largely for current material on the investigations he made in Manchuria just prior to joining the Commission, and, for the historical material, on private translation from Japanese, Chinese and Russian works. He is particularly indebted to Alexander I. POGREBETZKY, from whose excellent book, "Currency and Finance in China" (issued by the Economic Bureau of the Chinese Eastern Railway), he has taken the liberty of quoting so extensively.

depreciating fiats. In a measure, too, the large circulation of foreign currencies in this region, and, more particularly, the basing of railway tariffs on them, have likewise contributed to the general confusion and much of the Sino-Japanese discord.

Present currency situation essentially same as that prevailing prior to September 18th, 1931.

Outwardly, the currency situation in Manchuria at the time of writing (June 1932) remains essentially what it was prior to the outbreak of the Sino-Japanese hostilities last September, with only a change in overseers and an apparent cessation of the flagrant note-issue abuses. The reforms which have been projected by the Manchukuo authorities have thus far effected no important change. Their programme is instructive, however, and will be dealt with in the concluding section.¹

I. ORIGINS OF THE PRESENT MANCHURIAN CURRENCIES.

Chihchien or "cash" earliest important money.

Precisely when money first made its appearance in Manchuria is, of course, not known, but it is definitely established that both coins and paper bank-notes were employed as far back as the Chin dynasty (1115-1234 A.D.). The coins were of cast bronze and were known as *chihchien* or "cash" which literally means "official money". These coins were made not only by the authorities but by the guilds, numerous organisations and even private parties. Prior to the casting of *chihchien* in Manchuria, the *chihchien* of the Liao and Sung regimes, brought in from China Proper as well as from Korea and Japan, were employed. For a long period, *chihchien* was the principal currency of both China Proper and Manchuria.

These early *chihchien* were insufficient for the Manchurian requirements, so the authorities placed a ban on their export and supplemented them with *ta-chiao* and *hsiao-chao* (large and small notes). These notes circulated throughout the Yuan and Ming dynasties up to the end of the seventeenth century. In fact, it was well past the *beginning* of the Ch'ing or Manchu dynasty (1644-1911 A.D.) before there was any important change in the monetary media.

The use of *chihchien* notes has continued to this day in the two northerly Manchurian provinces, but the *chihchien* themselves are no longer employed save in the most isolated communities. Even where no *chihchien* notes or coins are employed, the *chihchien* is the unit in terms of which other coins and notes are often valued and in which many accounts are kept.

Present day tiao of Heilungkiang and Kirin Provinces were originally based on chihchien or copper cash.

The *chihchien* is a species of the very familiar circular-shaped Chinese coin with a square opening at its centre. Generally, it is of copper, bronze or brass, but occasionally iron ones are to be found. A "string" of this *chihchien* theoretically contains 100 coins, and ten strings, or 1,000 coins, make up what is known as one *tiao*. Actually ten strings of these contained only about 160 coins in Fengtien Province (now Liaoning Province), and 500 in Kirin and Heilungkiang. The actual *chihchien* are no longer used as a media, but irredeemable notes based on them are. These are known as *tiao* notes and at present make up the bulk of the Chinese money in the northern part of Manchuria.

Large variety of notes and monies in circulation in Manchuria by middle of nineteenth century.

By the middle of the nineteenth century, persons in Manchuria were using a variety of coins, bank-notes and a limited quantity of silver bullion, although notes were more or less in dominance. Population and trade continued to grow and press so heavily on the meagre monetary supply that the Kirin and Fengtien provincial authorities commenced to cast silver *sycee*, and to issue *yingpiao* notes, nominally redeemable in silver. Few merchants had enough confidence in the Government to accept these latter, so the notes were in circulation only among those who had direct business dealings with the authorities. The natural consequence was that the better-known private merchants began to issue their own notes and circulate them in the trade to the extent their prestige allowed. In the end, the market was flooded with these, and a demand for something more substantial than mere "promises" was felt.

Opening of Newchwang (now Yingkow) in 1860 brought in foreign silver dollars, and sycee.

In 1860, with the opening of Newchwang (now Yingkow), traders brought in Mexican and other foreign silver dollars, and, two years later, Cantonese merchants brought in *sycee*, or silver ingots. The use of these spread from this point throughout Manchuria and has continued to a

¹ The major portion of this report was written prior to the establishment of the Manchukuo Central Bank. Consequently, any important changes which it may possibly have effected are not dealt with in the report proper. An appended section, however, deals with the establishment of the Bank.

limited extent to this day. For a long time, *sycee* played a very important part in the commercial life of Manchuria, but at present they are employed only at Antung, generally in Yalu lumber and produce transactions, and infrequently at Newchwang.

Sycee are valued in terms of the *tael*, a Chinese unit of weight when employed in this sense and not to be confused with the *tael* referring to commonly used monies of account. As elsewhere in China, the actual weight of the *tael* varies from place to place, as does the customary fineness, and the fine and gross weight of the *sycee*.

The origin of the Newchwang transfer tael.

The silver ingots which traders brought to Newchwang were not uniform in composition or weight, so local smelting shops known as *Yinlu* recast them in standardised units known as *yingpingyin*. The smelting shops would credit the account of anyone presenting silver for recasting and would allow the client to transfer his claim to third parties by giving notice. The smelting shops thus became clearing houses for the transference of credits. So many of them abused their powers that the authorities were compelled to reorganise the system, and, in 1883, they established the present *kuolin* or transfer tael system. Under the present arrangement, the smelting shops are supervised and do what amounts to a banking business. They pay interest on deposits and charge for overdrafts, and employ a modified checking account system. The transfer tael is generally used for all business of importance in Yinkow.

Copper coins or tungtzuerh first came into use at the beginning of the present century.

It was following the Boxer uprising, an era which ushered in far-reaching reforms in China's economic life, that *tungtzuerh* or modern copper coins, popularly known to foreigners as "coppers", were *minted*. Fukien, Kwantung and Kiangsu supplied the first of these coins, but later most of the other provinces feverishly hastened to enter this very lucrative business. In a short time, all of the provincial mints in China were striking enormously large quantities in a legion of weights and finenesses, and in one-half cent, one-cent, and two-cent denominations, the latter two being the most common. At the outset, the single coppers (or "one-cent" or "ten-cash" pieces, as they are usually marked) circulated at one-hundredth of the dollar and, in some places, even at a premium. Due chiefly to their debasement and redundancy, they began to depreciate and are now worth only a fraction of their nominal values.

Irredeemable copper notes drive "coppers" out of Manchuria.

"Coppers" began to enter Manchuria shortly after they first appeared in China Proper and, for a long time, were an important element in Chinese economy. They have been driven almost completely out of Manchuria, however, by the reckless issuance of *tiao* or copper notes by each of the three provincial banks. Since about 1925, "coppers" have ceased to circulate in Manchuria save for a small number of "ten-cash" (single coppers) in Fengtien and "ten-cash" and "twenty-cash" (double coppers) pieces in Kirin. In 1929, the Liaoning authorities began minting a new copper "cent" valued at one-hundredth of the Yuan dollar. The coin is much smaller than even the "ten-cash" piece, but circulates at face value. Few of these were minted, however, and they are infrequently found and only around Mukden.

In 1894, the Manchurian authorities started to mint small silver coins and likewise to issue bank-notes in terms of them. As the notes were issued in larger and larger quantities they began to force the silver and even copper coins out of circulation.

Russian expansion in the Far East introduces the rouble, which spreads throughout Manchuria.

The Russian *rouble* began to appear in Manchuria as early as 1894. With the construction of the Chinese Eastern Railway in 1897, the use of the *rouble* became so widespread that it practically dominated the money market in the Chinese Eastern area. Later, it became immensely popular throughout the whole of Manchuria. It was easily the most important foreign currency in the realm and circulated quite as freely in Newchwang, Port Arthur, Dalny (now Dairen), and Mukden, as it did in Harbin and other centres in North Manchuria. The branches of the Russo-Chinese (later the Russo-Asiatic) Bank, which was financing the construction of the Chinese Eastern Railway and was buying railway materials in the south, were largely responsible for this.

Following the Russo-Japanese war, the yen displaces the rouble in South Manchuria.

During the Russo-Japanese war, the Russians issued enormous quantities of military notes, but these were later withdrawn. At the end of the war, the *yen* displaced the *rouble* in South Manchuria, but the latter continued to enjoy as wide a circulation as ever in the north. At the outbreak of the world war, it was estimated that over sixty million *roubles* were in circulation in Manchuria.

Russian revolution of 1917 forces rouble out of North Manchuria.

Such enormous quantities of unsecured *rouble* notes were issued, from 1914 on, that they soon ceased to be convertible. The situation was further aggravated by the Russian revolution of 1917. Following the downfall of the Romanoffs, the *roubles* issued by succeeding regimes, and the Russo-Asiatic Bank, the Harbin municipality, various Chinese chambers of commerce and even private parties began to circulate. Postage-stamp money and merchants' credit slips took the place of subsidiary coin.

Soviet currency does not circulate in Manchuria, but the rouble as a money of account is still a factor in Manchuria's finance.

All varieties of the old Russian notes finally depreciated to the vanishing point and since then have no longer been a factor in the Manchurian currency situation. Russian money did not come into its own again until 1922, with the establishment of the State Bank of Soviet Russia and the issuance of the new "gold *rouble*" notes, the ten-*rouble* denomination of which is known as the *chervonetz*. The new *rouble* and *chervonetz* notes do not circulate in Manchuria, although they are more or less illicitly dealt in by the exchange shops. The *rouble* as a money of account, however, is still important in Manchuria's economy, as the Chinese Eastern tariff is based upon it. As to the inconvenience and hardship this causes, more will be said later.

In 1902, two years after opening its branch office in Newchwang, the Yokohama Specie Bank began to circulate its own notes redeemable in silver coin. Later, when it opened branches in Dairen and Mukden, it extended the practice to these centres.

Japanese military notes of the Russo-Japanese war give rise to the Yokohama Specie Bank's silver yen notes.

During the Russo-Japanese war, large quantities of military *yen* notes amounting in all to 150 million *yen* were put into circulation in Manchuria. All but a very insignificant quantity of these were subsequently redeemed by the Yokohama Specie Bank under authorisation from the Japanese Government. In consideration, the Government granted the Yokohama Specie Bank the sole right of Japanese note-issue in Manchuria, a right which it still retains for the silver *yen* and of which more will be said later. The Bank issued substantial quantities of its own notes until, by the end of 1911, it had over seven million *yen*'s worth of silver notes in circulation.

Kwantung Government and South Manchuria Railway adopt the gold yen and the Yokohama Specie Bank is given power to issue gold yen notes.

For a number of economic and political reasons, the Kwantung Government and South Manchuria Railway, in 1908, adopted the *gold yen* as a basis for their accounts. Considerable amounts of Bank of Japan *gold yen* notes and Japanese auxiliary coins were coming into use in Manchuria, but, to supplement these, the Yokohama Specie Bank, in 1913, was given Imperial sanction to issue *gold yen* notes in addition to the *silver yen* notes. This, of course resulted in a large decrease in the Bank's circulation of *silver yen* notes, which dropped to 2,257,000 *yen* in 1917.

Bank of Chosen gold yen notes replace those of Yokohama Specie Bank.

In 1917, the right to issue *gold yen* notes for circulation in Manchuria was transferred to the Bank of Chosen. This did not result in increasing the Yokohama Specie's *silver yen* note circulation, but merely in the replacing of its gold notes by those of the Bank of Chosen. Later, however, the Yokohama Specie Bank's *silver yen* issue began to mount steadily until, by the end of 1928, it had reached almost ten million *yen*.

Fengtien Provincial Bank begins to issue new notes in hope of unifying Manchurian currencies.

At the end of the Russo-Japanese war, the Fengtien (Liaoning) authorities established the Fengtien Provincial Bank with the object of unifying the Manchurian currencies and forcing the private notes out of circulation. The Bank issued notes in terms of copper cash, subsidiary and large silver coins and silver taels. By far the greater portion of the issue, however, was in terms of subsidiary silver, the unit in which most transactions took place. The Governor-General of Fengtien, Governor Siao-Erh-Sun, proclaimed dollar notes legal tender and at par with silver dollars for all private transactions and even in payment of duties. By 1907, *layang* (big dollar) notes, to the amount of 1,500,000 dollars, and *hsiaoyang* notes, to the amount of 35,000,000 dollars, had been issued.

Fengtien and Kirin begin minting silver coins but discontinue shortly afterwards and force "hard" monies out with irredeemable bank-notes.

By this time, the provincial mints of Fengtien and Kirin were beginning to place into circulation quantities of silver coins in denominations of ten, twenty and fifty cents, and one dollar. The subsidiary coins, among which the twenty-cent piece was by far the commonest, were known as *hsiaoyangchien* (small money) and the standard dollars were known as the *tayangchien* (big money). The minting of silver coin did not continue long, for, with the advance in silver during the world war period, the authorities changed from the minting of money to the printing of it.

Bank of China and Bank of Communications enter Manchuria.

In 1907, the Bank of China opened its branches in Mukden, following shortly afterwards with branches in Newchwang and other Manchurian cities. By 1908, the Bank of Communications opened a branch in Newchwang and, in 1910, one in Mukden as well.

In 1909, the Fengtien Provincial Bank became a purely governmental institution; was renamed the Bank of the Three Eastern Provinces, and was granted a number of important powers. Among these, were the rights to mint silver and copper coins for the province, to issue bank-notes which should circulate in the market "corresponding to copper and silver coins", and to "melt silver and cast silver dollars". Instead of bettering currency matters, however, the Bank merely aggravated them by issuing notes in even larger quantities than did its predecessor. To add yet further to the chaos, the various local branches of private Chinese banks and the Provincial Banks of Kirin and Heilungkiang began to do likewise.

From the period of the Chinese revolution and civil war up through the first years of the Republic, to 1914, Manchuria was being drained of her silver and coins, despite an embargo placed on the export of them. Chinese banks, during this period, found it increasingly difficult and often impossible to meet their bank-note obligations in hard money. This precipitated a series of crises in which the Japanese often became involved because of their attempts to redeem Chinese notes for coin. The Chinese banks could not always redeem the notes presented to them, so panics would ensue in which the notes would drop by a considerable extent.

The "Twenty-one Demands" result in additional currency difficulties.

In April 1915, the presentation by the Japanese Government of the so-called "Twenty-one Demands" started an anti-Japanese movement which spread all over China Proper and throughout Manchuria as well. This brought about a sharp conflict between the Chinese and Japanese which resulted in an anti-Japanese boycott movement and attempts on the part of the Japanese to convert their Chinese bank-notes into coin. This was of considerable embarrassment to the banks, as they were unable to meet their obligations. It was not until the middle of 1916 that their position improved, and it was nearly the middle of 1917 before they could meet the demands for the redemption of small-money notes. These were ultimately redeemed in silver, convertible *tayang* notes and foreign currencies.

The Bank of the Three Eastern Provinces begins to issue tayang (big money) notes in hopes of unifying and bettering currency.

The *tayang* (big money) notes of the Bank of the Three Eastern Provinces first came into circulation in 1915. Governor Shao-Erh-Sun (Chang Tso-lin's predecessor) declared them legal tender and acceptable for all payments, including duties, and on a par with silver dollars. All who refused to accept them in payment of debts were threatened with severe punishment. It was the hope of the Mukden authorities that these new *tayang* notes would replace the depreciated *hsiaoyang* notes and thus unify the currency on a better basis. Accordingly, an order was promulgated on August 4th, 1916, which provided for the redemption of the old *hsiaoyang* notes of denominations of one dollar or more. The *hsiaoyang* notes under one dollar were retained for subsidiary use. Important extracts from the order are as follows:¹

"The bank-notes (*hsiaoyang* are referred to) were readily accepted by all, but afterwards, when the war had an ill-effect on the financial world, the Government ordered the Bank of China and the Bank of the Three Eastern Provinces to cease from giving silver in redemption of bank-notes, which resulted in great complications with regard to the changing of money in Mukden.

"In Mukden, the shortage in silver *hsiaoyang* increased daily and if then new coins had been minted, that inconsiderable quantity also could not have been sufficient. Besides which, the limiting of redemption also could not have been accepted as being satisfactory.

"At this time, the main currency in all the provinces of China was the *tayang*, while the *hsiaoyang* existed only as subsidiary coin. At the present time, a project has been

¹ Quoted from "Currency and Finance of China" (Russian), by Alexander I. POGREBETZKY. Issued by the Economic Bureau of the Chinese Eastern Railway, Harbin, 1919 (page 9 of Commission's private translation).

worked out for the general circulation of *tayang* in place of *hsiaoyang*. The commercial societies, considering the situation which has arisen jointly with the proprietors of commercial enterprises and banking organisations, came to the conclusion that nothing could be better than putting the *tayang* into circulation.

“ In this manner, the *hsiaoyang*, which is in circulation all over the country, will be used only as a subsidiary coin. When exchanging *hsiaoyang* for dollars, the banks will make payment at the rate of the day. The exchanging also of Japanese *yen*, bank-notes of the Yokohama Specie Bank and Russian *roubles* will also be made at local rates. When exchanging money, by mutual consent, there will be issued that currency which is desired by the receiver. Sums not exceeding one dollar will be issued in *hsiaoyang*. The present steps are taken to save the financial situation and therefore we respectfully request that permission be given us to put them into circulation.

“ I consider that the placing into circulation of the system of *tayang* is a radical step, which must be made, and therefore I give my consent, having previously ascertained the agreement of all the foreign Consuls. The present is published for general information.”

The new *tayang* notes were to be redeemable ; their issue was to be strictly limited and the *hsiaoyang* notes were to be withdrawn as the new ones were placed into circulation. In 1916, General Chang Tso-lin, then Governor-General of Fengtien Province, in an order of November 27th, specifically confirmed this last stipulation.

The new “ Exchange Notes ”.

In August 1917, the outstanding Chinese banks in Manchuria — namely, the Bank of the Three Eastern Provinces, the Tsitsihar Provincial Bank, the Industrial (Mukden) Territorial Bank (Mukden), the Bank of China and the Bank of Communication entered into an agreement as follows :¹

“ The Government and the people from now on will recognise the *tayangchien* as the standard monetary system. The banks now meeting will all cease issuing *hsiaoyang* bank-notes from that moment when this agreement comes into force, and also will withdraw from circulation those received in exchange for *tayang* bank-notes and will destroy the bank-notes issued up to this time with the exception of bank-notes of a lower value than ten chiao [*Author's note.* — One *chiao* is one-tenth of a dollar], which will remain as small change. The ratio in which *hsiaoyang* will be exchanged for *tayang* is fixed at 10 to 12.

“ The exchanging of *tayang* bank-notes for coins must be unlimited, although limiting of such exchange must be permitted during a period of one year and a-half after the present agreement comes into effect.”

This then brought into being the so-called “ exchange notes ”, which, while nominally valued in dollars, actually derived their value from being convertible into Shanghai exchange. On the reverse of these notes is found the following :

“ This note will be accepted in the Three Eastern Provinces at the exchange rate of \$1.00 = \$1.20 Mukden small-coin notes, and the Bank promises to pay at its offices the equivalent of Shanghai taels by draft. ”

These new exchange notes completely displaced the old *tayang* and small-silver notes, leaving only the copper notes to serve as subsidiary money. It is these exchange and copper notes which to-day are commonly referred to as “ *Fengpiao* ”. Of these, much more will be said later.

CURRENCY SITUATION ON SEPTEMBER 18TH, 1931.

Paper monies had driven hard monies out of circulation by autumn of 1931.

By the beginning of Sino-Japanese hostilities last autumn, there was practically no hard money in circulation in Manchuria. According to Japanese estimates, there were only about one million silver dollars in circulation in the entire three provinces, inclusive of Inner Mongolia. Even the Chinese estimates place this circulation at only twelve millions. Subsidiary silver amounted to between three and four million dollars. The great bulk of the Chinese currency then consisted of irredeemable bank-notes, the sole exception being in the case of the redeemable *tayang* note of Liaoning Province. The *tiao* notes of Heilungkiang and Kirin and the *Fengpiao* of Liaoning were enormously depreciated and only the *Fengpiao* was stabilised with respect to a redeemable note. The *tayang* notes of Heilungkiang, Kirin and Harbin were likewise substantially depreciated.

It would serve no useful purpose to trace in detail the steps by which each of these currencies reached their present state of debasement ; all had somewhat similar though not equally colourful careers.

¹ Quoted from “ Currency and Finance of China ” (Russian), by Alexander I. POGREBETZKY. Issued by the Economic Bureau of the Chinese Eastern Railway, Harbin, 1919 (page 11 of Commission's private translation).

Depreciations of the Fengpiao and Harbin tayang notes illustrative of others, and especially important with reference to Sino-Japanese relations.

Two of these, however, are deserving of especial attention, both because of the deep imprints they have made on Manchurian economy and because of the parts they have played in aggravating Sino-Japanese relations. Reference is here made to the *Fengpiao* of Liaoning Province and to the *tayang* note of Harbin Special District. The *Fengpiao* will be treated at length in the following section on "The Currencies of Liaoning Province", and the Harbin *tayang* in the section on "The Currency of Harbin Special District."

II. THE CURRENCIES OF LIAONING PROVINCE.

Fengpiao convertible tayang notes, Newchwang transfer taels, Antung sycee, small amounts of silver and copper coins, and Japanese currencies circulate in Liaoning Province.

The present currencies in Liaoning Province consist of *Fengpiao*, convertible *tayang* notes, Newchwang transfer taels, *sycee*, silver dollars and subsidiary coins, some few "coppers" and copper cent pieces, and Japanese silver and "gold" *yen* and subsidiary silver, nickel and copper coins. The Newchwang transfer tael is used only around Yinkow (Newchwang), and has already been described in the preceding section. Reference will be made to it again, however, under Chinese *monies of account*. *Sycee* (or silver ingots) are now employed sparingly and only around Antung. They likewise were described in the preceding section, as were the insignificant amounts of Chinese hard monies. Since the Japanese currencies are common to all three of the eastern provinces, they will be treated in a separate section. It remains then only to treat the *Fengpiao* and the convertible *tayang* notes.

Fengpiao are the irredeemable notes of Liaoning (Fengtien) Province.

"Fengpiao" is a contraction of "Fengtienpiao" and is derived from the former name of Liaoning Province (Fengtien Province), in which it circulates. Some authorities refer to all of the paper monies issued by the Fengtien authorities as *Fengpiao*, going back usually to the first issue of 1905; many others, however, reserve the term to apply only to the notes in circulation in Fengtien Province in 1917 and to all provincial notes subsequently authorised with the exception of the comparatively recent *convertible tayang* notes.

Notes reckoned as *Fengpiao* were issued in nineteen varieties by the Provincial Bank of the Three Eastern Provinces, the Bank of China, the Bank of Communications, the Industrial Bank, and the Kung Tsi Bank. These were in denominations of 10, 20 and 100 coppers and 1, 5, 10, 50 and 100 dollars, the latter two denominations being of a later date than the others. Originally, the dollar notes were of two varieties, the depreciated *tayang* notes and the exchange notes, the latter of which were in preponderance. These notes were issued by all of the above-mentioned banks, save the Kung Tsi Bank, which issued only irredeemable copper notes.

In 1924, the Mukden Industrial Bank amalgamated with the Three Eastern Provinces Bank to form the Provincial Bank of the Three Eastern Provinces, thus reducing the *Fengpiao* issuing banks to four—the Provincial Bank of the Three Eastern Provinces, the Bank of China, the Bank of Communications and the Kung Tsi Bank. The types of notes were likewise reduced, leaving only the dollar exchange note and the copper note, each in the customary denominations.

The only Fengpiao in circulation now are the "exchange" notes of the Three Eastern Provinces Bank and the copper notes of the Kung Tsi Bank.

As the Bank of China and the Bank of Communications have withdrawn their issues, which were never large, the only *Fengpiao* now in circulation are the exchange notes of the Provincial Bank of the Three Eastern Provinces and the copper notes of the Kung Tsi Bank.

Exchange notes begin to depreciate shortly after they are issued.

Fengpiao circulate throughout the whole of Liaoning Province and, at their zenith, circulated even in Shantung and Chihli (now called Hopei), having been brought there by labourers returning to these provinces. Their career was as eventful and as colourful as that of their dynamic champion, the late Marshal Chang Tso-lin. Their downward course in fact was not only closely related to the increasing amounts forced into circulation, but somewhat to the military fortunes of the Marshal as well.

The exchange notes of 1917 began to depreciate almost as soon as they were issued. From 1920 on, the Fengtien authorities were preparing for war and financed themselves almost entirely by the issuance of *Fengpiao*. Serious depreciation, however, did not set in until the winter of 1924, the period of the "Second Fengtien-Chihli" war. During this short season,

the notes declined from 1.50 to 2 *Fengpiao* for one silver dollar. During the first part of 1925, when Chang Tso-lin defeated Wu-Pei-fu and occupied Shantung, the value remained relatively unchanged, but at the end of the year, when General Kuo Chung-king revolted against Chang Tso-lin, the notes dropped to 2.80 for one silver dollar. Following further liberal additions to the circulation during 1925-26, the *Fengpiao* dropped spectacularly. In June 1926, one silver dollar exchanged for 2.80 *Fengpiao*, in May 3.50, and in July 5.60 dollars. During the remainder of 1925, the notes were relatively stable but, in 1927, when Chang Tso-lin became chief executive in Peking, they commenced to depreciate again. Early in 1927, one silver dollar exchanged for 5.80 *Fengpiao* and in June for 11 dollars and, by the end of the year, 14.30 dollars. The drops then become greater than ever. On January 5th, 1928, the quotation was 16.80 and on January 31st 31.80 dollars against the silver dollar. During the remainder of the year, the quotation was a trifle under 30 dollars. When the new fifty- and hundred-dollar *Fengpiao* notes appeared in March 1929, the *Fengpiao* dropped from a quotation of 32 dollars to 72 on June 24th.

*Fengpiao stabilised at approximately 60 : 1
against silver dollars on June 25th, 1929.*

The provincial authorities became so alarmed at the rapid drop in the value of the notes that they finally decided to take effective measures to stabilise the currency at about 60 dollars "small money" *Fengpiao* (or 50 dollars "big money" *Fengpiao*) for one silver dollar. To this end, the Provincial Bank was ordered to accept *Fengpiao*, from June 25th, 1929, on, at this rate for Shanghai and Tientsin exchange.¹ Since then up to the outbreak of September 18th of last year, the *Fengpiao* has been relatively stable, fluctuating between 54.60 and 82.10 *Fengpiao* ("small money") to the silver dollar, but keeping close to 60 dollars *Fengpiao* for one silver dollar most of the time.

The total emissions of *Fengpiao* were never made public and even to this day there is considerable doubt concerning their amounts. The Japanese and Chinese estimates of these for 1929 were far apart, but, in their respective 1930 and 1931 estimates, both place the nominal value at slightly over one billion dollars.

*Chang Tso-lin's attempts to bolster the
Fengpiao.*

The Chinese authorities, during the course of the *Fengpiao's* depreciation, were continually laying the blame to exchange-shop dealers, speculators, profiteering merchants, and the Japanese, seldom making reference to the enormous injections they themselves were making into the media. Chang Tso-lin made numerous ingenious attempts to discover costless and inexpensive methods of bolstering the tottering currency.

At the end of July 1926, the "Old Marshal" called a meeting of one hundred bankers and naïvely scolded them for permitting the *Fengpiao* to depreciate. This he did in characteristic and picturesque eloquence. In part, his speech was as follows :²

"Last year, I asked you to take steps to regulate the financial situation. To the present time, nevertheless, nothing has been done by you. The *Fengpiao* has, it seems, reached its very lowest point. Certain people say that the fall of the *Fengpiao* is due to terribly heavy military expenses. This is incorrect; the expenses for the last two wars were covered by reserves in the Treasury. We were forced to wage the last two wars, otherwise our enemies would have invaded us. Had we not fought, could we have kept our lives, our property? You must not forget that, as soon as I became the head of the Three Eastern Provinces, they were not afflicted by any 'acts of God'; it is true that there was a drought, but this was not great. The Three Eastern Provinces were favoured by God, but you are occupied in devaluing money which always stood high previously, you are causing injury to yourselves and others. Are you not preparing a poison which you must drink yourselves? A few people say that I have deposited, and still deposit, large sums of money into banks, but I can tell you one thing : I will not regret (the loss of) money if you find it and confiscate it, but you will not find it, there is none ; it is true that I have land, more than one million *mou* of land, from which I can obtain money, should this be necessary for the improvement of the exchange rate of *Fengpiao*. I will not, under any circumstances, permit the wreck of the *Fengpiao*. Keep this properly in mind."

*Chang Tso-lin resorts to severe measure
to bolster the Fengpiao.*

The *Fengpiao* continued to drop further, the Marshal's warning notwithstanding. Chang Tso-lin then resorted to other measures. He boosted bank interest rates on deposits and current accounts from 6 to 10 per cent (so as to contract the note-issue in circulation); limited the size of monetary transactions ; ordered the chambers of commerce and other organisations to

¹ The conversion rates for *Fengpiao* as given on page 192 of the "Second Report on Progress in Manchuria to 1930" are decidedly inaccurate. They are given as follows :

"At the end of 1929, the year of the Sino-Soviet dispute, the Mukden note fell to 6,000 to the silver dollar. It fell still further to 11,800 in December 1930."

As a matter of fact, the lowest quotation for *Fengpiao* during December 1929 was 60.60 to one silver dollar, and, during December 1930, 60.20.

² *Op. cit.*, page 13 (page 59 of Commission's private translation).

report on anyone spreading unfavourable reports on financial matters; urged merchants to reduce prices; and required that all transactions so far as possible take place in *Fengpiao*. During the latter part of August 1926, he had five prominent merchants and nine money brokers shot for speculating in currency and had many others arrested, and in some instances even confiscated the property of those whom he executed.

Despite these drastic measures, the *Fengpiao* dropped with renewed vigour and merchants dared to refuse acceptance of it altogether. In March 1927, even the Marshal's own arsenal employees demanded part of their salaries in "good" money and the Newchwang (Yingkow) Maritime Police demanded a 100 per cent increase in salaries on threat of leaving their posts. Many provincial employees resigned their positions because they could no longer live on their salaries. As the *Fengpiao* continued to drop, wholesale demands for salary increases were made in both private and governmental circles; hundreds of strikes were threatened and called; trade suffered enormously; and, by 1928, over fifty firms closed their businesses, permanently or temporarily, with such excuses as the necessity of "adjusting their stocks", etc.

Chang Hsueh-liang attempts to continue with his father's stabilisation programme.

In 1928, Marshal Chang Tso-lin was assassinated while *en route* to Mukden and was succeeded by his eldest son, Marshal Chang Hsueh-liang. On June 26th of the same year the "Young Marshal" announced that he would take measures to improve the financial and tax systems and relieve the population of the burdens then being imposed. To this end, he called a series of conferences and appointed commissions to study the currency situation. In September 1928, as Chairman of one of his committees, he announced: ¹

"(1) In view of the fact that the present falling tendency of the *Fengpiao* is causing loss to the financial credit of Mukden, it is necessary, in the severest manner, to control all rumours and (attempts to) destroy the money market by irresponsible speculators.

"(2) In order to uphold the *Fengpiao*, it is necessary, with the assistance of the detective force, to carry out investigation of the operations by exchange brokers and other persons. In the event of disclosure of contraventions, the guilty parties will be arrested and executed under the provisions of martial law.

"(3) All attempts to increase the prices of necessities in Mukden will be also prosecuted by law."

He also proposed to redeem outstanding *Fengpiao* with funds coming in part from the Provincial Treasury and in part from the income of railways and banks. His plan was ultimately to abolish the *Fengpiao* and replace it with a convertible *tayang* note.

"Young Marshal" stabilises Fengpiao shortly after coming into power.

Marshal Chang Hsueh-liang, as a matter of fact, did not check the downward course of the *Fengpiao*, and it reached its lowest point during his regime. The bolstering measures he first employed were along the same lines as those which his father found ineffective. In fairness to the "Young Marshal", however, it must be stated that, while he threatened to use as severe measures as did his father, he never actually did. Further, the fact that the *Fengpiao* reached its lowest level early in his regime must be attributed in part, but only in part, to the inertia of inherited forces. To his credit, it must be added that he did finally succeed in stabilising the *Fengpiao* shortly after he came into power, and later succeeded in introducing a convertible *tayang* note, which has remained at par ever since. While he succeeded in stabilising the *Fengpiao* within limits, he nevertheless allowed a gross abuse of the note-issue power to continue in connection with official bean-buying, a practice which will be described in a later section.

Provincial authorities attempted to retain the Fengpiao as the standard for all monetary functions.

When the *Fengpiao* first started to depreciate, the authorities directed considerable energy toward retaining it, not only as a *media*, but as a standard for all price quotations and as the unit for all fiscal accounting (both public and private). To this end, they declared that *only Fengpiao* could be used in the calculation as well as the payment of various taxes and private obligations. On numerous occasions, it was pointed out "that all of those organisations which are affected by the question of the circulation of money must keep in mind *that they have no right to have any business in silver dollars or paper gold yen, otherwise the guilty parties will be subject to punishment.*" ²

By the end of 1925, when the *Fengpiao* dropped to as low as three to a silver dollar, a number of institutions including railways commenced to keep their accounts in terms of silver and many based their charges on it as well.

¹ *Op. cit.* (page 66 of Commission's private translation).

² *Dung-San-Shen-Min-Bao* (Chinese), May 23rd, 1925. Quoted by POGREBETZKY, *op. cit.*, page 13 (page 15 of private translation).

Chang Tso-lin makes several attempts to retain the Fengpiao as the sole unit for all monetary purposes.

In 1926, even the Fengtien Financial Bureau seriously suggested changing to a silver account basis, but Chang Tso-lin would not hear of it. He firmly clung to the *Fengpiao* and, in the autumn of the year, issued the following statement :¹

“ To the present time, the *Fengpiao*, the monetary unit of the Three Eastern Provinces, was the sole currency for the payment of all dues and enjoyed the confidence of the public. However, due to dishonest devices and intrigue, the value of this currency has fallen ; the fall of the *Fengpiao* has caused heavy loss to merchants and the general public. I, Marshal Chang Tso-lin, have decided, whatever happens, to uphold the credit standing of the *Fengpiao* and not to issue any other currency which could replace it. If anybody dares to spread any false rumours, then those persons will be liable to punishment.”

The “ Old Marshal ” continued to make like statements on the occasion of every sharp drop of the *Fengpiao*. At the end of 1926, following an unprecedented decline, he telegraphed from Tientsin as follows :²

“ The *Fengpiao* is the sole currency note in the special area of the Three Eastern Provinces. A short while ago, certain firms commenced to speculate in them, for which they were punished. After this event, it was noticed that the market was quiet. But, at the present time, the currency is again unstable and the end of fluctuations of the exchange rate is still out of sight. One month ago, I left Mukden and I invested the Civil Governor with full powers as the plenipotentiary head of the country, entrusted him with the duty of supervising the commerce of the special area of the Three Eastern Provinces, and he is responsible for all which may happen. Why is it that the currency is dropping arbitrarily and no steps are taken ? I invested you with powers in vain. In the war against the South, all the provinces bore the burden of military expenses, but only the *Fengpiao* was not affected. Merchants and other circles have long known the state of affairs, why have you not taken any steps ? I hope that the authorities will order all district magistrates to regulate the exchange rate of the currency and heavily punish all speculators. It is necessary to put a stop to conflicts between firms. Further, I have heard that the price for money transfers has risen considerably lately. This matter does not concern *Fengpiao* in the slightest and, in all probability, this is the arbitrary action on the part of someone. I ask you to investigate this matter secretly and to punish the guilty persons. If this measure does not help, I request you to stop transfers. Prohibit the export of silver and grain. I hope that you will diligently try to carry out my instructions.”

Attempts to retain the Fengpiao as the sole standard for quoting prices and keeping accounts abandoned in 1927.

By April 1927, the *Fengpiao* had dropped to such a low level that the authorities were at last compelled to deal with realities and commenced to base their accounts and payments on silver, using *Fengpiao* only at the approximate market rate then prevailing. The Civil Governor of Mukden explained that, while it was desirable to retain the *Fengpiao* as a media of payment, it was necessary to base charges on silver in order that the interests of the treasury, for example, be fully guarded. The *Fengpiao*, he added, would continue to be as acceptable as before by all organisations, including the telegraph and telephone offices, but at the official conversion rate instead of its face value. Temporarily, the official rate was established at ten dollars *Fengpiao* to one dollar silver, and all persons were required to accept it at such a rate or meet with “ punishment to the full extent of the law ”. Permanent measures to stabilise the *Fengpiao*, the Governor added, would later be adopted when the “ fund for the redemption of the *Fengpiao* was available. ”

Government turns to a silver accounting basis, but yet objects to private persons doing same.

With the continued drop of the *Fengpiao*, the authorities found their revenues at the official ten-to-one rate lagging behind their expenditures, so, in the middle of 1927, they decided to draw up their 1928 budget wholly in terms of silver. When merchants and others, however, began basing their prices on silver, the Mukden Governor on February 10th, 1928, declared in a circular notification as follows :³

“ Conversion of prices into silver dollars as a basic unit by many firms in various districts, at the time when the monetary system of the province is being put in order, is obstructing same, and, due to this fact, he instructs that all those firms which converted their prices into silver dollars should be subject to severe punishment. ”

Nothing important resulted from this, so a conference of representative bankers and officials was called later in the month “ to study the currency situation ”. It drew up a

¹ *Far-Eastern Times*, August 19th, 1926, *ibid.* (page 75).

² *Go-Tse-Se-Bao* (Chinese), Harbin, December 15th, 1926, *ibid.* (page 76).

³ *Dung-San-Shen-Min-Bao* (Chinese), February 12th, 1928, Mukden, *ibid.* (page 78).

remarkably fine programme and passed many laudable resolutions, from all of which nothing of importance again resulted.

From the beginning of 1928, the salaries of the Mukden military and civil authorities were wholly or partially paid on a silver basis at the official exchange rate, actual payment being in *Fengpiao*; and all private organisations worked wholly on a silver basis, employing the *Fengpiao* at either the official rate or a better one when they dared. The authorities later even came to sanction the use of silver or convertible *tayang* notes as media, going so far, in March 1928, as to permit the Mukden Telephone Administration to pay its salaries in silver.

Despite the above, the authorities would occasionally relapse into attempts to revive the *Fengpiao*. Banks and grain merchants would be forbidden to purchase products for other than *Fengpiao*, and grain dealers would not be permitted to make any contracts in silver. Such efforts, however, proved to be fruitless and, the more the authorities attempted to force the use of *Fengpiao*, the more reluctant the merchants became to accept it.

CHINESE RAILWAYS' TARIFFS.

Chinese railroads avoid direct depreciation losses by basing charges on silver.

It is interesting to note that, all through the greater decline of the *Fengpiao*, as well as other Manchurian currencies, the Chinese railways largely avoided suffering *direct* losses from currency depreciation. For example, the Ssupingkai-Taonan line adopted a silver dollar schedule and accepted *Fengpiao* and Harbin *tayang* notes (which will be later described) at rates which ranged between 3.05 dollars *Fengpiao* to one silver dollar in March 1926, and 46 *Fengpiao* to one silver dollar on April 6th, 1929. Harbin *tayang* notes, in December 1928, were accepted at the rate of 1.48 to the silver dollar and tended to remain at about that point. The Peking-Mukden line also employed a silver dollar schedule, accepting *Fengpiao* only at the current market rate. However, when the *Fengpiao* began to drop so rapidly that even this practice resulted in loss, the railway began to demand that one-half of its charges be paid in silver, continuing to accept *Fengpiao* at the market rate for the other half. In February 1928, the railway demanded full payment in silver or Tientsin notes, refusing to accept *Fengpiao* altogether. The Kirin-Changchun line followed the Peking-Mukden line's practice of demanding one-half payment in silver, accepting Harbin *tayang* and other notes, at market rates, for the remainder. After June 1st, 1928, it demanded payment of fares and freights in full in silver, but nevertheless continued to accept other currencies at their market rates against silver. This latter practice was likewise adopted by the Kirin-Tunghua Railway at the beginning of 1928. On December 15th, the Hu-Hai Railway also changed over to a silver basis.

Not only did the railways turn to a silver basis, but likewise did practically all of the merchants in Mukden, settlements in *Fengpiao* being on the basis of the market quotations against yen or silver dollars. The authorities finally legalised the practice and, at the end of 1928, declared that, from 1929 on, Liaoning Province would be on a silver basis.

After May 1929, the silver dollar or the convertible *tayang* note was openly the basis for all Mukden transactions, all shops being legally permitted to employ *tayang* quotations — just as they had previously done illegally. Even pawnshops, which play such an important part in the financial and economic life of the Chinese, could no longer profitably continue to do business on a *Fengpiao* basis, and so likewise changed over to silver.

THE NEW CONVERTIBLE "TAYANG" NOTES.

Liaoning Province adopts silver as the standard and issues new convertible tayang notes.

In commemoration of the "unification of China", as well as Liaoning's change to a convertible silver basis, the Mukden Government placed an order for 5,000 cases (fifty million dollars) of new *tayang* bank-notes bearing the portrait of Sun Yat Sen. To meet the immediate needs for convertible *tayang* notes, a "joint reserve system" was organised by the Provincial Bank of the Three Eastern Provinces, the Frontier Bank, the Bank of China and the Bank of Communications, and, by the spring of 1928, notes against their pooled reserves were in circulation. Frontier bank-notes were employed for this purpose, after having been appropriately surcharged with "chops" or stamps certifying their backing. These notes were secured by 70 per cent silver and their issuance was strictly regulated by the treasury of the joint reserve banks.

Later, the Provincial Bank of the Three Eastern Provinces, the Frontier Bank, the Kirin Provincial Bank, the Bank of China and the Bank of Communications commenced to circulate their own convertible *tayang* notes, and all, with the exception of the Kirin Provincial Bank, continued to circulate limited amounts of their so-called "Tientsin notes" (actually notes bearing either Tientsin or Peking "chops").

By the end of 1931, there were in circulation in Liaoning Province over forty million dollars' worth of convertible *tayang* notes (not including the limited amount of Tientsin notes) as against approximately twenty million dollars' worth of *Fengpiao*, having a nominal value of over one billion dollars. The Newchwang transfer tael accounts, at this same time, amounted to ten million taels, with a silver exchange value of 4,761,000 dollars; and Antung *sycee* amounted

to two million *taels* (different from the above *taels*) with a silver exchange value of 2,857,000 dollars.

The relative importance of these currencies in Manchuria's economic life, however, is not to be judged entirely from their aggregate silver exchange values. For example, *tayang* notes were used largely in the cities, chiefly around Mukden, but *Fengpiao* notes were used throughout the country and by the masses. This also was the money with which the authorities purchased beans and other produce, a practice which will be described in a later section.

III. THE CURRENCIES OF KIRIN AND HEILUNGKIANG PROVINCE.

CURRENCIES OF KIRIN PROVINCE.

Inconvertible tiao and tayang notes, Harbin tayang notes and Japanese currency circulate in Kirin Province, but no "hard monies" are to be found.

The present currencies of Kirin Province consist almost entirely of inconvertible bank-notes, only insignificant quantities of "coppers", and lesser quantities of silver, ever being found in circulation. The Chinese bank-notes are the *tiao* and *tayang* notes of the Kirin Yung Heng Provincial Bank and the Harbin *tayang* notes of Harbin Special District, issued by several Chinese banks. Although Harbin is in Kirin Province, it has developed a currency peculiar to itself, and one which will be the subject of the following section. Japanese currencies, especially the "gold" yen note of the Bank of Chosen, also circulate in Kirin Province, but they likewise will be treated separately. Only Kirin *tiao* and *tayang* notes, their predecessors, therefore will be treated in the following paragraphs.

Toward the end of the last century, there was such a scarcity of hard money in Kirin that a number of private organisations such as pawnbrokers, distilleries, and exchange shops, began to issue "pingtiao" notes. The market soon became flooded with these and so, with the establishment of the Provincial Note Office in 1898, the authorities displaced these notes with their own. These first notes were nominally based on silver dollars but, in 1900, they were replaced by *chihchien* notes, or notes nominally based on copper "cash". These were known as *tiao* notes, as explained in the first section of this paper.

In 1908, with the establishment of the Kirin mint, the Provincial Note Office amalgamated with it, to form the Kirin Yung Heng Provincial Bank, which, until last autumn, controlled the note-issue in Kirin Province.

The tiao note of Kirin, like the tiao note of Heilungkiang and the Fengpiao of Liaoning, is the currency of the masses.

Kirin *tiao* notes circulate within the province only, and are the media of the great bulk of Chinese in the country. It was by means of the frequent emission and manipulation of this currency that the provincial authorities taxed and exploited their farmers, just as was done in Heilungkiang, with a similar *tiao*, and in Liaoning, with the *Fengpiao*. Indeed, the very appearance of the *tiao* notes suggests the use made of them.

Tiao notes bear references to Chinese classics, but seldom to reserves or redeemability.

Tiao notes are crudely printed on very cheap Chinese stock. Seldom is there any mention on the note concerning the matter of redemption or reserves, but, in lieu, there is a naïve explanation for the issue or a statement of the benefits that will follow from it, or some passage from Chinese classics or folklore. Following are excerpts from some of these :¹

"There is lack of silver on the money market of the Kirin Province after the war . . ."

"These bank-notes are issued for upholding the market. If someone will protest, put obstacles in their way, or counterfeit them and cheat the people, he will be immediately arrested and severely punished. The above is announced for your guidance and information."

"Prince Chao exchanged a piece of jade for twelve cities, and this story has passed from generation to generation as a remarkable event."

"The north wind chases the white clouds which have already left many mountains and rivers in their wake. Looking at this, my heart quakes. I do not like autumn, it does not bring joy to the soul and heart."

"For a long time I concealed the intention to reach the high scholar degree, but did not attain anything till my hair became white. Who knows that I am sorry for myself; sometimes I look at myself in the mirror and see my humble reflection therein."

"When I looked at the winter rose opening its buds, the presentiment of spring, I became sorry and afraid for myself, and I assimilated myself with the spring grass that grows near the staircase."

¹ *Op. cit.*, POGREBETZKY (page 51 of private translation). For similar passages, see KANN, E., "Copper Bank-notes in China", *Chinese Economic Journal*, July 1929.

“ Riding on the horseback, I dropped a very valuable whip. But the horse obeyed the bridles. Passing over the beautiful summer house I tore off a new branch. People often do that in the spring.”

“ The winter came, the swans have flown to the south, the camp is covered with white frost. Signal horns are blown somewhere at night, and you can hear the melody on the border line. In gloomy weather the sun shines badly. Parting with you, I don't know what is the time. I want to look at the road leading to the iron mountain, but I see nothing and only think.”

Tiao notes cease to be convertible and depreciate enormously.

The provincial authorities issued such immense quantities of these notes that they soon ceased to be redeemable, and, by 1911, were not officially exchangeable for hard money at any rate, due to a “ shortage of coins ”. The worse provincial finances became, the larger would be the emissions, and the larger the emissions, the worse finances became. The Provincial Treasury was still in the snare of this vicious circle at the outbreak of Sino-Japanese hostilities last autumn. By this time, they had issued over 10 billion *tiao*, having an exchange value of about 25 million dollars in silver. At this time, one silver dollar would have purchased over 400 *tiao*, whereas, originally, its silver equivalent would have purchased only about four *tiao*.¹

Kirin Province issued tayang notes as well as tiao.

In addition to *tiao* “ copper ” notes, the Kirin Provincial Bank also issued “ silver ” notes. Originally, these were in the form of *hsiaoyang* or “ small silver ” in conventional denominations ranging up to 100 dollars. The Bank also issued *tayang* “ big money ” notes, particularly from 1927 on. Incidentally, over 3 million dollars' worth of these were donated in 1927 for the construction of the Kirin-Hailung Railway.

The Kirin *tayang* notes are similar to the Harbin *tayang* notes, to be described in the next section, but are somewhat more depreciated. At the outbreak of hostilities last autumn, it is estimated that there were in circulation in Kirin about 38 millions in *tayang* notes (exclusive of those of Harbin) with a silver exchange value of over 27 million dollars.

CURRENCIES OF HEILUNGKIANG PROVINCE.

Currencies of Heilungkiang Province similar to those of Kirin Province.

In all essential respects, the monetary history and the currencies of Heilungkiang are similar to those of Kirin. The same kinds of notes, known by the same names, have been used as media, and the provincial authorities have employed a similar technique — though more boldly — in exploiting the masses by their emission and manipulation. Foreign bank-notes are fewer here than in either of the other provinces, however.

The first Heilungkiang provincial notes were copied from those of Kirin and were known as *tiao*, being nominally based on *chihchien* or copper “ cash ”. They were issued in 1904 by the Kwang Singh Kungssu Bank. This was a semi-official company authorised, not only to issue notes, but to deal in grain and other commodities, to transport goods, handle remittances, and the like. In 1919, this Bank amalgamated with the Heilungkiang Provincial Bank and was renamed the Heilungkiang Province Kwang Singh Kungssu. It acted as the central bank of the province and its chief activities, among many others, were the issuing and manipulation of notes and the marketing of agricultural produce.

Provincial Bank issued inconvertible tayang notes as well as tiao notes.

In addition to *tiao* notes, the Bank issued *tayang* notes, which were similar to the *tayang* notes of Kirin and Harbin, but which had been depreciated even more than these by the outbreak of hostilities last autumn. The circulation of Heilungkiang *tayang* notes is confined solely within the provincial borders, save for the Harbin surcharged notes, to which reference will be made in the following section.

At the end of 1929, it was estimated there were in circulation between nine and twelve billion *tiao*, with an exchange value of from 22.5 million to 30 million dollars in silver, and from 10 to 15 million dollars of *tayang* notes, with an exchange value of from 7 to 11 million silver dollars. (The lower *tiao* and the higher *tayang* estimates are from Chinese sources ; and the higher *tiao* and lower *tayang* estimates from Japanese sources.) By the end of 1930, there were circulating in Heilungkiang Province 12 billion *tiao*, with an exchange value of 6 million dollars silver, and 10 million dollars of *tayang* notes worth a little over 7 million dollars in silver, according to the Japanese. By the end of 1931, according to the Chinese, there were in circulation about 15.5 billion *tiao*, with an exchange value of over 8 million dollars silver, and almost 21 million dollars in *tayang* notes, with an exchange value of almost 13.5 million dollars silver.

¹ Some authorities give 2.2 *tiao*.

IV. THE CURRENCY OF HARBIN SPECIAL DISTRICT.

Harbin currency differs from that of the rest of Kirin Province.

Although Harbin is in Kirin Province, it has always been outside ordinary provincial regulation in monetary matters and so has developed a currency peculiar to itself. For this reason and because the circulation is one of the largest in Manchuria, it demands separate treatment. It compels attention for other reasons too. It is the currency in which the Chinese Eastern Railway collects most of its charges (computed in gold *roubles*, however), and the money which has frequently clashed with the *yen* and given rise to Sino-Japanese controversy. Largely because it has occasioned this controversy, it will be given somewhat detailed treatment.

As was earlier mentioned, the Russian *rouble* was one of the most dominant currencies in Manchuria from the beginning of railway construction in that region until the outbreak of the Russo-Japanese war. The *rouble* was then forced out of South Manchuria by the *yen*, but continued to dominate in North Manchuria until the outbreak of the Russian revolution of 1917. While the Tsarist *roubles* were still depreciating, a series of other *rouble* notes came in rapid succession, first the Kerensky *rouble*, and then Kolchak's (Siberian notes) and Horvath's (Russo-Asiatic Bank of Harbin). By 1920, Russian currency had been depreciated out of general circulation and was only an object for exchange speculation.

Japanese currency invades North Manchuria following decline of the rouble in 1917.

Under the circumstances, it was not surprising that the *yen* should have taken a strong hold in North Manchuria at this time. As early as the middle of 1917, the *yen* had already become a factor in Harbin finance. It was at this time that the Harbin branch of the Yokohama Specie Bank opened *yen* accounts and that *yen* notes first began to circulate in Northern Manchuria. The sharp fluctuation of the Russian currencies at this time was largely responsible for this.

Chinese bank-notes replace the Russian rouble and weaken the hold of the Japanese currency.

During the world war and the Russian civil wars from 1914 to 1921, Japanese influence steadily expanded in North Manchuria, becoming greatly strengthened as a result of the Japanese participation in the military expedition to Siberia. The *yen*, however, never succeeded in taking the place of the *rouble*, for, when the Chinese Eastern Railway would no longer accept Russian or Siberian notes, it demanded Chinese money. This was due largely to the Chinese influence on the Chinese Eastern Railway, as well as to the Mukden authorities unconditionally guaranteeing to redeem the Harbin notes. The Customs and all trade followed the Chinese Eastern Railway practice of demanding Chinese money. The instability of the *yen*, following the severe Japanese earthquake in September 1923, helped further to strengthen the position of the Harbin note.

Chinese tayang notes for Harbin first issued by Bank of China and Bank of Communications in 1919.

Harbin *tayang* notes, then known as Chinese national notes, were first issued in 1919 by the Manchurian branches of the Bank of China and the Bank of Communications. The following year, the Provincial Bank of the Three Eastern Provinces and the Kwang Singh Kungssu Bank (since amalgamated with the Heilungkiang Bank and now a part of the Provincial Bank of Heilungkiang Province) also started issuing Harbin *tayang* notes. Later, the Frontier Bank (1925) and the Kirin Provincial Bank commenced to circulate Harbin notes as well. At the present time, the *tayang* notes of all of the above-mentioned banks are found in the Harbin money market.

Chinese bank-notes become inconvertible and depreciate, and campaigns are started to drive out foreign currencies.

Harbin *tayang* notes were originally convertible, but, when Chang Tso-lin's military requirements seriously drained the reserves back of them, they ceased to be, and commenced to depreciate. The depreciation was further accelerated by the authorities expanding the issue both to meet deficits and to provide for bean-buying operations. The ensuing depreciation and instability served to re-attract the *yen*, and with it came a series of attempts by the Chinese authorities to oust it.

Chief Chang-Huang-Hsiang, of the Civil Administration of the Harbin Special District, commenced a campaign in 1926 — only to be suppressed by Chang Tso-lin under Japanese pressure — to drive foreign currencies out of circulation. Accordingly, the Harbin Chamber of Commerce addressed the population to uphold the national currency with a plea that read as follows :¹

¹ *Op. cit.*, POGREBETZKY (page 109 of translation).

Harbin Chamber of Commerce (Chinese) charges that foreigners use their own currencies for purpose of exploiting Chinese.

“ Cities of North Manchuria are flooded with foreign currencies, power of which is increasing day by day, and the object of the foreigners is to force out the dollar from the market. Holding the currency in their hands, foreigners are speculating with it as they please. Results of this speculation are affecting the country. Our trade and industry are in a critical position. The Chamber of Commerce, remembering the great loss that our merchants suffered in connection with dropping of the Tsarist money and not wishing the repetition of this in future, recommend to use our own currency and refuse those of foreigners. It is necessary to know that foreigners coming to China bring their currencies with them with the object of enslaving our country. All should unite for the protection of our interests. Foreigners are sucking our blood. Our currency now looks like a fish in the aquarium. We should make them burn their fingers in this matter as the butterfly burns its wings from the candle.

“ Only after bringing our words into action we may be sure of the development of our economics and welfare of our market.”

The Japanese Consul-General in Harbin considered this an attack on the *yen* and addressed General Chang-Huang-Hsiang as follows :¹

Japanese Consul in Harbin considers the drive against foreign currencies a drive against the yen.

“ Harbin Chamber of Commerce issued a proclamation to the population, prohibiting acceptance of foreign currency. There is a hint about Japanese *yen*. Circulation of *yen* in Manchuria is allowed according to agreement and, therefore, aggressions against *yen* are absolutely unjust. The proclamation of the Chamber of Commerce on the whole is nothing but opposition against foreigners. Reference is made in the proclamation about authorities' orders for issue of same. Request you to investigate the case and prohibit in the future such illegal actions. ”

Chinese authorities deny that they are waging a campaign against yen currency.

This was replied to as follows :²

“ I have the honour to inform you that we are in receipt of your letter about boycott of *yen* by the Chinese merchants. We made enquiries at the Chinese Chamber of Commerce ; the latter replied that boycott is concerning all foreign currencies but not the *yen* only. Please note. ”

Chinese authorities adopt drastic programme to strengthen the Harbin dollar.

Following this, the Chinese authorities received a telegram from Marshal Chang Tso-lin, then in Peking, urging them to strengthen the dollar at all costs. To this end, they outlined and adopted a number of measures calculated to have such an effect. Some of them were :

- (1) The charging of higher remittance fees and the limiting of the amounts of drafts to the South ;
- (2) Investigating the reasons for the transference of money ;
- (3) Prohibiting banks and shops from buying foreign currencies or speculating in Chinese currencies ;
- (4) Ordering firms to sell their grain stocks and thereby create a demand for dollars ;
- (5) Forbidding the use of any but local dollars in the buying and selling of grain ;
- (6) Compelling merchants to keep their accounts, sell their goods and collect their bills in terms of Harbin *tayang* only ;
- (7) Requiring that grain contracts between Chinese merchants and foreigners be concluded in Chinese currencies only ;
- (8) Compelling all clubs, cinemas, theatres, restaurants, hotels, etc., from December 27th, 1926, on, to accept *tayang* notes only and to refuse *yen* even at the current exchange rate ;
- (9) Forbidding the importation of foreign currencies ;
- (10) Investigating the reason for the general rise in prices ;
- (11) Forbidding the saving of money in foreign currencies.

¹ *Op. cit.*, November 3rd, 1926 (page 110).

² *Ibid.*, November 10th, 1926 (page 110).

*Japanese Consul lodges oral and written protests
against anti-foreign currency campaign.*

This programme attracted the attention of N. Amo, the Japanese Consul-General in Harbin, and he immediately paid a personal visit to General Chang-Huang-Hsiang. General Chang denied that the campaign was directed against the *yen*, stating that it was a campaign merely to strengthen the local dollar. The Japanese Consul-General was so dissatisfied with the oral explanation offered that he sent the General the following written protest :¹

“ I have the honour to inform you that the Chinese Chamber of Commerce issued a proclamation prohibiting the acceptance of foreign currency. Actually under the foreign currency the *gold yen* was understood. After publication of the proclamation, you have declared that you do not prohibit acceptance of *gold yen* at all, but why did you order local authorities to watch over the firms using foreign currency ?

“ Lately, your office issued the following order :

- “ ‘(1) It is prohibited to exchange *tayang* for *yen* and *vice versa*;
- “ ‘(2) Exchange offices are prohibited to make operation in *yen* ;
- “ ‘(3) Merchandise must be priced in dollars ;
- “ ‘(4) It is prohibited to accept *gold yen*.’

“ You have already told us about upholding the exchange rate of *tayang* and we quite approve of it. But yet the exchange rate of same is constantly fluctuating. This, at any rate, is not due to Japanese goods. Your office issued an order about the boycott of the Japanese goods. The order has this sense ; there can be no other. You are not concerned about the sad consequences of this order for your foreign merchants. Your authorities are intending to boycott the Japanese goods ; this is very unpleasant for us. With the object of maintaining friendship between China and Japan, I would request you to cancel urgently the order limiting the circulation of the Japanese goods. I hope that you will agree with my request. ”

This was evasively replied to on January 5th, 1927, as follows :²

“ I am in receipt of your letter, contents of which are duly noted. The object of the order about regulating the dollar, and considering it as a basic monetary unit in Harbin, is a desire to restore the money market. If the foreign currency is suffering from the new regulations, I cannot help it. As regards our intention to boycott Japanese goods, it is not true. You take our order in a wrong sense, and I am very sorry for it. The measures for regulating monetary system in Harbin are very reasonable. ”

*Foreign Bankers' Association attempts to
dissuade Chinese authorities from carrying
out programme.*

In addition to the Japanese Consul-General, the extra-territorial banks likewise attempted to prevent the Chinese authorities from carrying out their programme. The Association of Foreign Exchange Banks in Harbin, consisting of the National City Bank of New York, the Hong-Kong and Shanghai Banking Corporation, the Yokohama Specie Bank and the Bank of Chosen, submitted, on January 4th, 1927, a memorandum, an extract from which is as follows :³

“ The Association of Foreign Exchange Banks is deeply interested in the measures of the local Chinese authorities for the betterment of the dollar. Harbin branches of the four Exchange Banks, which are members of the Association, are carrying business for the amount equivalent to nearly 100,000,000 Mexican dollars, which capital is wholly dependent on financial conditions of Harbin and its suburbs. The Foreign Exchange Banks would welcome each and every measure taken by Chinese authorities with the view of stabilising the dollar, should these measures be based on the sound banking principles. It is felt, however, that the above said restrictions neglect the main reasons for devaluation of the local dollar, and, moreover, being actually carried out, would be a serious obstacle in the way of economical development of trade and industry of the Three Eastern Provinces. The reason for local dollar being cheaper (the deficiency fluctuated from 7 to 25 per cent) as compared with its nominal silver value, cannot be explained by the fact that it was freely exchanged for *gold yen*, as well as by the fact that *gold yen* freely circulated in the Harbin market.

*Foreign bankers explain real reasons for the
depreciation of tayang notes.*

“ But the main reasons for these devaluations are as follows :

“ (a) Bank-notes issued by local Chinese banks are not based on the respective silver security, and these bank-notes are not exchanged for silver freely ;

¹ *Ibid.*, January 5th, 1927 ; also *Dung-San-Shen-Shan-Bao* (Chinese), January 1st, 1927, *op. cit.*, POGREBETZKY (page 115 of Commission's private translation).

² *Co-Tsi-Sie-Bao* (Chinese), January 5th, 1927, *op. cit.*, POGREBETZKY (page 116 of translation).

³ *Op. cit.*, POGREBETZKY (page 115 of translation).

“ (b) Rumours are circulating that the banks issued a large quantity of bank-notes for purchasing beans, as well as for collecting funds (in *taels* or *gold yen*) to transfer them to Shanghai and other cities.

“ As long as these bank-notes will not be freely exchanged for silver, as is practised in Tientsin, Shanghai, Peking, Hankow and other parts of China, and as long as the society feels that some of the banks, maybe, issue at any rate at the present time more bank-notes than financial standing of this bank would allow, it would not be possible to stop the severe fluctuation of the local dollar bank-notes which we noticed during the last few years. Limiting of local exchange operations, and applying the police force in order to increase compulsorily the circulation of the local dollar bank-notes, as we presume, would not result in permanent improvement, but, on the contrary, would be a serious obstacle in the way of economic development of North Manchuria. Therefore, we respectfully suggest that you thoroughly investigate the situation before taking any strong measures. The opinion of the experts should be discussed so that the stabilisation of the dollar may be carried out on sound banking principles. In the opinion of this association, the local dollar currency may be raised up to the parity with Shanghai dollar within a short time.

“ Using it as a basic currency, North Manchuria will then greatly develop, together with the prosperity of the people to which we must all try to contribute. ”

Japanese diplomatic and foreign bankers' representations disregarded and Chinese organisations start an active drive against foreign currencies.

The diplomatic protests of the Japanese and the petition of the Association of the Foreign Exchange Banks proved of little avail and were indirectly answered in a proclamation, issued January 27th, by a number of chambers of commerce and other organisations :¹

“ According to the order of the General Director of the Special Area of the Eastern Provinces, General Chang, the local dollar was declared an obligatory basic currency, as, due to former uncertainty in exchange settlements, the exchange rate was unstable and constantly fluctuated. At a special conference of the chambers of commerce and banks it was resolved that all Chinese should use exclusively national currency, but not with any intention of forcing out the foreign currencies. Some people, however, misunderstood this matter and the papers of a certain nationality, making use of this misunderstanding, commenced to spread false information, to the prejudice of the situation and affronting our ambition. Harbin is in Chinese territory, the Chinese currency must be in force there, and all orders of the Chinese authorities under whose jurisdiction the territory is governed should be adhered to. Chinese and foreigners residing in Harbin must abide by these orders, without contradiction.

“ Due to historically developed conditions, during many years the foreign currencies circulated in the Harbin district, the groundwork was laid by the admission of Russian bank-notes ; but when Russian usurpation tendency failed and Russian bank-notes were devalued, then the Korean Bank of a certain nationality issued in their place its bank-notes, not exchangeable for metal, yet enjoying the wide circulation in the local market. The people, noticing this and understanding that they suffer enormous losses, tried to avoid this new danger and regarded the new bank-notes with great caution. It is already ten years that these bank-notes, injurious to the population, exist. The people have not yet recovered from their previous losses but are still feeling the prejudicial consequences and have lost their confidence in foreign currencies.

Chinese object to the use of a gold standard currency.

“ The upholding of basic currency in Harbin is necessary for the State and political combinations as well as for vital interests of the people. Only local residents of a certain nationality, previously using gold yen for their operations in the Harbin market, found the strengthening of the Harbin *tayang* bank-notes to be unprofitable to their interests.

“ How dare they obtrude in Harbin those yen which were not hitherto circulating and have to be exchanged even in Mukden and Yingkow ?

“ Bringing into action their secret projects, the people of this nationality, notwithstanding the fact that China is not adopting the gold standard, introduced this gold currency in Dairen, not considering the difficulties arising thereby, and all this for their usurpation policy in Manchuria and Mongolia. In order to defeat the violence offered, it is necessary for all the population to understand thoroughly this great evil.

“ The Chinese citizens must unite in their efforts in order to liquidate the present disorder and not to admit the tricks played by the foreign speculators. Render assistance to authorities and do not allow persons of certain nationality to trespass against the orders of the authorities. ”

¹ *Cun-Bao* (Chinese), January 23rd, 1927, *op. cit.*, *POGREBETZKY* (page 119).

Chinese Press supports the organisations in their campaign to drive out yen.

The Chinese Press likewise did its best to popularise support for the Administration's policy. The authorities forbade the use of the gold *yen* on the Russian Produce Exchange either for quotation or settlement ; exerted efforts toward forcing *yen* currency out of circulation ; and compelled the retail trade to employ the *tayang* exclusively.

The authorities attempted to strengthen the local dollar by other steps as well. They arbitrarily decreed low rates for Shanghai and Tientsin exchange, much to the disadvantage of the Chinese Banks. To compensate them for incurring these losses, however, the authorities allowed them to issue additional notes.

Arbitrary strengthening measures result in expansion of note issue.

For the above, as well as for other reasons, the Bank of the Three Eastern Provinces, the Frontier Bank, the Bank of China, the Bank of Communications, as well as the Kwang Singh Bank, were allowed to emit substantial amounts of notes. The issues of the last-named bank, incidentally, always annoyed the Harbin authorities and bankers, their feeling being that Heilungkiang notes should not circulate in Kirin Province, in which Harbin is located. For tactical and political reasons, however, Harbin has had to tolerate them.

As the note issues expanded, exchange rates on Tientsin and Shanghai mounted and the authorities renewed their efforts to bolster the *tayang* by a number of arbitrary and economically unsound methods. They called a number of conferences during 1928 to study the problem, and, while these often resulted in sound reform measures being recommended, only nebulous sporadic improvement was the result.

The close relation between the exchange rate of the *tayang* and the grain- and produce-purchasing activities of the provincial banks at last compelled that some effective reform measures be taken. Accordingly, an order from Mukden on January 13th, 1929, concentrated the control over all financial and trade operations in the hands of a single person, the General Director of the Special Area of the Three Eastern Provinces.

Chinese authorities unsuccessfully attempt to restore Harbin note to parity.

As a result of a conference between Marshal Chang Hsueh-liang and the General Director, a plan was devised whereby some notes would be withdrawn from circulation. From the statements of the issuing banks, it was determined that, by April 1929, 31,200,000 dollars had been officially issued. The General Director, however, being anxious to determine the actual amount in circulation and the amounts issued by each of the Banks, withdrew all the notes in circulation and issued in their place *tayang* notes bearing his " chop " or stamp. Starting in April 1929, he allowed several months for all of the notes to be presented for properly " chopped " ones, after which the " unchopped " notes were declared invalid.

By this means, the Harbin circulation was narrowed down to the authorised issues for each of the banks. This, however, did not prove a sufficiently adequate move to bring them up to par with silver as was hoped.

It will be recalled that the Mukden market at this time commenced quite openly to employ the silver dollar as the standard, using the *Fengpiao* only as a medium at its market rate of exchange. A similar practice came into extensive use in Harbin. The Hu-Hai railway, the Tax Bureau, the Post Office and many other organisations changed over to the new basis. Despite this, however, the Harbin *tayang* note to this day remains the most important currency in and around Harbin.

Inconvertible Harbin dollar violently unstable and highly unsatisfactory.

The Harbin dollar is a highly unsatisfactory currency, not so much because of its depreciation, but because of its ceaseless, erratic and violent fluctuation against most other monies in and out of Manchuria. It is a constant handicap to the business in this region, the extent of which can only be appreciated by those persons living and doing business in Harbin. Everyone in Harbin is of necessity " exchange conscious ". Not only does the general populace suffer, but the Post Office, Railways, Customs and the Government itself. A currency such as the Harbin dollar, which quivers in the face of every unfounded rumour in which the region abounds, ought to be replaced by some more satisfactory currency at the earliest possible moment.

At the outbreak of hostilities last year, there were in circulation in and near Harbin between 38 and 39 million dollars in *tayang* notes, with an exchange value of something over 27 million dollars in silver.

V. OTHER CHINESE MONIES.

PRIVATE NOTE ISSUES.

Notes issued by exchange shops, distilleries, chambers of commerce, pawnshops and private firms also circulate in Manchuria.

In addition to the currencies already discussed, there exists in Manchuria a substantial amount of privately issued notes. These were in existence long before the provincial printing offices or banks were established and are still of considerable importance outside of the larger cities. Such notes are issued by exchange shops, private banks, distilleries, chambers of commerce pawnshops and private firms. Only in the most exceptional cases are the notes redeemable in hard money, being usually as bad as or worse than most of the provincial notes.

The notes are in a variety of forms and are theoretically based either on copper or silver. The currency is ordinarily negotiated simply by transfer, but an older method of requiring the crediting and debiting of accounts with the issuing party is in some places still retained. From time to time, as these private organisations misused their note-issue "rights", the authorities would conduct campaigns against them. The notes have never been driven out, however, and so are still an important harmful factor in village economy. No acceptable estimates as to the total amounts of these private issues are available, so they unfortunately must be omitted from the tables of currencies circulating in Manchuria. Their aggregate amount, however, is believed to be substantial.

CHINESE MONIES OF ACCOUNT.

All the important Chinese currencies actually in circulation in Manchuria have been treated in some detail, and it now remains only to touch upon the important Chinese *monies of account*.

Haikwan tael.

The Chinese Maritime Customs uses the so-called Customs or Haikwan tael as a basis for levying and collecting duties. This is only a money of account, however, as actual payment is always in local currency at the rate of exchange fixed for the day by the Customs authorities.

Customs gold unit.

Prior to 1930, the duties on both imports and exports were collected in terms of the above unit, but since then duties on imports are levied in terms of the "Customs gold unit", which has a value equivalent to 0.40 American gold dollar (this is actually the "Sun", the gold exchange unit recommended to China by the Kemmerer Commission in 1929).¹

Kuping or Treasury tael.

The Kuping or Treasury *tael* is still another money of account which is of some minor importance. It was introduced by the Ching dynasty for the collection of certain taxes, and is still employed in certain official transactions. Its theoretic weight and fineness differs slightly from the Haikwan *tael*.

Newchwang transfer tael.

The Newchwang transfer *tael*, which has already been described, also has a slightly different theoretical basis from either of the above-mentioned *taels*.

Tientsin and Shanghai taels.

Both the Tientsin and Shanghai *taels*, each of which is different from any of the above-mentioned *taels*, are likewise important monies of account (not to be confused with the actual physical *taels*, multiples of which are also employed). Remittances to and from Manchuria are often made and bank balances often kept in terms of these units.

At the time of writing, there is again considerable official agitation to abolish the *tael* and replace it with the standard Chinese dollar.

¹ Since this was written, the "Manchukuo" authorities have control of the Manchurian Customs, but it is believed that, for the time being, they have continued with the old Chinese Maritime Customs units.

VI. MANCHURIAN CURRENCIES IN CONNECTION WITH
“ OFFICIAL BEAN-BUYING ”.

Official bean-buying intimately related to note issue.

No description of Chinese currencies in Manchuria would be complete without a reference to the buying of agricultural produce (chiefly beans) by the Chinese provincial authorities. In recent years, the issuance of bank-notes and their manipulation was largely the complement of bean-buying. So intimately were the two operations linked that it is only with some difficulty that one can allocate the profits earned and the hardships imposed to one or the other.

Official bean-buying operations essentially the same in each of the provinces.

The bean-buying operations of the provincial authorities through their banks and banks' affiliates were essentially the same in each of the North-Eastern Provinces, hence a description of the general practice will suffice.¹ It should be made clear at this point, however, that, while the operations in each province were similar, they were carried out with varying intensity and consequence. The Heilungkiang officials were the most severe, the Liaoning the least, and the Kirin officials stood midway between. By the time of the outbreak of Sino-Japanese hostilities, the Liaoning officials had apparently abolished the more flagrant abuses, but evidence is lacking that the other two provinces had done so.

Ever in search of new sources of revenue, and ever desirous of stemming further Japanese advance, the Chinese provincial authorities over a decade ago actively began to take a part in the buying and selling of Manchurian staples, such as beans, and, to a limited extent, wheat and kaoliang. By buying these with their own irredeemable notes and selling them to foreigners for “ good ” money or exchange, they were able to obtain considerable revenues and at the same time check the increasing Japanese dominance in direct bean-buying. While provincial banks had for many years taken a part in produce-buying operations, it was only within the several years prior to the outbreak of Sino-Japanese hostilities that these assumed quasi-monopolistic proportions and attracted so much attention and notoriety.

Produce usually bought with irredeemable tiao or Fengpiao and sold for “ good money ” or exchange.

The provincial banks directly or through affiliates usually bought their staples from the farmers or small rural bean-buyers. The beans were ordinarily purchased with irredeemable *tiao* notes in Heilungkiang and Kirin and with *Fengpiao* in Liaoning, advances or full payment in these currencies often being made on green crops early in the summer.

The beans were collected at numerous interior points and shipped to the bean-buying centres, the chief of which were in Harbin and Dairen. In these, as well as in other cities which maintained produce exchanges, the Chinese sold their staples to the large Japanese, British, French, Danish and Russian exporters, of which the Japanese were naturally the outstanding. The Chinese did practically no foreign export business themselves.

Foreign bean-buyers compelled to discontinue buying directly from growers because of burdensome Chinese taxes.

Formerly, foreign bean-buyers used to buy directly from the farmer, using Chinese and often Russians as the buying agents. This practice had to be discontinued, however, as a result of the numerous taxes which the Chinese officials imposed, and which could not be avoided by the foreigners, but which could, in one measure or another, be paid by the Chinese. All of the foreign bean-buyers interviewed by the Commission declared that no merchant would be able to do any business whatsoever if he actually paid all the taxes which the Chinese officials tried to gather.

Chinese claim that the object of engaging in the business was to help Chinese farmers and protect them from Japanese exploitation.

The Chinese officials claim that the provincial banks engaged in the bean-buying business with the following object :

- (1) To protect the Chinese farmers from exploitation by the large “ Japanese bean-buying monopoly ”. This monopoly they contended grew out of the South Manchuria

¹ The following is based largely on personal interviews with Japanese, Chinese and foreign bankers, bean-dealers and Government officials and on data supplied by them, and the Chinese and Japanese assessors.

Railway practice of giving secret rebates to Japanese and thus making it impossible for Chinese or Europeans to compete with them.

(2) To protect the Chinese farmer against forced sales at ruinous prices during times of "over-production", such as prevailed in 1930 for example.

(3) To increase the prices which could be given to the Chinese farmers by lowering marketing costs and by forcing Japanese and others to pay "fair prices".

At the end of 1929, four Chinese banks, composed of the three provincial banks and the Frontier Bank, organised a "Soya Bean Pool" for the avowed purpose of "disposing of the temporary over-production of beans", of helping "the farmer against forced sale", and defeating "unfair buying by the Japanese".¹

Japanese deny Chinese allegations and hold that the Chinese officials have been responsible for exploiting the bean-growers.

Naturally enough, the Japanese deny that they at any time have exercised unfair or harmful practice. They further evince grave scepticism concerning the altruism of the Chinese officials in their bean-buying operations. Further, they countercharge that the Chinese officials, by purchasing crops with irredeemable monies, were driving all honest competition out of the market, and that the officials themselves were not only exploiting the farmers, but were also trying to do the same to the foreign exporters. The "Soya Bean Pool" which operated throughout 1930 was looked upon by the Japanese as a concerted effort on the part of the provincial authorities to cripple them in a business which they so proudly recall having placed on its present footing by the "trial shipment" to England in 1908.

EUROPEAN BEAN-BUYERS.

European bean-buyers criticise both Chinese and Japanese.

At this point, it may be well to mention that European bean-buyers are likewise not without complaint. All of those interviewed by the Commission in Harbin during May of this year were even more bitter in their criticism of the Japanese than of the Chinese. While admitting that doing business under the old regime was far from pleasant, it was at least possible. Beans could be purchased from the Chinese; they could be shipped over the Chinese Eastern Railway or South Manchuria Railway, and some profits could be earned. Since about the first of the year, they alleged, they were unable to "buy a single bean", and since the latter part of April, with the closing of the eastern line of the Chinese Eastern Railway, none of them was able to do any shipping whatsoever. The Japanese, they claimed, with control over the only outlet down the South Manchuria Railway through Dairen, had a virtual monopoly of the entire bean-export business. All of them further declared that, if the Japanese should come into control of the eastern line of the Chinese Eastern Railway, they will depart for their home countries, since no further business will be possible for them.

European bean-buyers charge that the South Manchuria Railway granted secret rebates to Japanese shippers.

The European bean-buyers, incidentally, were as positive as were the Chinese that the South Manchuria Railway granted secret rebates to the large Japanese shippers. The rebates, they claimed, had been granted up to the first of this year through a forwarding company organised by the South Manchuria Railway and popularly known as "Kokusai". Since then, an organisation known in the trade as "Monokata" had taken its place. "Monokata", incidentally, is the name of the Japanese head of a Chinese firm known as Chaeng-Fa-Tung.

As evidence that the Japanese exporters were receiving rebates, the European buyers submitted the following: "Monokata", for example, was paying a higher "f.o.b. Dairen" price (i.e., a price including freight prepayment to Dairen) for beans in Harbin than the beans were actually selling for in Dairen. Unless he were receiving a rebate from the railroad, they argued, he could not possibly find such an operation profitable.

SUMMARY OF COMPLAINTS AND CHARGES.

The complaints and charges of the various national groups with respect to the bean-buying practices in Manchuria might be summarised as follows:

(1) The Japanese and Chinese both accuse each other of exploiting the Chinese peasants, attempting to monopolise the market and of engaging in numerous unfair practices.

¹ Chinese "Memorandum on the Currency in the Three Eastern Provinces and its Relation to the Soya Bean".

(2) The European bean merchants accuse both the Chinese and Japanese of attempting to monopolise the market and of employing unfair means to do so ; and, like the Japanese, accuse the Chinese officials of unmercifully exploiting the farmers.

CONCLUSION.

Farmers unquestionably exploited by means of currency depreciation and manipulation resulting largely from official bean-buying operations.

However true or untrue the above charges may be, one of them can easily be substantiated. The provincial officials without question fearfully exploited the farmers, and did it largely by the emission and manipulation of *tiao* and *Fengpiao* notes in connection with produce-buying operations. It is quite possible that the provincial authorities did not *intend* to exploit the farmers, but the fact that they did exploit them is incontrovertible. The steady depreciation and seasonal manipulation of the *tiao* and *Fengpiao* (until most recently) are the proof.

Failure to contract tiao and Fengpiao issues after the crop-moving season was responsible for chief injury to farmer.

The exploitation of the farmer resulted not so much from the official purchase of produce with practically costless inconvertible notes as it did from the failure of the banks adequately to contract the issues after the crop-moving season. The officials were always reluctant to part with "good" money or exchange (which they received for the produce they sold) to buy back much of the currency they issued in the purchasing of produce. Consequently, as time went on, the total circulation swelled and the purchasing power of the *tiao* and *Fengpiao* dwindled accordingly. It is from this more or less steady depreciation that the farmer suffered and not so much from the fact that the currency he received was irredeemable. If his currency had not depreciated even though it had remained inconvertible, he would have suffered far less.

Farmer suffered from seasonal manipulation as well.

The farmer suffered not only from the more or less steady decline of the *tiao* and *Fengpiao*, but from their seasonal fluctuation as well. While the currencies constantly tended toward worthlessness, they did so in a wave-like manner, appreciating during the bean-buying season and depreciating after it. During the bean-buying season, the demand for *Fengpiao* and *tiao* was brisk and the exchange rates against them high ; after the beans were sold, the demand for currency slackened and the exchange rates against them dropped. At such times, the currencies were used by the farmers or workers to buy goods ; or were sold back to the banks for "good" monies (wanted in part for hoarding and in part for remitting purposes), and for drafts and money orders to friends and relatives in other parts of China.

The process is well described by Mr. E. Kann, an eminent authority on Chinese currencies. He describes the operation as follows :¹

" . . . The Government-controlled banks have been commissioned to purchase inland produce (chiefly soya beans) and pay the farmers in *tiao* notes. Often advances in paper notes have been made in early summer, when the farmers are usually hard up, thus ensuring the delivery to the banks of the autumn crops. In autumn, when the farmers come to town to buy necessities of life, flooding the market with those *tiao* notes, there is invariably a heavy drop in the market quotation of the *tiao* notes, a practice which repeats itself from year to year, bringing the quotation to ever-increasingly lower levels. The loss caused by this state of affairs has been reliably estimated to amount to 25 dollars per annum per head in the total population of North Manchuria. At least 10 per cent of a farmer's annual expenditure in North Manchuria has to be devoted to the loss caused by the steady depreciation of the *tiao* notes. In South Manchuria (Mukden province) the state of affairs has been much worse during recent years. "

The debasement and manipulation of the currency by means of official bean-buying resulted in disgraceful exploitation of the Chinese masses.

The author is unacquainted with any instance in recent times where a Government has so ruthlessly, systematically and over so long a period of time exploited and taxed its own peoples in such a disgraceful manner as have the former Manchurian officials, with the partial exception of those in Liaoning most recently. The disgrace was all the greater because the burden was imposed on those least able to bear it and because practically nothing was given in return for what was taken. In short, it was nothing but monstrous official robbery, the extent and effects of which it is difficult to appreciate.

¹ "Copper Bank-Notes in China", E. KANN, *Chinese Economic Journal*, July 1929, pages 551-552. This particular description is based on "Farm Economics in Northern Manchuria" (in Russian), by E. E. YASHNOFF. Economic Bureau of the Chinese Eastern Railway, 1926.

VII. FOREIGN CURRENCIES AND MONIES OF ACCOUNT.

JAPANESE CURRENCIES.

*Principal Japanese currencies in Manchuria,
the gold yen notes of the Bank of Chosen
and the silver yen notes of the Yokohama
Specie Bank.*

The Japanese currencies in circulation in Manchuria are the so-called *gold yen* notes of the Bank of Chosen and the Bank of Japan, subsidiary silver, nickel and copper coins (such as are used in Japan Proper), silver yen notes of the Yokohama Specie Bank, and silver yen. The subsidiary token coins are very small in amount and the actual silver yen pieces insignificant. The only important currencies then are the *gold yen* notes, which are almost entirely of the Bank of Chosen issue and the silver yen notes of the Yokohama Specie Bank. Of these two, the *gold yen* notes are in the vast preponderance.

Bank of Chosen notes.

Because the Bank of Chosen notes are actually or nominally based on gold and because they circulate alongside of currencies nominally or actually based on silver, they introduce many disturbing elements into Manchuria's economy. All of the inconvertible Manchurian *taiyang* notes tend to fluctuate along with silver, and the gold yen notes, even when inconvertible, tend to fluctuate with gold. As long as Japan is actually on the gold standard, the Bank of Chosen note is *practically* (this qualification to be explained later) as good as the Bank of Japan note of gold; but, whenever she departs from it, the Bank of Chosen note is no better than the Bank of Japan note.

Bank of Chosen notes not precisely equivalent of Bank of Japan notes.

It was intimated above that the Bank of Chosen notes are not always as good as the Bank of Japan notes, even though they are legally convertible into them. This is particularly the case when Japan is off the gold standard. The Bank of Chosen does not consider its branches as offices where conversion of notes need be made on *demand*. Consequently, foreign banks and others are unable to convert their Bank of Chosen notes into Bank of Japan notes at all times in the amounts they wish. The Bank of Chosen branches, however, will offer to obtain such notes *on notice* of from seven to ten days, but it is seldom practicable to give such notice. The effects of this are often important.

Let us assume that a foreign bank in Mukden wishes to remit 200,000 yen to Kobe. It may be able to buy drafts for this amount from other banks; but, should this be impossible, it would be obliged to deal with the Bank of Chosen through its Mukden branch. The following might be the consequences: the branch would refuse to transfer such a large amount at any rate; or it would agree to do so only at an exorbitant one. The foreign banker might then demand Bank of Japan notes in exchange for his tender of Bank of Chosen notes (hoping possibly to mail these to Kobe). The branch office would then claim that it did not have such a large supply of notes on hand and that the Bank of Chosen notes are redeemable on demand only at the main office in Keijo (Seoul). It would probably offer to get these notes in from seven to ten days, however. Even should the foreign banker succeed in getting the Bank of Japan notes, he would meet with obstacles in sending them to Japan. Currency may legally be sent through the Japanese Post Office only in a special manner, for which the remittance charge from a banker's standpoint is exorbitant. If the banker attempts to mail them contrary to regulation, as some have (insuring them with their own insurance companies, however), he may meet with at least some unpleasantness if caught. Practically, then, there are times when bankers and merchants must depend on the Bank of Chosen for making *yen* remittances between Manchuria and Japan. The Bank of Chosen at such times, according to a number of the foreign bankers interviewed by the Commission, has taken advantage of the situation by imposing arbitrary limitations on the amounts that could be transferred, or by charging unwarranted fees for making the transfers, or both.

The so-called gold yen note has actually been redeemable in gold only for two years in the past fifteen.

Japan adopted the gold standard in 1897; abandoned it on September 12th, 1917 (some two and a-half months before the Bank of Chosen note was to become the sole legal tender note for the Japanese Leased Areas in Manchuria); returned to it on January 11th, 1930, and reabandoned it on December 13th, 1931. Since first adopting the gold standard, thirty-five years ago, Japan has been on it for an aggregate of twenty-two years, but during the past fifteen years she has actually been on it for less than two years. Only during this two-year period, from January 11th, 1930, to December 13th, 1931, out of the last fifteen years has the so-called "gold" *yen* actually been the equivalent of a *gold yen*. During the other thirteen years, it has been an irredeemable note the value of which fluctuated within wide limits, dropping

as low as 38½ cents ¹ United States currency during 1924-25 and rising as high as 52⅞ cents United States money during 1918-19, its mint par being a trifle under fifty cents United States gold. In fairness, it must be stated that, during a good deal of this thirteen-year period, especially the earlier part, the yen hovered close to its mint par, but during the rest of the time it wavered far from it.

During a great deal of the time that Japan was off the gold standard, silver fluctuated enormously with respect to both gold and "gold" yen exchange. During 1918-19, 100 dollars Chinese currency would have purchased 250 to 270 "gold" yen (in spite of the fact that at this time the yen was being quoted at a premium above its mint par); whereas, during 1931, 100 dollars Chinese currency would have purchased only as few as 40 gold yen.

Use of the "gold" yen adds disturbances and complications to Manchuria's economy.

As a result of employing the *gold yen*, Manchuria's economy becomes involved with that of Japan. Every political or economic event in Japan that affects *yen* exchange directly affects the currency and credit situation in Manchuria as well as the structure of exchange rates between the *gold yen* and the multitude of Chinese currencies and the Russian *rouble*. Since *yen* exchange is a constantly employed barometer which many of the Chinese use in gauging the appreciation or depreciation of their own monies, this is of especial significance. Any change in the *yen* values of Chinese currencies receives numerous interpretations, many of which are sinister. This "clash of standards" is likewise often related to the more serious Sino-Japanese difficulties — those growing out of railway tariffs, for example.

The clash of yen, roubles and Chinese dollars aggravate railway difficulties.

Every fluctuation of the "gold" yen with respect to gold or silver or both changes the relative advantage which the South Manchuria Railway, employing a gold-yen tariff, has over Chinese railways, employing a silver standard, and the Chinese Eastern Railway, employing a gold basis. For the most part, the friction resulting from this has been least between the Chinese Eastern Railway and the South Manchuria Railway, because the *rouble* and *yen* over long periods tended to move together and because these two railways entered into tariff agreements. Since the expiration of these agreements and the departure of the *yen* from gold, these railways came into active competition for the slight business there was since the first of the year. The friction between the wholly Chinese railways and the Chinese Eastern Railway has not been over-serious, because the Chinese Eastern Railway itself is a joint Chinese-Russian enterprise and because it has not seriously competed with the wholly Chinese lines. But between the Chinese lines and the South Manchuria Railway the friction was continuous. Their lines in part were competitive; they based their tariffs on different standards, and they entered into no important tariff or traffic agreements with one other. In fact, the basing of their tariffs on different standards made satisfactory tariff agreements virtually impossible. The ceaseless clash of the standards on which the Chinese and Japanese based their railway tariffs was, if not at the bottom of many of their railway difficulties, at least a potent irritant aggravating them.

The yen as a money of account.

In addition to its rôle as an actual currency in Manchuria, the *yen* plays an important part there as a *money of account*. Many merchants, particularly those handling foreign goods, use it as a basis for quoting prices and keeping their accounts, even though they accept and pay out only local currencies. As long as the *yen* was close to its gold par, it was roughly the equivalent of any gold currency and was more convenient to use than either American or European currencies. Since Japan reabandoned the gold standard last year, however, a number of merchants have shifted their pricing basis to United States dollars.

JAPANESE SILVER YEN.

Japanese silver yen of much lesser importance and disturbance than "gold" yen.

The circulation of the silver *yen* in Manchuria has been provocative of much less strife than that of gold *yen*. This is chiefly because it is based on silver, and because the circulation is smaller and has a more or less specialised use. As was earlier explained, the redemption of the Japanese military *yen* notes of the Russo-Japanese war by the Yokohama Specie Bank gave birth to the present silver *yen* notes. Actual silver ² *yen* are seldom seen, but the silver *yen* notes and cheques in terms of silver *yen* are commonly employed in the bean trade and on the produce exchanges. The silver *yen* also serves to a limited extent as a medium of transfer

¹ The author is not considering quotations since the re-abandonment of the gold standard on December 13th, 1931. Since then, the *yen* has dropped below 24 cents United States gold.

² The Chinese character which the Japanese employ to designate *yen* is the same as that employed by the Chinese to designate *guan* or dollar. Hence English translations of this term are apt to be either *yen* or *dollar*. As a consequence, the silver *yen* notes are sometimes referred to as silver *dollar* notes, although Japanese bankers invariably refer to them as silver *yen* notes. To add to the confusion, these notes are engraved in English in terms of *dollars* — save for the fractional notes, which are in multiples of "sen" (the hundredth part of the *yen*), and the Yokohama Specie Bank promises that their Dairen office will redeem them in "local currency", meaning, presumably, actual silver *yen* pieces.

between points in Manchuria and between points in Manchuria and China Proper. While the silver *yen* notes are legally convertible into Japanese silver coins of approximately the same size and fineness as the Chinese dollar, they are, as a matter of practice, seldom so converted. Redemption is effected by telegraphic transfer or demand draft on Shanghai. Hence the silver *yen* note is, in practice, a silver exchange-standard note.

The principal opposition by the Chinese to the use of the silver *yen* is that it is controlled by the Japanese and subject to their manipulation. Further, they feel that it is the means whereby the Japanese secure certain discriminating advantages in the bean and grain trade and very substantial banking and exchange profits as well. On several occasions the Japanese have attempted to replace the silver *yen* with the gold *yen* on the grain exchanges, but the Chinese opposition has always prevented this.

CIRCULATION OF JAPANESE CURRENCIES.

Japanese currencies make up from 20 per cent to 25 per cent of total circulation in Manchuria.

The Japanese estimate that at the end of 1929 there were 41,545,000 gold *yen* and 5,971,000 silver *yen* in circulation in Manchuria. Converted at the current rates of exchange, these had a value of 58,560,000 dollars Chinese currency, and made up about 20 per cent of the entire money circulation in Manchuria. By the end of 1930, Japanese currencies amounted to over 25 per cent of the total, this increase resulting from the depreciation of silver and not to any increase in Japanese note issue. The Japanese estimate that their actual gold *yen* circulation dropped by about 25 per cent between 1929 and 1930. The dislocation of *yen* exchange and lack of estimates make 1931 comparisons inadvisable (see Tables at end, however).

The Chinese contend that the actual Japanese note circulations in Manchuria are in excess of those given by the Japanese. They were unable to supply the Commission with estimates, however.

RUSSIAN CURRENCY.

The Russian rouble is no longer used in Manchuria as a medium of exchange, but is still employed by the Chinese Eastern Railway as a basis for tariffs.

The only other foreign money besides the *yen* that has been and is of importance in Manchuria is the Russian *rouble*. Formerly, the *rouble* circulated as actual currency, but at present it is used only as a *money of account*. The Union of Soviet Socialist Republics does not legally permit its currency to cross its borders,¹ hence the *rouble* is of importance in Manchuria primarily because the Chinese Eastern Railway bases its tariffs on it.

While the Railway bases its tariff on the *rouble* (and on the United States gold dollar for some purposes), it always collects it in some foreign currency. For this purpose, it establishes official conversion rates from time to time, which differ somewhat from the actual market rates. In some instances, it even establishes two conversion rates for a given foreign currency, one to be employed in quoting *local* tariffs and the other in quoting *through* tariffs.

For all accounting purposes, the gold *rouble* may be considered as roughly the equivalent of actual gold. Practically all of the currencies in Manchuria, including the "gold" *yen*, are depreciated and fluctuate in varying degree with respect to gold, hence frequent change in Chinese Eastern Railway tariffs in terms of Manchurian monies, particularly Harbin dollars, is necessary. The railway quotes official conversion rates at intervals, depending on the stability of the currency involved and on whether the traffic be *local* or *through*. For example, the tariff in Harbin dollars for *through* traffic from Harbin to Dairen (*partly* over the South Manchuria Railway by agreement) is changed daily, but for the *local* traffic between Harbin and Changchun (the southern terminus of the Chinese Eastern Railway) it is changed every five days. *Through* tariff rates to Europe in terms of Harbin dollars are changed every few days,² and rouble and yen rates on through traffic to South Manchuria Railway points are changed "once a month or so".

The unending and violent fluctuations of practically all of the Manchurian currencies with respect to the tariff basis employed by the Chinese Eastern Railway is a constant source of annoyance to business in North Manchuria. One can never know what freight (or passenger) rates in terms of Harbin dollars, for example, will be for any time in advance. Since Chinese Eastern Railway tariffs are exceedingly high and often amount to a considerable fraction of the worth of goods shipped, the fluctuation in the rates in terms of local currency imposes a heavy burden on business and one which can only be shifted at a high cost, if at all.

¹ Although Russia does not legally permit her notes to cross her borders, they are regularly smuggled out and are sold to the money shops in Manchuria. These in turn sell a few locally and mail the rest to Hamburg, Berlin and Warsaw, where they are sold chiefly to the tourist trade. Why this traffic exists is understandable when one realises that a *rouble* in Harbin, for example, sells for about three cents gold as against the official Soviet rate of about fifty cents gold.

An official in one of the large foreign banks in Harbin stated that telegraphic transfers in favour of Chinese money-dealers, coming through his bank alone, from Germany and Poland amounted to from fifty to one hundred thousand gold dollars a month.

² In most instances, however, United States gold-dollar drafts are employed to pay for through passage or freight to Europe.

VIII. SINO-JAPANESE ISSUES AND DIFFICULTIES ARISING OUT OF THE CURRENCY SITUATION.

Issues growing out of currency problems.

While the currency disorder in Manchuria has been at the root of much Sino-Japanese ill-feeling, there are only two aspects of it which may be considered as approximating real issues. These are :

- (1) The "right" of Chinese, Japanese and other foreigners to use and circulate *yen* currencies, and,
- (2) The "right" of keeping their accounts and basing and quoting their prices in terms of *yen*, in *Chinese territory*.

Chinese complaints against the use of the yen.

The Chinese claim that the use of the *yen* either as a medium of exchange or as a unit for quoting prices is :

- (1) Not authorised by treaty with Japan or by Chinese law ;
- (2) That it is a violation of Chinese sovereign rights ;
- (3) That it adds to the multiplicity of existing currencies, as well as nominal and real *standards* ;
- (4) That it makes "the Chinese bank of issue helpless in controlling circulation and credit" and also interferes "with the efforts at reform" ;
- (5) That it disturbs and confuses their credit structure and exchanges every time there is a financial disturbance in Japan ;
- (6) That it gives the Japanese undue domination over Manchuria's economic life and that it is a source of great profit to Japanese banking institutions ;
- (7) That it is an instrument of political penetration ;
- (8) That the bank of Chosen notes have been irredeemable over long periods of time and so are not what they purport to be.

Japanese contentions.

The Japanese contend :

- (1) That the debasement of the Chinese currencies injured Japanese business interests along with those of the Chinese and others ;
- (2) That the depreciation and manipulation of Chinese currency was a means, not only of exploiting the Chinese producers of staples, but the Japanese and other foreign buyers of them as well ;
- (3) That the debasement of Chinese currency so impoverished the masses that they were unable to buy as many Japanese goods as they otherwise would have ;
- (4) That the Chinese were able to gain monopolistic control over Manchurian staples by means of "costless note issues" and thus jeopardise Japanese sources of important raw materials ;
- (5) That the Japanese did not *force* the use of the *yen* in Chinese territory ;
- (6) That the circulation of bank-notes by foreign banks in China was common practice throughout China ;
- (7) That the existence of the numerous Chinese fiat monies was in itself largely responsible for the widespread use of the *yen* ;
- (8) That Japanese, other foreigners and many Chinese — particularly those dealing in foreign trade — were compelled to use the *yen* as a practical necessity ;
- (9) That the presence of the *yen* did not interfere with Chinese measures of currency reform ;
- (10) That the *yen* was neither an instrument of domination nor a means of political penetration nor a source of great profit.

Legality of yen circulation.

The Japanese have not officially contended (to the best of the author's knowledge) that there is any legal basis for the circulation of their currencies in Chinese territory, although they have on occasion suggested that there was some agreement or understanding which allowed for it. For example, the Japanese Consul-General in Harbin is quoted as saying :

" . . . Circulation of *yen* in Manchuria is allowed according to agreement and therefore aggressions against *yen* are absolutely unjust ".¹

¹ *Go-Tsi-Sie-Sao* (Chinese), November 3rd, 1926.

Conflicting Chinese and Japanese currency standards precipitate and aggravate other difficulties.

More important in the Sino-Japanese discord than the specific issues which the currency problem has raised are the disturbing forces which have developed out of it. It is these which have helped to generate and aggravate the more conspicuous issues. For example, the fact that the South Manchuria Railway quotes its tariffs on a "gold" *yen* basis and the Chinese railways on a silver dollar basis is, if not at the root of much of the railway controversy, at least an important contributing factor. When one realises that, during 1918-19, 100 silver dollars had an exchange value of from 250 to 270 "gold" *yen* (in spite of the fact that the *yen* was then actually being quoted at a premium over gold) and that, during last year, a like number of silver dollars would have purchased only about 40 gold *yen*, he will appreciate that every alteration in the exchange rate between the Chinese silver dollar and the Japanese "gold" *yen* tends to shift an advantage to one or the other of the railway systems. As long as competing Chinese and Japanese railways base their tariffs on basically different currencies, which fluctuate continuously and over as great a range as have "gold" *yen* and silver dollars, there will always be the basis for a railway problem in Manchuria. No one, incidentally, was more keenly aware of this than the former President of the Yokohama Specie Bank, M. K. Takahashi. President Takahashi (later Premier) came to Dairen in 1907 and attempted to persuade the directorate of the South Manchuria Railway that a silver basis ought be retained for Manchuria and more particularly for South Manchuria Railway tariffs. He pointed out that, if silver should ever fall, the Chinese lines would then become serious competitors to the Japanese railways. His advice was not heeded and his prophecy has been fulfilled in every respect.

IX. SUMMARY AND CONCLUSIONS.

Expanding the note-issues without providing adequate reserves compelled suspension of specie payments and paved way for depreciation.

There is scarcely any need to explain why practically all of the Chinese currencies in Manchuria are inconvertible and why they circulate from substantial to enormous discounts. From almost the outset, the Chinese authorities have used their note-issue powers as a means of securing provincial or private incomes, for the financing of military campaigns, the construction of arsenals, the building of railroads, the erection of public buildings and, to a comparatively inconsiderable extent, the promotion of the common weal. As the emission of notes expanded, the authorities found it increasingly difficult to redeem them in hard money, as the issues were invariably expanded far more rapidly than the reserves against them. At such times, the Japanese, many Chinese and others would present their notes for redemption. By way of checking the demand for hard money, the authorities would then place limitations on the amounts that could be obtained by conversion as well as the amounts that could be exported. These measures usually assured what they sought to avoid and the notes invariably became irredeemable.

Depreciation attributed to "profiteers", speculators and foreigners.

The authorities would then naïvely place the blame for this at the door of "profiteers", speculators and designing foreigners. Once the currencies became irredeemable, hard monies vanished from circulation and the notes commenced to depreciate with a rapidity that was a function chiefly of the magnitude and frequency of their emission. As the notes depreciated, the authorities would appoint committees to enquire why general prices and rates on outside points were rising. Occasionally these committees would strike at the heart of the difficulty, but seldom were their recommendations given serious backing. More often, however, the committees would accommodatingly direct the blame against "profiteering merchants", money-speculating shopkeepers and the overreaching foreigners and their monies. The "profiteers" would accordingly be fined or imprisoned, the speculators likewise treated or even executed, and campaigns would be launched to drive foreign monies out of the realm. Merchants would be compelled to quote their prices and keep their accounts *only* in Chinese monies and to refuse foreign monies even at the current exchange rates.

Yen has been the only important foreign currency in recent years, so campaigns against foreign currencies amounted to those against the yen.

In recent years, the only important foreign currency in Manchuria has been the *yen*. Consequently a drive against foreign monies amounted to a drive against the *yen*, and was so interpreted both by the Japanese and other foreigners, if not by the Chinese themselves. This

created considerable friction between the Chinese and Japanese officials and periodically gave rise to two serious Sino-Japanese issues :

(1) The “ right ” of Chinese, Japanese and other foreigners to use and circulate *yen* currencies, and

(2) The “ right ” to keep accounts and quote prices in terms of *yen* (or other foreign currencies) in *Chinese territory*.

Chinese authorities attempt to retain their depreciating currencies, not only as a medium of exchange, but as the standard for quoting prices and keeping accounts.

For a time, the provincial authorities stubbornly attempted to keep their respective depreciating currencies, not only as a *medium of exchange*, but as the standard for quoting prices and keeping accounts. But as the currencies depreciated, more and more merchants turned to basing their prices on and keeping their accounts in silver or foreign currencies. As the depreciation became more serious, the railways, Customs, Post Office and even the provincial authorities themselves started to employ the silver dollar as a basis for computing charges. The local currencies were acceptable only at the *official* conversion rates, which always tended to lag behind the free market rates. The authorities found it difficult to impose these arbitrary conversion rates for long and, as they themselves suffered a revenue shrinkage in employing them, they usually changed to the use of the *market* conversion rates.

After currencies had depreciated enormously, the Chinese authorities attempted to replace them with newer ones which sometimes followed the path of their predecessors.

When hope for restoring the depreciated currencies to the standard was finally abandoned, the authorities would attempt to introduce new convertible currencies and either withdraw the older ones or, as was more often the case, attempt to stabilise them with respect to the new. Sometimes these newer currencies would follow the path of their predecessors and “ cycle through ” to the same fate.

When the Sino-Japanese hostilities broke out last September in Manchuria, the currency situation for the provinces *as a whole* was in perfect chaos, the only real effort and progress toward rehabilitation being in evidence in Liaoning Province, though more particularly around Mukden. Practically no hard money was to be found in the provinces, and all of the Chinese bank-notes, with only limited exception, were irredeemable and violently unstable with respect to the Chinese silver dollar and foreign currencies.

Each province had at least two Chinese currencies, one actually or nominally based on silver and the other usually though only nominally based on copper.

In each of the provinces, there were at least two common currencies, one nominally based on the Chinese silver dollar, but ordinarily not convertible into it, and another nominally based on copper, but in no case convertible into it. In Liaoning Province, there was, in addition to the copper note *Fengpiao*, the so-called “ exchange note ” or big money *Fengpiao*, which was theoretically convertible into Shanghai exchange on the same basis as the silver dollar.

Generally speaking, the currency nominally based on the Chinese silver dollar was the currency of the city, and the other, the currency of the country.

Certain cities have peculiar currencies in addition.

In addition to this pair of currencies for each of the provinces, there were the peculiar and sometimes exclusive monies for certain of the cities. For example, Newchwang, Antung and Harbin each had special currencies. Harbin had an inconvertible *tayang* note, Newchwang a “ transfer tael ” currency, and Antung had its *sycee*.

Liaoning tayang notes, the only convertible Chinese notes in Manchuria.

The *tayang* notes (big dollar notes) in Liaoning Province were convertible into silver dollars at par, but their conversion and the export of the hard proceeds were often subject to restriction; *tayang* notes of Kirin Province (exclusive of Harbin) were not redeemable and exchanged against drafts in silver on payment of 50 per cent premium; those of Heilungkiang were also irredeemable and exchanged against drafts in silver on payment of 56 per cent premium.

Kirin, Heilungkiang and Harbin tayang notes irredeemable, badly depreciated and subject to enormous fluctuation.

The *tayang* note of the Harbin Special District was likewise irredeemable and exchanged against silver at a 40 per cent premium. With the exception of the convertible Mukden note,

the other *tayang* notes were very unstable, fluctuating violently, erratically and enormously. Their instability was far more annoying to general business and provocative of more friction between Chinese officials and foreigners than was the fact of their depreciation. Until these notes become convertible against silver or exchange, or are replaced by some that are, it will be impossible to keep them stable, irrespective of the police power or official intimidation employed.

Tiao notes of Kirin and Heilungkiang and Fengpiao of Liaoning infinitely more depreciated than the tayang notes, and among the worst currencies in China.

If the *tayang* notes (with the exception of those in Liaoning) may be described as "bad", the other notes are indescribably worse. In Liaoning, there was the *Fengpiao*, and in Kirin and Heilungkiang the respective *tiao*'s. These¹ were unquestionably among the worst currencies that are to be found in China, and, likely, any place in the world. At the outbreak of hostilities last September, the *Fengpiao* exchanged at about two per cent of its original value, the Kirin *tiao* at about one per cent, and the Heilungkiang *tiao* at even less. Even at these conversion rates, these currencies made up about 30 per cent of the silver value of all the Chinese money in circulation in Manchuria. Their aggregate exchange value was in excess of that of all the inconvertible *tayang* notes and almost equalled the aggregate of all of the Chinese convertible monies as well.

Depreciation and manipulation of the tiao and Fengpiao, the means whereby Chinese masses were mercilessly exploited.

It was by the means of the issuance and manipulation of the *Fengpiao* and *tiao* notes that the Chinese provincial authorities so unmercifully exploited and taxed the masses of the poor Chinese under their domination. Originally, the note issue abuse merely consisted in periodically adding large amounts of currency to the circulation. Within the last decade, however, an additional exploitative device came into prominence. The provincial authorities, through their banks or the banks' affiliates, would purchase agricultural produce with their own unsecured notes, sell the produce for "good" money and, after the crop-moving season, buy back *only a part* of the redundant currency. This was done with "good" or better Chinese monies, or with drafts on cities outside of their province, or with foreign monies — usually *yen*. In addition to profiting by the more or less regular expansion of the note issue, the authorities gained an additional margin by their seasonal manipulation of it in connection with bean-buying operations.

Fengpiao and tiao, the currency of nine-tenths of the population of Manchuria.

The *Fengpiao* and *tiao* constitute the media of exchange for about nine-tenths² of the population in Manchuria. Almost everything they buy or sell is in these currencies. While it is true that incomes and the like tended to advance as these currencies depreciated, lags were always introduced and the real incomes (in terms of the consumable goods and service) were steadily reduced, but perhaps not to the extent that most foreigners would suppose.

As in all primitive communities, a considerable amount of barter takes place in Manchuria. Further, so poor are the masses that they use little goods or employ few services which are reckoned in terms of silver. It is reliably estimated³ that at least 70 per cent of their earnings are spent on articles and services such as food, rent, marriages and funerals, which, in the villages, are ordinarily appraised in terms of *Fengpiao* or *tiao*. Another 15 to 20 per cent is spent on the poorest and cheapest clothing made largely of local materials.

Currency debasement served to shrink value of savings.

The depreciation of the currencies served also to shrink the farmers' meagre savings. According to some Chinese bank officials from Manchuria, the poorer classes hoarded most of their savings in the depreciated currencies, though this, incidentally, is disputed by many Chinese and foreigners. How much of a loss they suffered as a result of this is not known, but it probably was substantial. Unquestionably, many of the Chinese avoided suffering such losses by investing in property or "good" money, or by sending their savings to relatives and friends "back home" for saving.

Chinese authorities had effected limited currency reform by the outbreak of hostilities last autumn.

In fairness to the Chinese authorities, it must again be recalled that some currency reform had actually been accomplished in Manchuria and that more was under consideration at the

¹ Of these and other Manchurian currencies just referred to, the Kemmerer Commission reported as follows :
" In Manchuria, the *Fengpiao*, the Kirin *tiao* notes, and the Heilungkiang *tiao* notes, as well as the Harbin and Kirin dollar notes, have made the Manchurian currency probably the worst in all China." (Page 52 of the *Currency Report* submitted on November 11th, 1929, to the Chinese Government.)

² From a report supplied to the Commission.

³ *Ibid.*

beginning of Sino-Japanese hostilities last autumn. Practically all the reform, however, was concentrated in Liaoning Province and more especially around Mukden. It was here that one found the only important convertible Chinese bank-notes in Manchuria circulating alongside a limited amount of hard coin.¹

Chinese claim they were on verge of making radical improvement in currency.

In March 1931, according to the Chinese, the Government of the Three Eastern Provinces established a commission to make a study of the currency situation and to recommend plans for reform. The report had been completed and "was under serious consideration" when hostilities began. Foreign consuls likewise reported that certain reform plans were under discussion in August, but that "no decision appears to have been arrived at".

Apart from the above-mentioned redeeming aspects, the Chinese currency situation prevailing in Manchuria on September 18th, 1931, was appallingly bad, and stands as irrefutable testimony that the Chinese authorities were guilty of a most heinous offence against the millions of poor struggling humanity over whom they exercised jurisdiction.

Circulation of yen contributed to chaos but did not materially interfere with reform of Chinese currencies.

Notwithstanding the Chinese allegation to the contrary, the circulation of *yen* notes did not materially interfere with any of their attempts at currency reform of their own currencies although it frequently did with their plans for continued debasement. The Chinese allegation incidentally loses some of its force when one recalls that the best Chinese currencies in Manchuria circulated where the *yen* was the strongest, and the poorest where it was the weakest. The only redeemable Chinese *tayang* notes were to be found in Liaoning, the province in which the Japanese influence was the greatest; and the most depreciated and unstable currencies were in Heilungkiang, the province in which the Japanese influence was the least. Further, it must be recalled that the early Chinese authorities had already succeeded in debasing their currency before the Japanese *yen* even appeared in Manchuria.

Chief objection to the yen is that it is based on a standard foreign to China and that it fluctuates enormously with respect to silver.

While it cannot be urged that the circulation of *yen* notes materially interfered with the Chinese attempts at reform of their own currencies, the fact that a foreign currency actually or nominally based on gold was circulating in Manchuria, and the fact that many accounts and prices were in terms of it, unquestionably complicated the general currency situation and was provocative of considerable Sino-Japanese discord. Indeed, it is not an overstatement to say that much of the railway controversy grew out of the fact that the Chinese quoted tariffs in silver and the Japanese in gold (at least nominally), and that as the ratio of exchange of these currencies fluctuated, so did the balance of advantage accorded to one or the other. How important an element this was can be surmised from the fact that, during 1918-19, 100 dollars of Chinese money exchanged for from 250 to 270 *yen*, whereas, during 1931, a like number of Chinese dollars would have exchanged for only a little over 40 *yen*. In this connection, it should be recalled that the Chinese Eastern Railway bases its tariff on yet another currency—the gold *rouble*. This then means that Manchurian railways have been employing three different fluctuating currencies as the bases for their tariffs.

Bank of Chosen "gold" yen notes are not, in fact, convertible into gold; and their conversion features, coupled with Bank of Chosen's control over remittances between Manchuria and Japan, give it certain powers which it has abused on occasion.

The circulation of "gold" *yen* in Manchuria complicated financial matters, not only because the *yen* was based on gold, but because, for thirteen out of the past fifteen years, it has not been convertible into actual gold either directly or through the intermediary of Bank of Japan notes. For a good portion of these thirteen years, it remained close to its "mint par" of exchange and so was not particularly objectionable on this score. For much of the time, it fluctuated far from its parity, however, and, in consequence, transmitted to Manchuria financial disturbances originating in Japan. This has justly given rise to the Chinese complaint that the inconvertible *yen* imposes on them ills which ought to be confined solely to Japanese territory.

A further complaint which the Chinese lodge concerns the redemption features of the Bank of Chosen note. It is for all practical purposes a note redeemable only in Bank of Japan notes, and can be converted only on the terms laid down by the Bank of Chosen. This conversion

¹ The Japanese and Chinese estimates as to the amount of silver dollars in circulation in Manchuria and Inner Mongolia are extremely far apart. The Japanese estimate it about one million dollars and the Chinese at from 9 to 12 million dollars.

feature coupled with the Bank of Chosen's large control over remittances between Manchuria and Japan give it powers which it has on occasion abused.

Without question, the circulation of *yen* and the granting of credits based on it have given Japanese banking institutions considerable profits in Manchuria. The use of the *yen* has likewise given Japanese merchants certain advantages in doing business in Manchuria which are not enjoyed by other foreigners. As to the legality of circulating the *yen* notes in Chinese territory, however, the author ventures no opinion.

Reasons and responsibilities for the currency chaos.

The currency chaos in Manchuria may be attributed to the use there of a large variety of Chinese and foreign monies and monies of account which are constantly fluctuating one against the other. Historical circumstance explains the initial lack of Chinese monetary standardisation and the absence of a strong centralised government explains its perpetuation. But its perpetuation has rested on yet another factor. Each of the three north-eastern provinces has enjoyed considerable fiscal autonomy, the consequence of which was to give each province several currencies, the worth and stability of which was a function of the provincial head's capabilities, honesty, political and economic inheritances, and personal ambitions. Unfortunately, this last has all too often been an overshadowing element.

The introduction and use of foreign monies likewise developed out of historical circumstance. When Russia and Japan entered Manchuria, they brought with them their currencies. Since these were initially or subsequently based on a standard foreign to China, they tended to add to the existing confusion. The complete devaluation of the Tzarist and other *roubles* and the lengthy departures of the gold *yen* from actual gold have added yet more to the chaos and confusion. Further, the circulation of *yen* currencies side by side with the Chinese currencies has raised certain issues and generated considerable irritation.

Chinese authorities responsible for the debasement of Chinese currencies and their instability with respect to Chinese metallic standards.

For the depreciation of the Chinese notes with respect to the silver or copper on which they were based, the former Manchurian authorities themselves must accept practically the entire responsibility; and for the constant fluctuation of these with respect to the copper and silver coins on which they were nominally based, they must likewise accept almost the entire responsibility. The presence of foreign currencies in Manchuria did not in any important measure interfere with the reform of the Chinese currencies. Chinese currencies, in fact, were the best where the foreign currencies were the strongest, and poorest where the foreign currencies were weakest or non-existent.

Foreign currencies did not prevent reform of Chinese currencies, but did add to general confusion.

But while the foreign currencies did not prevent the reform of the Chinese currencies, they did materially increase the general monetary confusion by adding to the number of currencies and more especially to the standards — actual or nominal — on which they were based. The introduction and continued use of gold or "quasigold" foreign units has not always been in the best interests of the people of Manchuria, and it is even debatable whether it has been in the best interests of the foreign countries responsible for them.

Chinese authorities had made some progress toward monetary reform.

In concluding, it is only fair to mention that the former Chinese authorities had actually effected some measure of currency reform before the outbreak of Sino-Japanese hostilities last year. This consisted chiefly in giving Liaoning a convertible *tayang* note and in stabilising the *Fengpiao* with respect to it. Most of this reform was localised about Mukden, however. Some slight reforms in the direction of stabilisation seem also to have been effected in Kirin and Heilungkiang. Save for these, the former Chinese authorities can show little to their credit in the way of accomplished currency reform.

Sovereign right to provide a currency is accompanied by a moral obligation to provide a decent currency.

Any unbiased student of the currency situation in Manchuria cannot avoid the conclusion that, had the former Manchurian authorities been as mindful of their moral obligation to provide their peoples with a respectable currency or currencies as they were zealous of their sovereign rights to provide such currencies as they chose, they and their peoples and their neighbours would have fared far differently and far better. But whether their neighbours were wise in introducing currencies based on a standard foreign to the territory is likewise a matter for speculation.

X. MANCHURIAN CURRENCY SITUATION SINCE SEPTEMBER 18TH, 1931.

Japanese seize Chinese banking institutions.

Immediately after the beginning of Sino-Japanese hostilities in Manchuria last autumn, the Japanese authorities established control over all of the Chinese provincial banks in Manchuria. This had a general depressing effect on all the Chinese bank-notes, particularly the *fiao* notes. The Japanese authorities enjoined the public to continue using the old notes as before, assuring them of their continued worth.

The accounts of all the Chinese provincial banks were audited, and by the latter part of October the banks were reopened under Japanese control. The Chinese, of course, held many of the posts, but Japanese advisers and councillors directed operations and policy. The branches of the Bank of China and the Bank of Communications were not seized, and no Japanese advisers or councillors were placed in control of them. Their books were audited and an inventory of their accounts was taken by the Japanese, however.

Occurrences did not effect any important currency change.

Since the initial disturbance, there has been no important change in the Manchurian currency situation up to the present time. The same currencies¹ in about the same amounts continue to circulate. Their exchange values in terms of "gold" *yen*, however, have shown a climbing tendency in line with the unprecedented depreciation of the *yen*.

While no important changes have thus far taken place, many are in contemplation. Most of these are expected to follow from the establishment of the new "Manchukuo" Bank. How much real reform it can hope to accomplish with only its meagre and encumbered inheritances, and the pittance which the Japanese loaned it, is a matter for speculation. The plans, however, are worth some attention.

¹ As a matter of fact, a few new "Manchukuo" notes — really surcharged old notes — have been placed into circulation within the past month. This will be dealt with in the supplement on the "Manchukuo" Bank (see page 172).

XI. TABLES SHOWING CIRCULATION OF THE VARIOUS MANCHURIAN CURRENCIES.

THE CURRENCIES OF MANCHURIA AT THE END OF DECEMBER 1929, ACCORDING TO JAPANESE¹ AND CHINESE ESTIMATES.²

| Currency | Estimate of circulation | | Exchange rate against 100 silver dollars | Estimated value in silver dollars | | Area of circulation |
|--|-------------------------|--------------------|--|-----------------------------------|-------------------------------|---|
| | Japanese | Chinese | | Japanese | Chinese | |
| Mukden notes or Fengpiao | 3,000,000,000 yuan | 1,893,866,000 yuan | 6,000 yuan | 50,000,000 | 31,564,433 | Liaoning Province. |
| Mukden convertible tayang notes | 45,000,000 yuan | 16,300,000 yuan | 100 yuan | 45,000,000 | 16,300,000 | Liaoning Province. |
| Harbin tayang notes | 37,300,000 yuan | 55,000,000 yuan | 140 yuan | 28,071,000 | 39,285,147 | Harbin and Chinese Eastern Railway |
| Kirin tiao notes | 10,000,000,000 tiao | 8,000,000,000 tiao | 20,000 tiao | 50,000,000 | 40,000,000 | Kirin Province. [Zone. |
| Kirin tayang notes | 10,000,000 yuan | 8,000,000 yuan | 145 yuan | 6,897,000 | 5,510,724 | Kirin Province. |
| Heilungkiang tiao notes | 12,000,000,000 tiao | 9,000,000,000 tiao | 40,000 tiao | 30,000,000 | 22,500,000 | Heilungkiang Province. |
| Heilungkiang tayang notes ³ | 10,000,000 yuan | 15,000,000 yuan | 140 yuan | 7,143,000 | 10,714,285 | Heilungkiang Province. |
| Antung sycee | 2,000,000 taels | 2,500,000 taels | 82 taels | 2,488,000 | 3,048,794 | Antung. |
| Newchang transfer account | 15,000,000 taels | 15,000,000 taels | 210 taels | 7,143,000 | 7,143,000 | Newchang. |
| Silver dollars | 1,000,000 yuan | 9,000,000 yuan | 100 yuan | 1,000,000 | 9,000,000 | Manchuria and Inner Mongolia. |
| Small silver coins | 5,000,000 yuan | 4,000,000 yuan | 114 yuan | 4,386,000 | 3,421,052 | Manchuria. |
| Total | — | — | — | 232,128,000 | 188,487,435 | |
| Japanese gold yen | 41,545,000 yen | 4 | 79 yen | 52,589,000 | | Throughout Manchuria, but more especially in the Kwantung Leased and South Manchuria Railway Areas and Harbin Leased and South Manchuria Railway Areas. |
| Japanese silver yen | 5,971,000 yen | 4 | 100 yen | 5,971,000 | | |
| Grand Total | — | — | — | 290,688,000 yuan | 247,047,435 ⁵ yuan | |

¹ "Second Report on Progress in Manchuria to 1930", page 145, and "Manchuria Year-Book for 1931", page 254.

² Chinese Assessor's Office.

³ Including some 4 per cent debenture bond-notes.

⁴ No Chinese estimates were given, but the general feeling of Chinese is that the Japanese figures are too low.

⁵ Assuming the Japanese estimates to be correct.

THE CURRENCIES OF MANCHURIA AT THE END OF DECEMBER 1930, ACCORDING TO JAPANESE ESTIMATES,¹ AND AT THE END OF 1931,
ACCORDING TO CHINESE² ESTIMATES.³

| Currency | Estimated circulation | | Exchange rate against 100 silver dollars | | Estimated value in silver dollars | |
|--|-----------------------|---------------------|--|---------------------|-----------------------------------|-------------------------------|
| | 1930 Japanese | 1931 Chinese | 1930 | 1931 | 1930 Japanese | 1931 Chinese |
| Mukden notes or Fengpiao | 1,180,000,000 yuan | 1,004,472,000 yuan | 6,000 yuan | 5,000 yuan | 19,670,000 | 20,089,000 |
| Mukden convertible tayang notes | 67,227,000 yuan | 42,392,000 yuan | 100 yuan | 100 yuan | 67,227,000 | 42,392,000 |
| Harbin tayang notes | 39,000,000 yuan | 38,080,000 yuan | 140 yuan | 140 yuan | 27,857,000 | 27,200,000 |
| Kirin tiao notes | 9,500,000,000 tiao | 10,165,000,000 tiao | 23,000 tiao | 40,000 tiao | 41,300,000 | 25,412,000 |
| Kirin tayang notes | 10,000,000 yuan | 11,300,000 yuan | 145 yuan | 150 yuan | 6,897,000 | 7,575,000 |
| Heilungkiang tiao notes | 12,000,000,000 tiao | 15,522,393,000 tiao | 20,000 tiao | 186,700 tiao | 6,000,000 | 8,305,000 |
| Heilungkiang tayang notes ⁴ | 10,000,000 yuan | 20,790,000 yuan | 140 yuan | 156 yuan | 7,143,000 | 13,360,000 |
| Antung sycee | 2,000,000 taels | 2,000,000 taels | 82 taels | 70 taels | 2,488,000 | 2,857,000 |
| Newchang transfer account | 15,000,000 taels | 10,000,000 taels | 210 taels | 210 taels | 7,143,000 | 4,761,000 |
| Silver dollars | 1,000,000 yuan | 12,000,000 yuan | 100 yuan | 100 yuan | 1,000,000 | 12,000,000 |
| Small silver coins | 5,000,000 yuan | 4,000,000 yuan | 114 yuan | 130 yuan | 4,386,000 | 3,076,000 |
| Totals | — | — | — | — | 191,111,000 | 167,027,000 |
| Japanese gold yen | 31,625,000 yen | — | 51 yen | 70 yen ⁵ | 62,005,000 | 45,179,000 ⁶ |
| Japanese silver yen | 5,218,000 yen | — | 100 yen | 100 yen | 5,218,000 | 5,218,000 ⁶ |
| Grand Totals | — | — | — | — | 8,334,000 yuan | 217,424,000 yuan ⁶ |

¹ "Third Report on Progress in Manchuria to 1932", page 166.

² Chinese Assessor's Office.

³ Unfortunately, neither Chinese nor Japanese estimates are available for either 1930 or 1931.

⁴ Including some 4 per cent debenture bond-notes.

⁵ This conversion rate is based on the (Peiping) Yokohama Specie Bank's *nominal* quotation for the day. Owing to Japan's just having re-abandoned the gold standard, no actual market rate was available.

⁶ These figures are based on the Japanese estimates of *yen* circulations in 1930, being substantially correct for 1931. No Japanese or Chinese estimates for *yen* circulation were available for 1931.

Supplement to the Report on "The Currencies of the North-Eastern Provinces".

THE CENTRAL BANK OF "MANCHUKUO".

*"Manchukuo" Central Bank opened on July 1st, 1932,
under guidance of Chinese and Japanese bankers
and financiers.*

The Central Bank of "Manchukuo" came into existence as a result of a Changchun Decree of June 14th, 1932, and officially opened its doors for business on July 1st. The Bank has its head office in the capital of "Manchukuo" at Changchun, and has branches and sub-branches scattered throughout Manchuria reported to number 170.

The officers and directors of the Bank consist of four Chinese and four Japanese, whose names and former connections are as follows :

President : M. Yung Hou, formerly Director of the Kirin Provincial Department of Finance.

Vice-President : M. Kyoroku Yamanari, formerly Director of the Bank of Taiwan (Formosa).

Director : M. Fukuo Takeyasu, formerly Manager of the Dairen Branch of the Bank of Chosen.

Director : M. Isoichi Washio, formerly Manager of the Dairen Branch of the Yokohama Specie Bank.

Director : M. Yasuji Igarashi, formerly Chief of the Commerce and Labour Section of the South Manchuria Railway.

Director : M. Liu Chi-fen, formerly General Manager of the Kirin Yung Heng Bank (Kirin).

Director : M. Wu En-pei, formerly General Manager of The Provincial Bank of the Three Eastern Provinces (Mukden).

Director : M. Liu Shih-chung, formerly General Manager of the Kwang Singh Kungssu of Heilungkiang Province (Tsitsihar).

*Bank organised as a joint-stock company with
a capital of 30,000,000 dollars.*

The Bank was organised as a joint-stock company with a charter to run for thirty years and subject to renewal. Its capital was authorised at 30,000,000 silver dollars, of which the Government was to subscribe half and private parties the remainder. It was originally provided that only those who had special permission from the Government might become shareholders, but this stipulation ceased to be of consequence when "Manchukuo" subsequently decided not to offer any shares for "public" subscription. The offices of President, Vice-President, and Comptroller are filled by Government appointment.

All of the old provincial banks, including the Frontier Bank, were absorbed by the new bank, and their numerous affiliated enterprises taken over by it. Provision was made for liquidating their non-Manchurian branches and for establishing their affiliated businesses as independent enterprises. The new bank was to take over the assets and to assume the liabilities of the old banks.

In addition to what the new bank will be able to salvage from the old provincial banks, it has received a Japanese loan of 20,000,000 *yen*¹ (according to numerous unofficial reports) and a subscription of 7,500,000 dollars from the "Manchukuo Government" with which to establish itself.

*Bank to engage in all phases of modern banking
but not in other businesses, as did
predecessors.*

The Bank is empowered to "regulate the circulation of the domestic currency, maintain its stability and control the financing service". It is to engage in the following types of banking business :

- (1) Discounting and purchasing of Government securities, bills of exchange, and commercial bills ;
- (2) Granting of loans against securities of gold or silver bullion or foreign currencies ;
- (3) Buying and selling of gold and silver bullion and foreign currencies ;
- (4) Deposit banking of all kinds ;
- (5) Safe-keeping of gold and silver bullion, foreign currencies, securities, jewellery and other valuables ;

¹ This was given as "yen" by the Finance Minister, but "yuan" may have been meant. See footnote 2 on page 161.

- (6) Granting of loans secured against Government bonds or other instruments guaranteed by the Government ;
- (7) Granting of loans against sound securities ;
- (8) Collection of bills for firms and banks engaging in regular business with it ;
- (9) Purchasing of bills of exchange, foreign public bonds, prefectural bonds of " Manchukuo ", and other bonds approved by the Government.

The Central Bank is specifically forbidden to buy any properties other than those needed for its own use, and is required to dispose of all non-banking properties which it comes into possession of by virtue of clients' defaults within six months or one year, according to the nature of the property. The Bank is further forbidden to grant loans to any of its officials under any circumstances.

Central Bank authorised to issue notes and mint coins on behalf of Government. New standard to be based on silver, but whether currency will be convertible is not made clear.

The authority to mint coins and " issue the currency is invested in Government ", but the " Manchukuo " Central Bank is authorised to perform these functions on behalf of the Government. " The new currency system is based on the silver standard and silver exchange standard. The exchange rate of paper notes is calculated from a comparison between the Shanghai *tael* and the new currency." ¹ Whether or not the new bank-notes will be redeemable in actual hard money has not been at all made clear in any official pronouncement. The *yuan* (which means dollar) is the standard unit of value and is to contain 23.91 grammes of pure silver.² Whether or not any actual silver dollars will be minted has likewise not been made clear, but, since the Finance Minister did not mention that they would be when speaking of the new coins, the presumption is that they will not be minted at least for the present. The decimal currency system was adopted, with the tenth part of the *yuan* known as the *chiao*, the hundredth part as the *fen*, and the thousandth part as the *li*. Notes will be issued in denominations from 0.50 dollar (or 5 *chiao*) up to 100 dollars (or *Yuan*) ; copper and nickel coins will be struck in denominations from ½ cent (or 5 *li*) to 10 cents (or 1 *chiao*). Against the notes which it issues, the Bank is to have " gold or silver bullion, sound foreign currency, or gold or silver deposits abroad amounting to not less than 30 per cent of the notes issued." ³ The remainder of the security will consist of public bonds or bills issued or guaranteed by the Government, and other sound negotiable securities and commercial paper.

Present currencies to be withdrawn by July 1934 and replaced by the new currency at the officially authorised conversion rates.

All of the existing notes in circulation are to be withdrawn within two years from July 1st, 1932, following which period they will cease to be valid. The old currencies are to be exchangeable for the new ones at the head office and the numerous branches and sub-branches of the Central Bank. Harbin dollar notes of the Bank of China and Bank of Communications are exceptions, however, and will be allowed to circulate in their present amounts until July 1st, 1937, by which time they must be withdrawn.

The old currencies are to be exchangeable for the new at the following rates for one dollar of the new currency : ⁴

EXCHANGE RATES OF THE OLD CURRENCIES.

| Old Currency : | Dollars |
|---|------------------------------|
| <i>Tayang</i> (big money) notes of The Provincial Bank of the Three Eastern Provinces ⁵ | 1.00 (<i>i.e.</i> , at par) |
| <i>Tayang</i> notes of the Frontier Bank ⁵ | 1.00 (<i>i.e.</i> , at par) |
| <i>Tayang</i> notes of Joint Reserve Banks ⁶ | 1.00 (<i>i.e.</i> , at par) |
| <i>Fengpiao</i> , big money | 50.00 |
| <i>Fengpiao</i> , small money | 60.00 |
| Harbin <i>taiyang</i> notes of the Frontier Bank, The Provincial Bank of the Three Eastern Provinces, the Kirin Yung Heng Bank, and the Heilungkiang Kwang Singh Kungssu ⁷ | 1.25 |

¹ From an interview with the " Manchukuo " Finance Minister by a League Commissioner on May 5th, 1932.
² The new currency is to be on a *yuan* basis and not on a *yen* basis as has been stated in numerous Press dispatches. For an explanation of the frequent confusion between *yuan* and *yen*, see footnote 2 on page 161.
³ *Op. cit.*, page IV.
⁴ *Manchuria Daily News*, July 1st and 2nd, 1932. (Compare these exchange rates with those in the tables on pages 170 and 171.
⁵ Not including " Tientsin notes " (see page 148).
⁶ For description of these, see page 148.
⁷ Bearing the respective supervisors' official seals.

| | |
|--|-------------------|
| | Dollars |
| <i>Tayang</i> notes of the Kirin Yung Heng Bank ¹ . . . | 1.30 |
| Small money dollar notes of the Kirin Yung Heng Bank ¹ | 50.00 |
| <i>Tiao</i> notes of the Kirin Yung Heng Bank | 500 |
| | Dollars |
| <i>Tayang</i> notes of the Heilungkiang Kwang Singh Kungssu ¹ | 1.40 |
| 4 per cent debenture notes of the Heilungkiang Kwang Singh Kungssu | 1.40 ² |
| <i>Tiao</i> notes of the Heilungkiang Kwang Singh Kungssu | 1,680 |
| | Tiao |

Present Manchurian currencies essentially what they were prior to September 18th, 1931.

The order for the new Central Bank notes has been placed with the Japanese Government Mint but, thus far, none of these notes has been put into circulation. Likewise, none of the new hard monies is as yet in circulation either. The currencies of Manchuria now (August 1932) are essentially what they were prior to September 18th, 1931, with the exception that the notes are being surcharged with the printed signature of Mr. Yung Hou (the President of the new Central Bank) as they chance to pass through the various banks.

It is not at all clear how the new "Manchukuo" Bank can hope to accomplish its ambitious programme of unifying and stabilising all of the present Manchurian currencies with the very limited amount of capital at its disposal. What it inherited from the old Provincial Bank plus what the Japanese loaned and the "Manchukuo Government" subscribed to it seem entirely inadequate for the purpose. Moreover, precisely where "Manchukuo" got the money to subscribe to the Central Bank is not at all clear. According to the preliminary "Manchukuo" budget supplied to the Commission by the Finance Minister, "Manchukuo" expects to face a deficit of over 20,000,000 *yan* during its first year of existence.

According to the Minister, this is to be covered by a loan from the Central Bank (then, as yet, not in existence). A Government subscribing 7,500,000 *yan* to its Central Bank and then borrowing over 20,000,000 *yan* from it to balance its budget is not establishing either itself or its Central Bank on a solid or enduring financial basis.

Central Bank more likely to unify the currencies than to make them convertible.

Whether or not the Bank's lending and borrowing operations have thus far, in fact, resulted in anything more than mere book-keeping transactions is of course impossible to say. Unless the Bank can obtain more actual hard money than it now seems to have, it is difficult to understand how it can hope to unify and stabilise all of Manchuria's currencies on a convertible dollar basis. Nor does the prospect of its getting much hard cash in the immediate future seem particularly good. There is comparatively little silver in Manchuria, and the only foreign country from which "Manchukuo" might at present hope to borrow some is itself faced with unprecedented financial difficulties. However, even if the Bank only succeeds in giving Manchuria an inconvertible but nevertheless uniform currency it will have succeeded in accomplishing something, though not all that is to be desired in the way of giving the region a completely satisfactory currency.

"MANCHUKUO'S" ESTIMATE OF APPROXIMATE REVENUES AND EXPENDITURES FOR FISCAL YEAR ENDING JUNE 30TH, 1933. ³

| <i>Revenues from :</i> | Amount in <i>yan</i> |
|--|----------------------|
| Customs | 19,000,000 |
| Salt <i>gabelle</i> | 15,900,000 |
| Liquor and tobacco tax | 3,600,000 |
| Consolidated taxes | 2,800,000 |
| Production tax | 5,900,000 |
| Wine tax | 530,000 |
| Stamp tax | 1,200,000 |
| Tax on deeds. | 1,700,000 |
| Fishery tax. | 50,000 |
| Miscellaneous taxes | 1,800,000 |
| Public enterprises and public property | 9,210,000 |
| The special districts in Manchuria | 3,100,000 |
| The Khingan development district | 180,000 |
| Total | 64,970,000 |

¹ Bearing the respective supervisors' official seals.

² Some other sources give this as 14 dollars.

³ Supplied to the League Commission by the "Manchukuo" Finance Minister in an interview of May 5th, 1932. The budget as given was in terms of *yen*, but since a similar budget, prepared shortly afterwards in printed form by the "Manchukuo" authorities, was in terms of *yan*, the author has taken the liberty of correcting what was probably an initial error.

| <i>Expenditures for :</i> | Amount in yuan |
|--|--------------------------------|
| The office of Che-cheng (the Regent) | 1,000,000 |
| The Council | 300,000 |
| The Legislative Yuan | 300,000 |
| The Control Yuan | 900,000 |
| The Department of General Affairs | 1,200,000 |
| The Bureau of Codification | 420,000 |
| The Bureau of Consultation | 1,200,000 |
| The Bureau of Public Safety | 1,200,000 |
| The Ministry of Interior | 8,700,000 |
| The Ministry of Foreign Affairs | 600,000 |
| The Ministry of Military Affairs | 30,600,000 |
| The Ministry of Finance | 9,960,000 |
| The Ministry of Industries | 780,000 |
| The Ministry of Communications | 720,000 |
| The Ministry of Justice | 4,476,000 |
| The Bureau of Capital-Planning | 480,000 |
| Subsidies to localities | 5,000,000 |
| Reserves | 5,000,000 |
| Total | <u>73,076,000</u> ¹ |
| For capital for the Central Bank | 7,500,000 |
| For constructing of Hulutao | 4,000,000 |
| For liquidation of debts in old regime | 1,000,000 |
| Total | <u>12,500,000</u> |
| Grand Total | <u>85,576,000</u> ¹ |
| Expenditures | 85,576,000 |
| Revenues | 64,970,000 |
| Deficit (defrayed by a loan from the Central Bank) . | <u>20,606,000</u> ¹ |

¹ Either these amounts are incorrect or certain of the items are not properly given. If only errors in addition have been made, these should be 72,836,000, 85,336,000 and 20,366,000, respectively.

STUDY No. 6.

MANCHURIA'S TRADE WITH CHINA PROPER¹
AND WITH FOREIGN COUNTRIES.

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I. EARLY HISTORY.

Manchuria's external trade began almost as soon as did agriculture, and both developed in the hands of the Chinese from Shantung and Chihli (now Hopei.)

The early inhabitants of Manchuria were possessed of little ability or inclination to engage either in agriculture or trade. For the most part, they were self-sufficient hunters, fishermen and fighters. The real economic development of the country, in fact, commenced only with Chinese migration. By the time of the Ming dynasty (1368-1661 A.D.) substantial numbers of Chinese colonists were already cultivating the soil, but the ban which the Manchus later placed on further Chinese immigration (because they did not wish to have their soil defiled by subject peoples) arrested the economic development of the country until the eighteenth century. At this time, exclusion was not strictly enforced and Chinese colonists once more started to enter. They first settled the fertile valleys of the south, where the climate was mild, but later started to invade the rich plains farther north, where the climate was more rigorous. The migrants brought with them, not only an advanced knowledge of agriculture, but their propensity to trade and barter as well. No sooner had they begun to raise produce than they began to exchange part of it for manufactured goods and diverse specialities from the south. Thus, Manchuria's external trade began almost as soon as the Chinese had settled the region and had begun to develop agriculture.

Junks laden with agricultural produce sailed from the Liao and Yalu rivers and from peninsular ports down the coast to Shantung and Chihli.

Trade was first carried on along the Liao and Yalu rivers, respectively to the west and east of the peninsula, as well as along the coast of the peninsula itself. Junks sailed from the mouths of these rivers, particularly the Liao, and from along the peninsular coast chiefly to Shantung and Hopei (then Chihli), the provinces from which the settlers so largely came. The produce of the soil was there exchanged for these manufactured goods and other products not to be obtained in Manchuria. Trade of this sort continued and expanded somewhat until past the middle of the nineteenth century, when a new era in the economic life of Manchuria was ushered in by the opening up of the territory to foreign trade.

¹ The use of the term "China Proper" to designate China exclusive of her Three Eastern Provinces is in no way intended to suggest that these latter are not an integral part of China; the term is employed for lack of a better short one. ("Rest of China" is not always a satisfactory substitute.)

THE OPENING OF MANCHURIA TO FOREIGN TRADE.

Yingkow (then known as Newchwang) first opened to foreign trade in 1860.

Yingkow (then called Newchwang) was opened to foreign commerce by the British under the terms of the Treaty of Tientsin of 1858¹ (ratified at Peking in 1860). The trade prospects of the port seemed bright indeed, for the Liao, which had its headwaters in the highlands of Mongolia, traversed the most densely populated and prosperous regions in Manchuria and was navigable by junk for some 400 miles from the mouth. Of more consequence was the fact that it was the only port in Manchuria open to foreign trade, a position which it was to enjoy for almost half a century.

In the early days, beans, grain, tobacco and hemp were the chief articles exported, and salt, sugar, miscellaneous Chinese produce and foreign manufactures the chief articles imported.

Export of beans and derivatives from outset chief characteristic of Manchurian trade.

The export of beans and derivatives was then, as it is now, the chief characteristic of Manchurian export trade. The sugar plantations of south China had long used the northern bean-cake for a fertiliser, and oil mills there had used the bean oil as a substitute for groundnut oil. Newchwang, however, thrived, not only on the bean trade, but on the passage of large numbers of coolies through it annually. Thousands of workers migrated to Manchuria seasonally and about half of these passed through Newchwang both on entering or leaving. Each contributed only a mite, but in the aggregate they swelled the prosperity of the port considerably.

Opening of other Manchurian ports following Russo-Japanese war paves way for enormous expansion of trade in which Dairen takes leading position.

While Newchwang had certain initial trade advantages, they were of a nature which did not ensure permanency. The Liao was not navigable for any great distance for the larger vessels which commerce was employing; the port was icebound for at least one-third of the year. Further, other more favourably situated ports were soon to be opened in competition with it. China opened Antung to foreign trade in 1907, and, later in the year, Japan did likewise with Dairen, retaining it as a free port. About the same time, a large number of inland "ports" were also opened to foreign trade. It was with the more or less complete opening up of the region to foreign trade that Manchuria's economic life commenced a spectacular development. Trade for the whole of Manchuria expanded enormously and Dairen forged ahead to become the leading port of Manchuria and the second or third greatest in all China. For this great expansion, no little credit is due to the Japanese, although the efforts of thousands of Chinese labourers must likewise not be ignored.

II. OBSTACLES IN THE WAY OF SATISFACTORY ANALYSIS OF MANCHURIAN TRADE.

Manchurian trade returns are incomplete and inaccurate, particularly with respect to the real origins and destinations of goods.

Any attempt to analyse the trade of Manchuria quantitatively meets with certain difficulties, the magnitude and consequences of which depend on the precise nature of the enquiry. Since this report attempts to analyse, among other subjects, the extent of Manchuria's trade with China Proper and each of the various foreign countries, these difficulties loom large and in certain important aspects prove insurmountable. The obstacles in the way of satisfactory analysis are as follows:

- (1) No returns on the junk trade between Manchurian ports and China Proper are available.
- (2) No trade reports of the goods transported by the Peking-Mukden Railway or by any other agency over land have been made.
- (3) Reports of the destinations of goods shipped from each of the Manchurian ports to the Chinese ports are not available; consequently, it is not possible to know whether the goods are destined for ports in Manchuria or in China Proper. Difficulty presents itself in analysing the *import* trade figures as well.
- (4) The recorded values of imports and exports are not always accurate. Duties in the case of over 70 per cent of Chinese trade are on a "specific" basis and the valuations of goods so assessed are taken from shippers' and importers' declarations.

¹ The treaty apparently had reference to the old town of Newchwang, which was about fifty miles up the Liao river, instead of the site of Yingkow, which was only about fourteen miles from the mouth. The British, however, established their consulate at Yingkow and called it the "Newchwang consulate". Largely as a consequence of this, the port came to be called Newchwang.

(5) The smuggling trade is necessarily unrecorded, but it is known to be substantial. Movements of treasure are likewise incompletely recorded.

(6) The real origins and destinations of goods entering and leaving Manchurian ports are not accurately given in the Chinese Maritime Customs Returns. Goods shipped to or coming from Japan, for example, may actually be destined for Germany or have originated in America. This is the most serious defect in Customs Returns so far as this paper is concerned.

JUNK TRADE NOT RECORDED.

The junk trade between Manchurian ports and other ports of China is not negligible, but as no figures are available, it must be omitted from the trade tables. Junks for some time past have carried a considerable amount of cargo between various Manchurian ports and between these and ports in China Proper. They have even carried merchandise between Manchuria, Korea and Japan. During a large part of last year and the early part of this, they were engaged in a very extensive smuggling business out of Dairen to points along the Manchurian coast and to points even as far south as Tsingtao.

OVERLAND TRADE BETWEEN MANCHURIA AND CHINA PROPER NOT SATISFACTORILY CLASSIFIED.

Traffic by rail and over other land routes between Manchuria and China Proper not recorded.

The Peking-Mukden Railway Administration has not kept complete records of the tonnage of goods it has conveyed between China Proper and Manchuria, nor has it classified them according to commodity or value. For example, it estimated that, during 1931, it carried 279,176 metric tons of goods from Manchuria to China Proper and 272,261 metric tons from China Proper into Manchuria. From this, the Chinese Tariff Commission estimates that the value of the goods shipped "either way cannot be much in excess of 15 million Haikwan taels."¹ Since the trade apparently was never great, its omission from the trade tables can introduce no great serious distortion.

Trade over other land routes between Manchuria and China Proper is likewise disregarded in the tables, as no figures concerning it are available.

CUSTOMS ADMINISTRATION DOES NOT PREPARE RETURNS FOR MANCHURIA AS A UNIT.

Chinese Maritime Customs returns do not allow of complete segregation of Manchurian trade from that of China as a whole.

The Chinese Maritime Customs publishes no trade returns for Manchuria as a whole, but, up to 1932, it published returns for each of the Manchurian "ports" (including some inland "ports"). From these and certain unpublished returns, one can determine the amount of goods shipped from a given Manchurian port to *all* other Chinese ports, but not the amounts shipped only to Chinese ports *outside* of Manchuria. Likewise, one can determine the amount of goods coming from *all* other Chinese ports to any Manchurian port, but not the amounts coming *only* from ports in China Proper. The indeterminate amount of Manchurian inter-port trade makes it impossible completely to segregate Manchuria's trade from that of the rest of China.

Since the Manchurian inter-port trade is not great, however, no important error is introduced by assuming that all exports not destined for foreign countries are destined for *non-Manchurian* Chinese ports; and that all imports other than from foreign countries into Manchurian ports come from Chinese ports *outside* of Manchuria. This error is reduced or offset, moreover, by the method employed (the only one available) in determining the exports from a given Manchurian port to other Chinese ports.

Exports from each of the Manchurian ports to other ports in China (including those in Manchuria) are derived in the following manner: "Exports to Foreign Countries" from *unpublished* port returns are subtracted from the "Original Exports", as published in the "Analysis of the Foreign Trade of China, Part II, Exports", of each Manchurian port. The remainder is the "net" export to *all* Chinese ports. This figure, of course, is in excess of the exports to *non-Manchurian* Chinese ports. However, since some of the goods recorded as going to foreign countries are only transhipped through them and really go to Chinese ports (as for example transshipments through Vladivostok), "Foreign Exports" as computed are overstated. This then results in understatement of "Exports to Chinese Ports", but, since these latter are assumed to go only to Chinese ports outside of Manchuria, the overstatement of "Foreign Exports" and the resulting understatement of "exports to Chinese ports" result in giving a figure for exports to (all) Chinese ports which may be assumed to approximate very closely the exports only to non-Manchurian Chinese ports.²

¹From a special report of the Chinese National Tariff Commission.

²The above explanation is based chiefly on memoranda supplied to the Commission by the Chinese Assessor's Office.

RECORDED VALUES OF IMPORTS AND EXPORTS NOT ALWAYS ACCURATE.

Chinese Maritime Customs Returns not always accurate with respect to values.

Chinese Maritime Customs figures are not altogether reliable with respect to the valuations they place on goods. In every volume of the "Analysis of the Foreign Trade of China, Part II", there is a note stating that "the valuation of specific duty-paying goods are compiled from applicants' statements, and, in the absence of the right to demand production of duly certified invoices, are published with reserve". The facts that the Customs relies on shippers' statements and that over 70 per cent of China's import and export trade is in goods on which specific duties are assessed are unquestionably responsible for considerable error in the Customs figures on trade values.¹

SMUGGLING TRADE.

Smuggling, particularly out of the Kwantung Leased Territory, and from Korea into Antung, has been large, especially of late.

There has always been a considerable amount of smuggling into and out of Manchuria, but, since the beginning of last year until just recently, it had assumed very large proportions. For some time past, there has been a thriving traffic in drugs (imports largely from Germany and Japan, and exports largely to Mongolia) and, on occasion, a sizeable illegitimate trade with Russia. Before the Union of Soviet Socialist Republics guarded its borders as carefully as it does now, substantial quantities of luxury and quasi-luxury goods (silk stockings, perfumes, tobacco, etc.) were smuggled into Russia, and, even up to the present time, furs and Russian² and foreign bank-notes smuggled out.

There has likewise always been some smuggling out of the free port of Dairen into the rest of Manchuria, and between Manchuria and Korea. This, in fact, is the smuggling trade which, in recent years, has been the largest and which, during the latter part of last year and the early part of this year, assumed unprecedented proportions.

The chief places, in the order of their importance, in which smuggling takes place are :

- (1) Between the Kwantung Leased Territory and several railway and ocean points to the north in Manchuria, and a number of ocean points in China Proper to the south as far as Tsingtao ;
- (2) Across the Yalu river, but chiefly between Antung and Shingishu (the Korean city opposite Antung), and,
- (3) Along the Russo-Manchurian border, but concentrated chiefly around the Lake Hanka region in the east and around Manchouli in the west.

Smuggling operations out of the Kwantung Leased Territory to the north and those out of Korea into Manchuria around Antung have always been the most important and were the ones which increased noticeably at the beginning of last year, when the advanced Chinese duties went into effect. Shortly following the outbreak of Sino-Japanese hostilities in-smuggling expanded to such an unprecedented level as almost to overshadow legitimate trade movements.

The Chinese Maritime Customs estimates³ that, between October 1931 and April 1932, the declared imports into Manchuria from Dairen for a number of representative staple trade items constituted but a small percentage of the actual.

Between October 1931 and April 1932 smuggling operations reached enormous proportions.

A great quantity of goods was trucked from Dairen to Wafantien, the first South Manchuria Railway station north of the Kwantung Leased Territory, and from there shipped to northern points. During the period referred to, only 2.23 per cent of the cotton piece-goods shipped from Wafantien had passed through the Customs, none of the woollen goods, only 0.25 per cent of the sugar and none of the kerosene.⁴ In addition to the goods smuggled from the Leased Territory to Wafantien, there were considerable quantities carried by junk to other Manchurian points and loaded for rail shipment to the north at Hsiung Yueh Ch'ong, Lu Chia T'un and Kai P'ing. Smuggling also took place between Dairen and points in China Proper as well.

¹ *Op. cit.*, Report Chinese Tariff Commission.

² See report on Manchurian currencies.

³ From a special report prepared by the Chinese National Tariff Commission.

⁴ The Customs arrived at these figures by comparing the quantities of goods arriving at Wafantien (*i.e.*, those which had come under Customs cognisance) with those which were shipped northward from or through this point. Value figures were not obtainable, but traffic figures by weight were made available to the Customs by the South Manchuria Railway.

Table I.

TRAFFIC IN PIECE-GOODS, SUGAR AND KEROSENE OIL
AT WAFANGTIEN RAILWAY STATION. ¹

Arrived at Wafangtien and reported to Customs.

| | Cotton piece-goods (piculs) | Woollen piece-goods (piculs) | Sugar (piculs) | Kerosene oil (piculs) |
|--------------------|-----------------------------------|------------------------------------|-------------------|-----------------------------|
| 1931 : | | | | No statistics available |
| October | 95 | — | 6 | |
| November | 53 | — | 16 | „ |
| December | 73 | — | 155 | „ |
| 1932 : | | | | |
| January | 14 | — | 21 | „ |
| February | 11 | — | 2 | „ |
| March | 43 | — | 24 | „ |
| April | 80 | — | 136 | „ |
| Total | 369 | — | 360 | „ |

Forwarded from Wafangtien.

| | Cotton piece-goods (piculs) | Woollen piece-goods (piculs) | Sugar (piculs) | Kerosene oil (piculs) |
|--------------------|-----------------------------------|------------------------------------|-------------------|-----------------------------|
| 1931 : | | | | No statistics available |
| October | 866 | 116 | 23 | |
| November | 1,304 | 11 | 459 | „ |
| December | 501 | 257 | 1,603 | „ |
| 1932 : | | | | |
| January | 1,570 | 73 | 23,060 | „ |
| February | 2,466 | 166 | 33,666 | 2,273 |
| March | 6,487 | 472 | 59,052 | 3,359 |
| April | 3,380 | 118 | 25,023 | 502 |
| Total | 16,574 | 1,213 | 142,886 | 6,134 |

These tables show that the amount of goods smuggled across the frontier and loaded at Wafangtien for northern destinations during the period October 1931 to April 1932 was as follows (in piculs) :

| | |
|-------------------------------|---------|
| Cotton piece-goods | 16,205 |
| Woollen piece-goods | 1,213 |
| Sugar | 142,526 |
| Kerosene oil | 6,134 |

Table II.

SUGAR AND KEROSENE OIL FORWARDED FROM
HSIUNG YUEH CH'ONG, LU CHIA T'UN AND KAI P'ING RAILWAY STATIONS.

(Presumably smuggled by junks from the Leased Territory). ²

| | Sugar (piculs) | Kerosene oil (piculs) |
|--------------------|-------------------|--------------------------|
| 1931 : | | |
| October | 2,078 | 5 |
| November | 3,532 | 23 |
| December | 2,771 | — |
| 1932 : | | |
| January | 1,017 | 84 |
| February | 658 | 166 |
| March | 1,510 | 526 |
| Total | 11,566 | 804 |

During the same period, the smuggling into Antung was also very large. In fact, the Antung Customs Commissioner (American) in a report of some several months ago declared that ³ “the traffic was carried on so openly and by such large gangs that it could no longer be called smuggling but was literally the evasion of duty by *force majeure*”.

¹ According to Chinese claims, from a special report by the National Tariff Commission (Chinese).

² *Ibid.*

³ From a special report by the Chinese National Tariff Commission.

With the exception of goods declared for export to Antung from Japan and Korean places other than Shingishu, practically all goods destined for entry at Antung must be declared to the Korean Customs at Shingishu. By comparing Korean export figures with Antung import figures for 1931, some notion of the extent of the smuggling which took place may be gained. Korean statistics declare that goods to the value of 5,788,761 gold yen were exported from Shingishu for entry at Antung, but Chinese Customs figures show that only 772,000 yen's worth of these goods were declared at Antung, the remaining 5,107,000 yen's worth entering undeclared.¹ Even this figure underestimates the actual amount of smuggling, for it does not reckon with the goods destined for entry at Antung which originated at Japanese points *other than* Shingishu.

The chief goods smuggled into Manchuria at both Dairen and Antung are sugar, cotton piece-goods, woollen piece-goods, cotton yarn and kerosene. The actual smuggling is done chiefly by Koreans around Antung, and by Chinese around Dairen. Japanese and Russians have likewise been known to engage in the business.

The smuggling operations at Dairen and Antung were so large during last year that the author feels it inadvisable to consider 1931 Manchurian trade returns at all indicative of the actual trade of that year. Since May of this year (1932), smuggling activity has lessened considerably. The Japanese made efforts to suppress it first and the "Manchukuo" officials later. Whether or not they have succeeded in stamping out most of it by now, the author is unable to say.

CHINESE CUSTOMS RETURNS PARTICULARLY INACCURATE WITH RESPECT TO ACTUAL ORIGINS AND DESTINATIONS OF GOODS.

Most glaring defect of Chinese maritime returns from standpoint of this study is their inaccuracy with respect to actual origin and destination of goods.

The defects of Chinese Customs returns with respect to the real origins and destinations of goods are well set forth in "The Report and Abstract of Statistics, Foreign Trade of China", for the year 1930.²

"The countries of provenance and destination are those recorded by the Customs in accordance with the declarations made by importers and exporters or as appearing on bills of lading and shipping orders. Once again, every endeavour has been made in the interests of trade to encourage merchants to state the correct country of origin and ultimate port of discharge, but little or no progress can be reported, though it is anticipated that some improvement may be forthcoming in the near future. Hong-Kong still remains the bane of accurate statistics, *while many cargoes consigned from or destined for Canada and the United States are assigned to Japan, and this is especially noticeable in the case of northern and Manchurian ports.* Germany possibly, more than any other country, still suffers from the effect of incorrect declarations."

How glaring these defects are can best be illustrated by citing the trade figures for cotton and beans as they appear in Chinese Maritime Returns. The returns for 1929 record that 366,000 piculs of raw cotton with a value of 14 million Haikwan taels were imported from Japan during the year.³ Japanese trade returns for the same year, however, record no export of cotton to China whatsoever. In view of the fact that Japan grows no cotton, the explanation of such inconsistency is obvious. Japan does not consider that she *exports* the cotton from America or India which she merely tranships to China. On the other hand, China, in her trade returns, does not in fact segregate goods originating in Japan and goods transhipped via Japan. (This incidentally is a factor not often reckoned with in boycott analyses.) In the case of beans, a commodity with which one is particularly concerned in a study of Manchurian trade, there is likewise glaring inaccuracy.

According to Chinese returns, China exports only a small amount of beans to Germany; according to German returns, Germany imports enormous quantities of beans from China.

According to 1929 Chinese export figures, only a small percentage of the total export of beans was destined for Germany. German trade returns, however, recorded that 1,023,868,400 kilogrammes (roughly 17 million piculs) of soya beans with a value of 239,111,000 RM. were imported from China during the year. Since the total Chinese soya-bean exports for 1929 amounted to some 41 million piculs, Germany actually received about 40 per cent of the whole

¹ From a special report by the Chinese National Tariff Commission.

² Pages 39 *et seq.*

³ Based on data supplied the League Commission by the Chinese National Tariff Commission.

sum.¹ From this, as well as from other evidence, it is certain that a large percentage of Manchuria's soya beans recorded in the Chinese trade returns as having been exported to Japan, Russia, Egypt and the Netherlands actually was destined for Hamburg.

Inaccuracies of Chinese returns with respect to actual origins and destinations of goods cannot be corrected even by resort to trade returns of all countries of the world.

From the above it must be obvious that Chinese trade returns are decidedly inaccurate with respect to the real origins and destinations of goods. These are defects which cannot be ignored nor easily corrected, particularly in the case of Manchurian trade. No country records "Manchuria" as a destination for exports, or as a place of origin for imports. If one should attempt to discover from the trade returns of each country what imports from China probably originated in Manchuria and what exports to China were probably destined for Manchuria, he would still be faced with other than the obvious difficulties. All countries do not classify their trade figures in such a manner as to allow for ready identification of their export and import commodities with those of China's respective imports from and exports to them. Further, the "year-end shipment" factor, the numerous fluctuating currencies employed, the non-standardisation in the manner in which countries compute import and export values (elements of freight charges, export duties, consular and inspection fees, for example) and the defects of varying nature and magnitude to be found in every country's returns do not make their examination worth while.

BEARING OF INCOMPLETE AND INACCURATE DATA ON TRADE ANALYSES.

Shortcomings of Chinese trade returns serious only with respect to analysis of origins and destinations of Manchuria's respective imports and exports.

For the most part, the shortcomings of Manchurian trade returns are not serious obstacles to a study of many aspects of the region's trade, but in one respect they are very serious. They do not permit of satisfactory analysis of the region's import-export trade by country of origin or destination. This defect has been dwelt on at length and should particularly be borne in mind in examining certain tables in the following section. The other defects likewise require that these tables be accepted with appropriate reserve.

Shortcomings of Chinese trade returns for purpose of this study not to be considered a criticism of Chinese Maritime Customs Administration.

The author feels he ought to make clear at this point that his mention of the shortcomings and inaccuracy of Chinese trade returns is in no way intended to reflect upon the Chinese Maritime Customs Administration. The primary function of the service is to administer the Customs and not to gather complete trade data accurate in all respects. Further, what from the standpoint of this paper is a most serious defect is not all from the standpoint of the Customs Administration. The Customs has exerted great efforts to improve the all-round accuracy of its returns, and if it has not made over-great strides in this direction, it is largely because of the immensity of the task.

III. ANALYSIS OF MANCHURIA'S TRADE.

GROWTH OF MANCHURIA'S TRADE.

Manchuria's trade has shown phenomenal growth from the outset and has developed far more rapidly than has that of China as a whole.

Subject to the qualifications suggested in the preceding section, the following table shows the progress of Manchuria's trade from 1907 to 1930 inclusive. As will be noted, it expanded steadily until 1930, when the world depression, coupled with an unprecedented "low silver", forced a diminution. Since then trade has slackened even more, and unless "peace and order" such as prevailed prior to autumn of 1931 be restored, it may possibly continue on its downward course for some time.

¹ Based on a special report to the Commission by the Chinese National Tariff Commission, which incidentally ignores the fact that some of the beans which arrived in Germany early in 1929 left China late in 1928. This error is more or less completely offset, however, by the 1929 year-end exports of beans from China not arriving in Germany until 1930.

Table III.

MANCHURIA'S TRADE WITH FOREIGN COUNTRIES AND CHINA PROPER COMBINED, 1907-1930. ¹
(Values in Haikwan taels.)

| Year | Imports | Exports | Total | Balance |
|----------|-------------|-------------|-------------|--------------|
| 1907 . . | 30,685,152 | 22,042,323 | 52,727,475 | — 8,642,829 |
| 1908 . . | 53,112,034 | 47,585,123 | 100,697,157 | — 5,526,911 |
| 1909 . . | 69,159,331 | 83,026,018 | 152,185,349 | + 13,866,687 |
| 1910 . . | 81,731,940 | 88,999,422 | 170,731,362 | + 7,267,482 |
| 1911 . . | 94,797,846 | 103,733,492 | 198,531,338 | + 8,935,646 |
| 1912 . . | 102,232,018 | 100,166,041 | 202,398,059 | — 2,065,977 |
| 1913 . . | 125,683,660 | 113,041,999 | 238,725,659 | — 12,641,661 |
| 1914 . . | 112,409,981 | 109,331,936 | 221,471,917 | — 3,078,045 |
| 1915 . . | 108,111,646 | 130,084,502 | 238,196,148 | + 21,972,856 |
| 1916 . . | 129,555,872 | 130,807,129 | 260,363,001 | + 1,251,257 |
| 1917 . . | 158,562,010 | 161,120,501 | 319,682,511 | + 2,558,491 |
| 1918 . . | 177,219,156 | 166,856,166 | 344,075,322 | — 10,362,990 |
| 1919 . . | 231,303,593 | 212,008,762 | 443,312,355 | — 19,294,831 |
| 1920 . . | 205,129,451 | 225,926,429 | 431,055,880 | + 20,796,978 |
| 1921 . . | 218,187,674 | 234,407,892 | 452,595,566 | + 16,220,218 |
| 1922 . . | 196,432,072 | 274,661,906 | 471,093,978 | + 78,229,834 |
| 1923 . . | 207,055,228 | 293,928,940 | 500,984,168 | + 86,873,712 |
| 1924 . . | 200,648,460 | 269,018,082 | 469,666,552 | + 68,369,612 |
| 1925 . . | 244,721,505 | 312,368,194 | 557,089,699 | + 67,646,689 |
| 1926 . . | 276,840,619 | 370,742,398 | 647,583,017 | + 93,901,779 |
| 1927 . . | 268,913,586 | 408,036,179 | 676,949,765 | +139,122,593 |
| 1928 . . | 302,955,904 | 434,035,424 | 736,991,328 | +131,079,520 |
| 1929 . . | 329,603,869 | 425,651,491 | 755,225,360 | + 96,047,622 |
| 1930 . . | 306,354,620 | 396,714,056 | 703,068,676 | + 90,359,436 |

Manchuria's external trade has developed far faster than has that of China as a whole. Within a year after Dairen was opened, Manchuria's trade made up about 12 per cent of the total trade for China as a whole; by 1913, it amounted to 17 per cent; by 1920, about 19 per cent; by 1929, about 21 per cent; and by 1930, over 24 per cent. Even if one considers only the strictly foreign trade of Manchuria and that of China as a whole, Manchuria has likewise shown by far the more rapid progress. ²

THE "FAVOURABLE" BALANCE OF TRADE.

Manchuria's "favourable" balance results chiefly from the remittances made to Japan and China Proper, and not from Manchuria's "agricultural development" or "the increasing consumption of the soya bean in international trade".

Unlike China Proper, or Korea or Japan, Manchuria has maintained a "favourable" balance of trade almost consistently from 1909 on. This has quite generally been given a mercantilistic interpretation and an inaccurate explanation by both the Chinese and Japanese.

The balance would not have been as "favourable" as it was, if the imports of Chinese military supplies had been recorded and if there had not been such an "unfavourable" balance in the smuggling trade. The balance, however, would nevertheless have been "favourable" and primarily for the following reasons:

- (1) Many of the firms doing business in Manchuria have their head offices in Japan or elsewhere, hence they must regularly remit home for expenses (incurred at the main office in their behalf) and in payment of profits.
- (2) Chinese Korean and Japanese residents in Manchuria are continually remitting "back home". The Chinese particularly remit or take back with them large sums annually to Shantung and Hopei.
- (3) The Chinese Post Office and Customs in Manchuria remit substantial net amounts to China Proper annually—*i.e.*, they did prior to their having been taken over by the "Manchukuo" authorities.
- (4) Manchuria hires the services of foreign shipping firms and insurance companies.

¹ "Third Report on Progress in Manchuria to 1932", page 129.

² *Ibid.*, pages 128-129.

Against the above there are certain credits, such as the new foreign investments made from time to time (chiefly by Japan), foreign tourist expenditures, and remittances to foreign consulates, officials, and military people. In the aggregate these have not been large enough to balance the first group, so a "favourable" visible trade results. Attempts to attribute this "favourable" balance to Manchuria's "agricultural development" or "the increasing consumption of the soya bean in international markets" or "the increasing development of her mineral products" are distinctly not warranted on economic grounds.

MANCHURIA'S TRADE BY PORTS.

Manchuria's ports in order of their 1930 importance are Dairen, Yingkow, Antung and Harbin.

While Manchuria's trade increased enormously as time went on, each of the ports fared somewhat differently. Of these, Dairen and Antung advanced more rapidly than the others, Dairen's rise being phenomenal. Harbin showed an initial advancement, but this was retarded by the Russian revolution of 1917. It was slowly recovering from this when the Sino-Russian difficulties of 1929 gave it another setback. The more recent disturbances around Harbin have again militated against early recovery. Newchwang's trade has shown a slight absolute increase in recent years, but this has been completely overshadowed relatively by that of Dairen.

During 1930, about 60 per cent of Manchuria's trade passed through Dairen, 15 per cent through Yingkow, about 14 per cent through Antung and about 10 per cent through the Harbin District (which includes Manchouli, Suifenho and Aigun).

MANCHURIA'S CARRYING TRADE.

Manchuria's trade is carried chiefly in foreign bottoms, although in recent years Chinese vessels have been handling increasing percentage of cargo.

The carrying of Manchuria's trade is done chiefly under foreign flags, although in recent years the Chinese flag has come into increasing prominence. Manchuria's trade for 1913 and 1930 respectively was carried as follows :¹

Manchuria's Carriage Trade according to Flag.

| Flag | 1913 | | 1930 | |
|--------------------|-----------|------------|------------|------------|
| | Tonnage | Percentage | Tonnage | Percentage |
| Japanese | 4,926,735 | 71 | 9,513,885 | 64 |
| Chinese | 429,306 | 6 | 1,627,047 | 11 |
| British | 1,078,505 | 15 | 1,525,671 | 10 |
| German | 389,002 | 6 | 873,208 | 6 |
| American | 4,146 | — | 446,680 | 3 |
| Others | 142,533 | 2 | 764,084 | 6 |
| Total | 6,970,227 | 100 | 14,750,575 | 100 |

MANCHURIA'S TRADE BY COMMODITIES.

Manchuria's chief exports are soya beans, bean cake and other agricultural products ; and her chief imports are cotton piece-goods and miscellaneous manufactured goods.

In recent years, the chief exports of Manchuria in the order of their importance have been soya beans, bean cake, coal and coke, bean oil, millet, seeds and other cereals, raw silk, iron and iron manufactures, and kaoliang ; and the chief imports, cotton piece-goods, wheat flour, machinery, tea and liquor and other provisions, iron and steel, cigarettes and cigars, cotton yarn, wool and silk and miscellaneous piece-goods, sugar, gunny bags, and raw cotton. The exports, of which beans and derivatives make up about one-half, thus consist almost entirely of cereals ; and the imports, of which cotton piece-goods make up about one-fifth, consist almost entirely of manufactured goods.

¹ "Third Report on Progress in Manchuria to 1932", page 137.

Table IV.

PRINCIPAL EXPORTS FROM MANCHURIA DURING 1930.¹

| Commodity | Value (in Haikwan taels) | Percentage of total |
|--------------------------------------|-----------------------------|------------------------|
| Soya beans | 114,256,754 | 29 |
| Bean cake | 66,135,365 | 17 |
| Coal and coke | 37,588,239 | 9 |
| Bean oil | 26,509,463 | 7 |
| Millet | 24,365,094 | 6 |
| Seeds | 17,446,476 | 4 |
| Other cereals | 15,509,868 | 4 |
| Raw silk (wild) | 9,415,799 | 2 |
| Iron and iron manufactures | 8,526,708 | 2 |
| Kaoliang | 6,393,881 | 2 |
| Leather, hides and skins | 4,766,345 | 1 |
| Salt | 4,017,971 | 1 |
| Timber, bamboo, etc. | 3,000,563 | 1 |
| Unclassed merchandise | 54,941,720 | 14 |
| Total | 392,874,246 | |

Table V.

PRINCIPAL IMPORTS INTO MANCHURIA DURING 1930.²

| Commodity | Value (in Haikwan taels) | Percentage of total |
|--|-----------------------------|------------------------|
| Cotton piece-goods | 54,330,656 | 18 |
| Wheat flour | 17,957,125 | 6 |
| Machinery | 15,810,670 | 5 |
| Tea, liquors and other provisions | 15,627,989 | 5 |
| Iron and steel | 13,553,527 | 4 |
| Cigarettes and cigars | 13,238,568 | 4 |
| Cotton yarn | 10,925,348 | 4 |
| Wool, silk and miscellaneous piece-goods | 10,584,516 | 4 |
| Sugar | 10,283,004 | 3 |
| Gunny bags | 9,967,440 | 3 |
| Raw cotton | 8,269,849 | 3 |
| Paper | 7,385,566 | 2 |
| Medicine | 7,337,015 | 2 |
| Cereals and seeds | 7,208,823 | 2 |
| Kerosene oil | 7,015,989 | 2 |
| Vehicles | 5,698,178 | 2 |
| Clothing, etc. | 5,265,639 | 2 |
| Coal and coke | 4,661,641 | 1 |
| Electrical materials | 4,583,145 | 1 |
| Tobacco | 4,519,391 | 1 |
| Fruit and vegetables | 4,236,985 | 1 |
| Leather, hides, skins, bones, horns | 3,621,649 | 1 |
| Unclassed merchandise | 59,680,709 | 20 |
| Total | 301,763,422 | |

Soya beans from the very outset have been Manchuria's chief export and the product with which the region has been identified.

From the very outset, the soya bean has been the chief export of Manchuria, and the product which almost the world over is identified with the region. Beans were first cultivated and prepared on a moderate scale for local human consumption, but when their fertilising property was discovered in the middle of the nineteenth century, they commenced to be raised on a much larger scale and for export to South China. Later, as a result of the Sino-Japanese and Russo-Japanese wars, their use spread to Japan, Europe and America. To Mitsui and Company, however, must go the credit for placing the bean-export business on its present basis. Their famous "trial shipment" to Hull, England, in 1908, marked the real beginning of Manchuria's foreign export trade in beans.

¹ "Third Report on Progress in Manchuria to 1932", page 136. These figures do not include the insignificant trade of Aigun and East Manchuria. (The author has taken the liberty of correcting the obvious and exceedingly numerous errors in arithmetic appearing in the original table.)

² *Ibid.*

MANCHURIA'S TRADE WITH CHINA PROPER AND THE REST OF THE WORLD.

Manchuria's trade with foreign countries and China Proper has shown steady expansion, with the China Proper trade expanding the more rapidly.

As has already been explained, it is impossible to determine with precision the extent to which Manchuria engages in trade with the various foreign countries and China Proper. The figures appearing in the following table must therefore be accepted with reserve.

According to the best compilations available, Manchuria's trade with both China Proper and the rest of the world has grown enormously since the Russo-Japanese war, having advanced almost without a setback until 1930. During this year, foreign trade suffered a reversal, but trade with China Proper continued to advance. The returns for 1931 are so hopelessly inaccurate and incomplete, particularly with respect to imports (because of the heavy smuggling), that they will not be employed at all for comparative purposes.

One of the chief characteristics of Manchuria's trade in recent years has been its expansion with China Proper. In both exports and imports, but particularly the latter, it has grown both absolutely and relatively to the total. During the period 1929-30, Manchuria received about 30 per cent of its total imports from China Proper; exported to it over 24 per cent of its total exports; and did almost 27 per cent of its entire trade with it. The increase is to be attributed largely to the importation of cotton piece-goods and cotton yarn of domestic manufacture.

Table VI.

COMPARATIVE TABLES SHOWING RELATION OF MANCHURIA'S TRADE WITH JAPAN, CHINA PROPER AND ALL FOREIGN COUNTRIES, INCLUDING CHINA PROPER.

(Values in millions of Haikwan taels.)

| Year | Imports | | Exports | | Total | | |
|-------------------|------------------------|----------|---------|----------|-------|--------------------|-----|
| | Value | Per cent | Value | Per cent | Value | Per cent | |
| 1908 ¹ | | | | | | | |
| | Japan and Korea . . . | 14.7 | 28 | 17.2 | 36 | 31.9 | 32 |
| | China Proper | 21.1 | 40 | 18.7 | 39 | 39.8 | 40 |
| | Total trade | 55.1 | 100 | 47.6 | 100 | 100.7 | 100 |
| 1927 ¹ | | | | | | | |
| | Japan and Korea . . . | 110.4 | 41 | 155.4 | 39 | 265.8 | 39 |
| | China Proper | 89.4 | 33 | 113.9 | 28 | 203.3 ² | 30 |
| | Total trade | 268.9 | 100 | 408.0 | 100 | 676.9 | 100 |
| 1929 ³ | | | | | | | |
| | Japan and Korea . . . | 138.8 | 42 | 168.9 | 40 | 307.6 | 40 |
| | China Proper | 99.5 | 30 | 93.1 | 22 | 192.7 | 25 |
| | Total trade | 329.6 | 100 | 425.7 | 100 | 755.3 | 100 |
| 1930 ⁴ | | | | | | | |
| | Japan and Korea . . . | 120.4 | 40 | 159.3 | 40 | 279.8 | 40 |
| | China Proper | 99.6 | 33 | 102.3 | 26 | 201.8 | 29 |
| | Total trade | 306.4 | 100 | 396.7 | 100 | 703.1 | 100 |

MANCHURIA'S TRADE BY COUNTRY OF ORIGIN AND DESTINATION.

Customs returns decidedly inaccurate with respect to specific countries of origin and destination.

While it is difficult to determine the extent of Manchuria's trade with foreign countries in the aggregate, it is much more difficult to determine it with respect to specific countries. Because of the large amount of unrecorded transshipment, Customs returns are decidedly inaccurate in their citation of countries of origin and destination. For this reason, the following two tables are to be considered *only as first approximations to the facts*.

The first table is taken almost entirely from Chinese compilation and the second entirely from Japanese. To the extent that they cover comparative data they are in essential accord.

¹ Compiled from "Report on Progress in Manchuria to 1928", page 106.

² Incorrectly given as 153,265,689 in text.

³ Compiled from "Second Report on Progress in Manchuria to 1930", page 140.

⁴ Compiled from "Third Report on Progress in Manchuria to 1932", page 132.

Japan is Manchuria's best customer and chief supplier.

According to these tables, Manchuria's chief customers for 1929 in the order of their importance were Japan and Possessions, China Proper, Union of Soviet Socialist Republics, the Netherlands and Dutch East Indies, United Kingdom and Possessions, the United States and the Philippines, Germany, Belgium, and Denmark ; and her chief suppliers were Japan and Possessions, China Proper, United Kingdom and Possessions, the United States and the Philippines, Union of Soviet Socialist Republics, Germany, Belgium, the Netherlands and Dutch East Indies, and Denmark. During 1930, the customers remained in the same relative order and the suppliers likewise, save that Belgium and the Netherlands and Possessions changed their relative positions.

After making due allowance for all probable shortcomings in data, Japan is unquestionably Manchuria's best customer and chief supplier, and until the past few years has been far ahead of the next most important, China Proper.

Manchuria's trade with China Proper has recently come to rival that of Japan.

It is only within the past few years that China Proper has come to rival her so closely. Although the Union of Soviet Socialist Republics appears in third place among Manchuria's customers and fifth among her suppliers, it is certain that her importance is overrated. The error results from much of the goods transhipped through Vladivostok being recorded as having come from, or being destined for, the Union of Soviet Socialist Republics.

Manchuria's trade with the Union of Soviet Socialist Republics overstated, particularly with respect to exports.

Most of Manchuria's exports to the Union of Soviet Socialist Republics are actually destined for Japan, China Proper, Germany, Denmark and other European countries. Imports, which are much smaller than exports, likewise originate in some indeterminable amounts in places other than the Union of Soviet Socialist Republics. Of late, however, actual Russian trade has shown considerable advancement. The Netherlands and Dutch East Indies occupy fourth place among Manchuria's customers and seventh or eighth among her suppliers, buying much more from Manchuria than they sell to it. The United Kingdom and her Possessions occupy fifth place among Manchuria's customers and third among her suppliers.

The United Kingdom should not be given full credit for Hong-Kong's trade.

Not all of Hong-Kong's trade, which is included with Great Britain's, ought be credited to the latter, for much of the Island's trade is with Japan, China Proper and other countries in Europe.

American's position understated as a supplier of Manchuria's goods.

The United States and the Philippines are sixth in importance among Manchuria's recorded customers and fourth among her suppliers. High tariffs prevent the sale of Manchurian products in the American market, but Manchuria still finds America a good source of supply for certain commodities. American sales in Manchuria are much larger than shown, for many American goods are transhipped to Manchuria via Shanghai and Kobe without their real origin being recorded in the Customs returns.

Germany's position in Manchuria's trade understated, particularly with respect to position as a buyer of Manchurian goods.

As a buyer of Manchuria's goods, Germany follows America in the tables, but the extent of her buying is grossly understated. Much of the goods recorded for export to such countries as Japan, Union of Soviet Socialist Republics, the Netherlands and Egypt are actually destined for Germany, she being one of the largest soya-bean consumers in the world. Germany also suffers somewhat from understatement as a supplier. Many of her exports destined for Manchuria are not shipped directly, so she is not given Customs recognition for them.

Trade of Belgium and Denmark not large, and that of the other countries insignificant.

Belgium follows Germany as a buyer of Manchuria's goods, but buys a much lesser amount. She sells much more to Manchuria than she buys, however, but occupies only sixth or seventh place among Manchuria's suppliers. Denmark's recorded trade with Manchuria in both imports and exports is comparatively slight, but is somewhat understated as a buyer of Manchuria's products.

The trade of all other countries not mentioned above accounted in the aggregate for only three to seven per cent of the whole external Manchurian trade during 1929-30. These countries therefore are not referred to separately.

Table VII.

EXPORTS FROM MANCHURIAN PORTS BY COUNTRIES OF DESTINATION, 1928-1930.¹

(In thousands of Haikwan taels.)

| Exported to | 1928 | 1929 | 1930 |
|-------------------------------------|---------------------|---------------------|----------------------|
| Japan (including Formosa) | 122,063 | 133,699 | 114,510 |
| Korea | 42,496 | 33,301 | 39,757 |
| U. S. S. R. | 74,985 | 40,253 | 50,347 |
| Hong-Kong | 6,667 | 6,423 | 6,716 |
| United Kingdom | 13,729 | 21,619 | 10,339 |
| United States | 9,790 | 12,132 | 8,671 |
| Germany | 1,691 | 1,388 | 3,295 |
| France | 1,038 | 1,071 | 907 |
| Others | 47,173 | 78,686 | 54,132 |
| Total ² | 319,632 | 328,572 | 288,674 |
| China | 88,100 ³ | 93,143 ⁴ | 102,282 ⁵ |
| Grand total | 407,732 | 421,715 | 390,956 |

IMPORTS INTO MANCHURIAN PORTS BY COUNTRIES OF ORIGIN, 1928-1930.¹

(In thousands of Haikwan taels.)

| Imported from | 1928 | 1929 | 1930 |
|-------------------------------------|---------------------|---------------------|---------------------|
| Japan (including Formosa) | 109,318 | 126,510 | 110,006 |
| Korea | 13,570 | 12,202 | 10,383 |
| U. S. S. R. | 26,548 | 15,747 | 15,772 |
| Hong-Kong | 10,950 | 13,734 | 12,831 |
| United Kingdom | 6,760 | 9,671 | 10,484 |
| United States | 19,948 | 25,922 | 20,775 |
| Germany | 8,515 | 8,534 | 12,132 |
| France | 2,476 | 1,084 | 985 |
| Others | 15,638 | 16,618 | 13,417 |
| Total ³ | 213,723 | 230,022 | 206,785 |
| China | 58,200 ³ | 99,543 ⁴ | 99,550 ⁵ |
| Grand total | 271,923 | 329,565 | 306,335 |

¹ From unpublished manuscripts of Chinese trade statistics supplied by the Chinese Tariff Commission.

² These totals differ only slightly from the totals supplied by the Japanese. See Table VIII.

³ Prepared from Chinese Maritime Customs returns by Dr. Herbert Feis. *Studies in World Economy* by Carnegie Endowment for International Peace, *The International Trade of Manchuria*, New York, 1931, page 214. (Import value probably too low.)

⁴ "Second Report on Progress in Manchuria to 1930", page 140.

⁵ "Third Report on Progress in Manchuria to 1932", page 132. (The report on the *Annual Imports coming from Manchuria to China Proper* prepared for the Commission by the Chinese Assessor's Office gives no totals for this trade, hence the author was obliged to use Japanese and other compilations for this trade.)

Table VIII.

MANCHURIA'S TRADE ACCORDING TO COUNTRIES OF ORIGIN AND DESTINATION. ¹

| Years Countries | 1908 | | | 1927 | | | 1929 | | | 1930 | | |
|--------------------------------------|------------|------------|-------------|-------------|-------------|--------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | Imports | Exports | Total | Imports | Exports | Total | Imports | Exports | Total | Imports | Exports | Total |
| United Kingdom | 534,684 | 355,950 | 890,634 | 4,661,460 | 12,863,955 | 17,525,415 | 9,670,833 | 21,637,853 | 31,308,686 | 10,484,142 | 10,385,259 | 20,869,401 |
| Hong-Kong | 2,037,838 | 846,123 | 2,883,961 | 10,362,649 | 4,846,216 | 15,308,865 | 13,734,163 | 6,442,997 | 20,177,160 | 12,831,404 | 6,727,569 | 19,558,973 |
| India and British Colonies | 21,166 | 5,469 | 26,635 | 2,710,814 | 1,234,692 | 3,845,506 | 2,813,118 | 739,904 | 3,553,022 | 1,365,013 | 770,417 | 2,135,430 |
| Total | 2,593,688 | 1,207,542 | 3,801,230 | 17,734,923 | 19,044,863 | 36,779,786 | 26,218,114 | 28,820,754 | 55,038,868 | 24,680,559 | 17,883,245 | 42,563,804 |
| Denmark | 1,584 | — | 1,584 | 30,538 | 53,328 | 83,866 | 34,317 | 7,186 | 41,503 | 123,717 | 293,860 | 417,577 |
| Japan | 13,553,331 | 16,769,248 | 30,322,579 | 99,137,583 | 102,358,869 | 201,496,452 | 126,509,467 | 135,286,320 | 261,795,787 | 110,006,220 | 116,815,785 | 226,822,005 |
| Korea | 1,140,562 | 422,524 | 1,563,086 | 11,279,184 | 53,067,426 | 64,346,610 | 12,240,667 | 33,572,191 | 45,812,858 | 10,402,751 | 42,515,846 | 52,918,597 |
| Total | 14,690,893 | 17,191,772 | 31,885,665 | 110,416,767 | 155,426,295 | 265,843,062 | 138,750,134 | 168,858,511 | 307,608,645 | 120,408,971 | 159,331,631 | 279,740,602 |
| U.S.S.R. | 7,490,392 | 10,499,885 | 17,990,277 | 21,326,248 | 66,098,267 | 88,324,515 | 15,747,789 | 40,282,245 | 56,030,034 | 15,771,838 | 50,796,448 | 66,568,286 |
| United States of America | 6,774,292 | 411 | 6,774,703 | 17,583,946 | 10,338,381 | 27,922,327 | 25,890,078 | 10,258,179 | 36,148,257 | 20,729,138 | 6,990,048 | 27,719,186 |
| Philippines | 1,286 | — | 1,286 | 54,548 | 1,655,298 | 1,709,846 | 31,923 | 1,909,178 | 1,941,101 | 45,446 | 1,711,713 | 1,757,159 |
| Total | 6,775,578 | 411 | 6,775,989 | 17,638,494 | 11,993,679 | 29,632,173 | 25,922,001 | 12,167,357 | 38,089,358 | 20,774,584 | 8,701,761 | 29,476,345 |
| Germany | 150,905 | 256 | 151,161 | 5,469,093 | 1,656,907 | 7,126,000 | 8,534,228 | 1,420,150 | 9,954,378 | 12,131,784 | 3,386,919 | 15,518,703 |
| Belgium | 14,584 | 18,635 | 33,219 | 1,727,676 | 107,806 | 1,835,482 | 5,459,170 | 325,205 | 5,784,375 | 3,701,696 | 1,638,484 | 5,340,180 |
| Netherlands | — | — | — | 1,210,752 | 16,435,332 | 17,646,084 | 950,893 | 29,709,789 | 30,666,682 | 1,468,298 | 34,733,589 | 36,201,887 |
| Dutch East Indies | 244,141 | 2 | 244,143 | 1,018,577 | 4,860,254 | 5,878,831 | 956,101 | 7,565,645 | 8,521,746 | 3,072,021 | 6,121,547 | 9,193,568 |
| Total | 244,141 | 2 | 244,143 | 2,229,329 | 21,295,586 | 23,524,015 | 1,906,994 | 37,275,434 | 39,182,428 | 4,540,319 | 40,855,136 | 45,395,455 |
| Other countries | — | 278 | 278 | 2,981,302 | 17,552,975 | 20,534,277 | 7,488,391 | 43,351,322 | 50,839,713 | 4,671,034 | 11,545,054 | 16,216,088 |
| Total | 31,964,765 | 28,918,781 | 60,883,546 | 179,554,370 | 294,129,706 | 473,684,076 | 230,061,138 | 332,508,164 | 562,569,302 | 206,804,502 | 294,432,538 | 501,237,040 |
| China Proper | 21,147,269 | 18,666,342 | 39,813,611 | 89,359,216 | 113,906,473 | 203,265,689 ² | 99,542,731 | 93,143,327 | 192,686,058 | 99,550,118 | 102,281,518 | 201,831,636 |
| Grand total | 53,112,034 | 47,585,123 | 100,697,157 | 268,913,586 | 408,036,176 | 676,949,762 | 329,603,869 | 425,651,491 | 755,255,360 | 306,354,620 | 396,714,056 | 703,068,676 |

¹ Compiled from " First, Second and Third Reports on Progress in Manchuria ", pages 106, 140 and 132 respectively.² Incorrectly given as 153,265,689 in text.

MANCHURIA'S TRADE WITH JAPAN AND WITH CHINA PROPER.

Japan has long been Manchuria's best customer and chief supplier. China Proper has followed and was becoming increasingly important, particularly as a supplier.

As has been earlier stated, Japan has for long been Manchuria's best customer and chief supplier. Her import-export trade with Manchuria has exceeded that of all other *foreign* countries combined and has even been far in excess (until recently) of China Proper's. So far as can be gauged from available data, Manchuria's trade with Japan grew enormously following the Russo-Japanese war until 1920.¹ Manchuria's exports to Japan declined then, and did not show an improvement again until 1923. With only a slight relapse following this, they increased until 1929. Following 1929, however, exports again commenced to decline and for 1930 amounted to less than 160 million Haikwan taels.²

Manchuria's imports from Japan and Korea commenced to decline during 1920 and did not show an increase again until 1925, after which they advanced until 1930, with a setback only for 1927. Imports from Japan during 1930 declined somewhat from the previous year and amounted to 120 million Haikwan taels.²

Ever since 1918, Manchuria has sold more goods to Japan than she has purchased from her.

Manchuria's trade with China Proper, while not as large as that with Japan, has shown greater growth in recent years, especially in the field of imports. During 1930, Manchuria imported only about one-sixth less goods from China Proper than she did from Japan and Korea. In the field of exports, however, she sold much more to Japan than to China Proper.

Manchuria's relative trade expansion with China Proper, particularly in field of imports, was greater than that with Japan during decade prior to 1931.

Manchuria's trade with China Proper about trebled during the decade following the Russo-Japanese war, imports expanding somewhat more than exports. From 1917 on, imports continued to increase substantially but irregularly, and during 1929 and 1930 showed unprecedented growth. Exports likewise expanded in recent years, but not so rapidly as imports.²

During the decade prior to 1931,³ Manchuria's total recorded trade with Japan increased by somewhat over half, whereas with China Proper it about doubled. Manchuria's imports and exports from Japan during this same period increased in about the same ratio as the total trade; but Manchuria's imports from China Proper increased somewhat more than did the exports.

As in the case of Japan, Manchuria sold more to China Proper than she bought from it during the past decade or more.

IV. CHINA'S DEPENDENCE ON MANCHURIAN TRADE.

COMPOSITION OF TRADE.

China Proper's chief imports from Manchuria are soya beans and derivatives; ground-nuts, raw silk, kaoliang, iron and maize.

In recent years, China Proper has imported from Manchuria large quantities of soya beans and derivatives, substantial amounts of coal and coke, and lesser amounts of ground-nuts (formerly only insignificant), raw silk, kaoliang (formerly of much greater importance), and limited amounts of pig-iron, maize, wool, timber, and bristles. Imports of other cereals, seeds and cigarettes were likewise of some importance. Some portion of practically everything that Manchuria exports is destined for China Proper, fish, ginseng, medicines, hemp and hair being of some minor quantitative importance. Beans and derivatives make up somewhat over one-third of China Proper's total imports from Manchuria; coal about one-tenth and no other item amounts to much more than three or four per cent of the total⁴ (see Table IX).

¹ It should be borne in mind that this analysis is viewed from Manchuria's standpoint and is in terms of *Haikwan taels*. An analysis from Japan's standpoint and in terms of *yen* would not necessarily be the same.

² Advance 1931 figures compiled by the South Manchuria Railway Research Bureau give Manchuria's exports to Japan and Korea at almost 180 million Haikwan taels and imports at almost 90 million Haikwan taels. The same source gives Manchuria's exports to China at over 147 million Haikwan taels and imports from China Proper at over 66 million Haikwan taels. Because of the large amount of smuggling and the unsettled conditions that prevailed during the year, the author has refrained from employing 1931 figures for any comparative purposes. Manchuria's export figures for that year, however, are far more satisfactory than the import figures.

³ Based on compilations found in Dr. H. Feis' *The International Trade of Manchuria*, and on Japanese sources.

⁴ Based chiefly on 1929-30 figures.

China Proper's chief exports to Manchuria are cotton piece-goods, tobacco products, cotton yarn, provisions, silk goods, sundries, leathers and hides, etc., tea, cereals and seeds, raw cotton, paper and wheat flour.

In the field of exports, China has supplied Manchuria with a much greater variety than she has imported, none of the exports, however, occupying such a dominating position as the soya bean among the imports. Among these, cotton piece-goods are the outstanding, making up over one-fifth of the total. Tobacco products come next and make up about one-eighth of the total; and cotton yarn and general and miscellaneous provisions follow fairly close behind. Items which make up between three and four per cent of the total are silk and mixed silk goods; sundries; leathers, hides, skins, bones, horns, etc.; tea; cereals and seeds; raw cotton; paper; and wheat flour. Chemicals, potteries and clothing are also likewise of minor importance.¹

CHINESE CONTENTIONS.

China claims that she depends on Manchuria as an outlet for her surplus population; for food, timber, minerals, animal products and raw materials for manufacture; as a market for finished goods; and for assistance in balancing its "unfavourable" balance of trade.

The Chinese contend that they have been economically dependent on Manchuria in the past and will continue to be even more so in the future. They advance the following reasons:²

1. The Three Eastern Provinces are the "only outlet for China's surplus population" and a region on which China is greatly dependent for elevating the standard of living of her people.
2. "China depends upon the Three Eastern Provinces for her food supplies, for such daily necessities as soya beans and bean products, kaoliang, wheat and meat."
3. Manchuria contains "the largest forest region in China" and "on which the whole North China depends for the supply of timber".
4. "China Proper depends upon the Three Eastern Provinces for the supply of mineral products, inasmuch as they are extremely rich in mineral resources, particularly coal."
5. "China Proper relies upon the Three Eastern Provinces for animal products as wool, fur, skins, hair, etc."
6. The Three Eastern Provinces not only provide China Proper with raw materials for manufacture, but are a good market for finished goods manufactured from these and other raw materials.
7. China Proper needs Manchuria's "favourable" balance of trade to help balance its own "unfavourable" balance of trade.

MANCHURIA AS A SOLUTION FOR CHINA'S POPULATION PROBLEM.

The author renders no opinion on the extent to which Manchuria is a solution for China's population problem, but he does not accept the Chinese argument.

Concerning whether or not Manchuria is even a partial solution for China's population problem, the author renders no opinion. However, he is not altogether willing to accept the Chinese argument, the essence of which is as follows:³

1. China needs Manchuria to help redistribute her population more rationally.
2. The redistribution will result in raising the standard of living of both those who emigrate to Manchuria and those who remain in China Proper.
3. Since "the reduction of the natural birth rate of a population is usually the result of a high standard of living rather than a cause of it", this redistribution of the population will raise the standard of living for the masses, which in turn will result in lowering the birth rate, which in turn will help solve the population problem.

The author is not of the opinion that raising the standard of living of a people *as poor as the masses of Chinese* will necessarily result in lowering the birth rate. There is evidence in Java, for example, that the opposite might follow.

¹ Compiled largely from 1929 trade returns as given in *Manchuria Year-Book*, pages 212 *et seq.*

² From a *Memorandum on China's Economic Dependence upon her Three Eastern Provinces*, prepared for the League Commission by the Chinese Assessor's Office. The *Memorandum* also discusses the Chinese investments in Manchuria, a subject which is separately treated in the Commission's report on *Investments in Manchuria*.

³ *Ibid.* Based on a thesis developed by Chang Hen Shen in his "China's Population Problem", a paper presented to the nineteenth session of the International Institute of Statistics held at Tokyo in 1930, and referred to in the Chinese *Memorandum*.

CHINA'S DEPENDENCE ON MANCHURIA FOR FOOD SUPPLIES.

China Proper's food purchases from Manchuria have in the past consisted almost entirely of soya beans and derivatives, and, to a much lesser extent, kaoliang, maize and millet. Wheat and meat purchases have been insignificant.

China Proper has for many years past bought large quantities of foodstuffs such as soya beans and derivatives, kaoliang, millet and other cereals from Manchuria, but her wheat and meat purchases have been slight. The Chinese officially state that 70 per cent of their annual soya-bean output is raised in Manchuria, and, since beans are a common article of diet, China Proper is therefore greatly dependent on Manchuria. Unofficial Chinese sources, however, state that the bulk of China's soya beans are raised in China Proper, but, since no reliable production figures for China as a whole are available, the author is unable to verify either the official or the unofficial contentions.¹ Certain it is, however, that China Proper has been buying enormous quantities of soya beans and derivatives from Manchuria and has in this sense been dependent on the region.

China of late has been buying increasing quantities of soya beans and derivatives, and ground-nuts from Manchuria; and decreasing amounts of kaoliang and maize.

She has likewise been buying enormously increasing (though not large) quantities of ground-nuts from Manchuria, but her purchases of kaoliang² and maize have been dwindling of late. By 1930, there was no article of diet except the above-mentioned which China Proper bought from Manchuria in amounts exceeding one per cent of her total imports from the region (see Table IX).

During famines in the past, the Chinese claim that Manchuria has shipped large quantities of grain to China Proper to relieve distress. No figures or estimates of the amounts were given, however. Why Manchuria did not ship more foodstuffs to relieve the Yangtze flood sufferers last year is explained in an official memorandum as follows:³

“During the Yangtze flood last year, plans were devised for the shipment of 200,000 tons of grain from Manchuria to the affected districts. These plans did not actually materialise, as arrangements were made for the purchase of 450 million tons of wheat from the United States on long-term credit.”

Soya beans and derivatives at present are China Proper's chief import of food from Manchuria, kaoliang, maize, millet, seeds, ground-nuts and other grains being of much smaller importance quantitatively.

Save for increasing amounts of soya beans and its derivatives thereof and ground-nuts, and decreasing amounts of kaoliang (except during 1931) and maize, and very small amounts of seeds, beans other than soya, wheat and millet, China Proper of late has been importing no foodstuffs in quantity from Manchuria, according to the figures submitted by the Chinese to the Commission of Enquiry (see Tables IX and X). China Proper's dependence on Manchuria in the past for foodstuffs has therefore rested primarily on soya beans and its derivatives and, to a much smaller and annually varying extent, on kaoliang, maize, millet, seeds and ground-nuts. In 1930, only soya beans and derivatives were of outstanding importance.

DEPENDENCE ON MANCHURIA'S TIMBER.

China Proper's timber imports from Manchuria during 1926 and 1930 amounted to 8 per cent of its total timber imports, and during 1929 and 1930 to less than 2 per cent of its total imports from Manchuria.

According to the figures submitted to the Commission of Enquiry by the Chinese, China Proper's imports of timber from Manchuria have amounted to between one million and two

¹ For example, Tsao Lien-en, in his *The Marketing of Soya Beans and Bean Oil*, “Chinese Economic Journal”, September 1930, page 945, gives the soya-bean production for Manchuria and China Proper respectively as follows:

| | | |
|------------------------|------|-----------------------|
| | 1923 | |
| Manchuria | | 46.7 million quintals |
| China Proper | | 70.1 million quintals |
| | 1927 | |
| Manchuria | | 57.8 million quintals |
| China Proper | | 71.5 million quintals |

² The purchases for 1931 have increased enormously as a result of famine conditions.

³ Chinese Memorandum on *Annual Imports coming from Manchuria to China Proper*.

and a-quarter millions of Haikwan taels annually between 1926 and 1930. During this interval, only 8 per cent of China Proper's imported timber came from Manchuria, the rest coming from foreign countries. During 1929 and 1930, the timber import averaged less than 2 per cent of China Proper's total imports from Manchuria.

DEPENDENCE ON MANCHURIA'S MINERALS.

China Proper's imports of coal and iron from Manchuria have been increasing of late ; the rate of increase of iron imports being the greater, but the amounts of coal being by far the larger. Over one-third of China Proper's imported coal and over 60 per cent of its iron came from Manchuria during 1926-1930. Coal was generally second largest import from Manchuria, but iron imports were relatively small.

The purchase of coal and iron from Manchuria has been increasing at a rapid rate of late, particularly in the case of pig-iron. Coal imports, however, have been many times the greater. About 35 per cent of China Proper's coal, and over 60 per cent of her imported pig-iron came from Manchuria during the five-year period 1926-1930. During this interval, coal was exceeded in general importance only by soya beans and derivatives, although during 1927 and 1928 it was slightly outranked by kaoliang as well. The total iron imports during this period were not large, however, and amounted to less than 2 per cent of the total imports from Manchuria. Imports of other minerals were insignificant.

DEPENDENCE ON MANCHURIA'S ANIMAL PRODUCTS.

Imports of raw silk from Manchuria fairly large, but imports of wool, furs, skins, hair and hemp very small.

Only relatively small amounts of wool, fur, skin, hair or hemp have been imported from Manchuria into China Proper. None of these items, incidentally, is listed in the table of *Principle Articles imported from Manchuria into China Proper* supplied by the Chinese Assessor's Office (see Table IX). Raw silk, however, was a fairly substantial import and during 1926-1930 amounted to about three per cent of the total imports from Manchuria.

MANCHURIA AS A SOURCE OF RAW MATERIALS FOR MANUFACTURE.

Chinese claim that Manchuria supplies China Proper with raw materials for manufacture and repurchases the finished products, such as cigarettes and bags.

The Chinese contend that Manchuria supplies China Proper with raw materials which are manufactured "south of the Wall" and then sold back to Manchuria as finished products. They cite as examples raw tobacco grown in Manchuria, manufactured in Shanghai and elsewhere, and reshipped to Manchuria in the form of cigarettes and prepared tobaccos; and Manchurian hemp returned to Manchuria in the form of bags.

They state that the "total export of leaf tobacco (from Manchuria) amounted to 2,514,000 Haikwan taels in 1928, 38 per cent of which was imported into different parts of China Proper. Having turned the tobacco leaf into cigarettes and prepared tobacco in Shanghai and other industrial cities, they are sent to the Three Eastern Provinces, to an amount of to 7,248,588 Haikwan taels."¹ The figure which they give for Manchuria's export of "tobacco leaf", however, corresponds to the one which, according to other sources, embraces "cigarettes, cigars and tobacco".² China Proper's imports of raw tobacco must therefore have been much smaller than given, for during that year, according to other Chinese figures, the imports of cigarettes alone amounted to over one million Haikwan taels (see Table IX). Only a part of the small imports of raw tobacco from Manchuria, therefore, could have been returned to it in the form of cigarettes and other tobacco preparations.

Hemp imports into China Proper from Manchuria have been comparatively insignificant (one-quarter of one per cent of the total imports from Manchuria in 1929), and the export of bags to Manchuria from China Proper has not been large either. There is no way of determining whether the bags shipped to Manchuria were manufactured out of Manchurian hemp or not. In any event this is an inconsequential matter.

¹ *Op. cit.*, page 36.

² *Manchuria Year-Book*, page 198.

Manchuria's imports of manufactured goods from China Proper have only sparingly been made up of Manchurian raw materials.

To what extent the imports of Manchurian wool and Tussah silk were manufactured into goods and later resold to Manchuria is likewise impossible to ascertain and of similar inconsequence. China Proper's imports of Tussah silk were fairly large, amounting to three per cent of the total imports, but the imports of wool were very small.

There is little evidence that Manchuria in the past has supplied factories in China Proper with any substantial amount of raw materials which were manufactured into goods later resold to Manchuria. Most of Manchuria's imports from China Proper do not have their origin in Manchurian raw materials. Raw tobacco, hemp, possibly wool, and coal and iron (indirectly) are the trifling and partial exceptions. Very few of China Proper's principal imports from Manchuria, in fact, lend themselves to manufacture in the commercial sense of the term.

Manchuria has been a large and growing market for much of China Proper's manufactures, among which cotton piece-goods were the outstanding.

While Manchuria has not supplied China Proper with much raw material for the manufacture of goods which she later repurchased, she nevertheless has provided China Proper with a large and rapidly growing market for a huge variety of domestic manufactures. Among these, cotton piece-goods and yarns were by far the most outstanding. Tobacco products, silk and wool textiles, flour, paper, drugs and chemicals, clothing, pottery and cement were likewise important.

DEPENDENCE ON MANCHURIA'S "FAVOURABLE" BALANCE OF TRADE.

The "favourable" balance of trade regarded by both Japanese and Chinese as "the most encouraging aspect of Manchuria's trade". Chinese claim they need this balance to offset China Proper's unfavourable balance.

As has been previously stated, both Japanese and Chinese generally have given a mercantilistic interpretation to Manchuria's favourable balance of trade. They often speak of it as "the most encouraging aspect of Manchuria's trade". The Chinese argue that, since China Proper has an unfavourable balance of trade, it must depend on Manchuria's favourable balance to assist in "balancing the trade for the country as a whole". As has been explained, Manchuria's favourable balance is due chiefly to the large remittances which the region makes to foreign countries and China Proper, as well as to the fact that it has an excess of unrecorded imports over exports (smuggling). Profit, interest, freight and insurance payments to foreign countries; workers' remittances to China Proper and Korea; net receipts and earnings of the Chinese Customs and Post Office remitted to China Proper; and the excess of unrecorded imports over exports are chiefly responsible for this favourable, visible balance. Manchuria exports more than she imports, chiefly so that she can make these outside payments.

China Proper is able to benefit from Manchuria's "favourable" balance, not by virtue of direct political ties, but chiefly because the Manchurian Post Offices and Customs are earning large profits and because Chinese workers are making huge remittances.

It is not alone by virtue of the fact that Manchuria is politically a part of China that China Proper is able to use a portion of the region's favourable balance to help offset its own unfavourable balance, but rather because the Central Government expends less in Manchuria than it obtains from it.¹ That is to say, the Manchurian Post Offices and Customs, for example, collect more than they expend there and so are in a position to remit to China Proper. Since they are both highly profitable institutions, China Proper would suffer if she were permanently to lose Manchuria. Whether or not she will likewise lose what is ordinarily remitted by workers to Shantung and Hopei will depend upon the immigration and remittance restrictions which will obtain for Manchuria in the future.

The claim that China Proper benefits by Manchuria's favourable balance of trade, therefore, happens to be partially true, but not for the reasons ordinarily ascribed.

¹ This refers to the situation prevailing prior to the seizure of the Manchurian Post Offices and Customs by the "Manchukuo" authorities.

CHINA PROPER'S "DEPENDENCE" ON MANCHURIA.

"Dependence" of China Proper on Manchuria difficult to measure, partly because of lack of adequate Chinese statistics.

It is not possible to determine how "dependent" China Proper is on Manchuria as a result of her trade with the region. Statistics are not available showing the ratio of each import from Manchuria to the total consumption and available supply in China Proper; or the ratio of each export to Manchuria to the total production and total export. Even if such data were available, the question could yet not be answered fully.

Trade dependence is a function, not only of the quantities dealt in, but of alternate sources of supply and of alternate markets. Moreover, it is *qualitative* as well as *quantitative* — that is to say, a country might be greatly dependent on small *quantities* of some particular imports of which the value was comparatively slight. (Manganese imports into the United States for example.) Likewise it might be similarly dependent on some minor exports, the market for which was strictly limited. Dependence is a function of numerous other factors as well. Even in so far as it can be gauged by trade alone, it is one which is constantly altering with political and economic changes throughout the world.

In so far as incomplete trade figures may be used as criteria, China Proper relies on Manchuria chiefly for soya beans and derivatives, and a sizable amount of coal.

Employing only the incomplete *quantitative* trade data as criteria of China Proper's dependence, or more properly reliance, on Manchuria, the following are the conclusions: In the field of imports, China Proper has relied largely on Manchuria for soya beans and derivatives. It has likewise relied on the region for varying but substantial amounts of kaoliang and maize, but more recently has imported these in smaller amounts. It likewise was importing increasing quantities of ground-nuts and in the aggregate a considerable amount of other foodstuffs such as millet, seeds, wheat and beans (other than soya). Next to foodstuffs came coal, the imports of which made up a large portion of China Proper's total coal imports and the amounts of which coming from Manchuria were increasing of late. The imports of iron were increasing even faster than those of coal, but their aggregate was much smaller. In view of China Proper's limited coal and iron resources and reliance on imports, it was measurably dependent on Manchuria for these two minerals, particularly the coal. China Proper has also relied on Manchuria for some raw silk and very limited amounts of timber. None of China Proper's other imports from Manchuria was quantitatively important.

China Proper depended on Manchuria as an increasing buyer of domestic manufactures, among which cotton piece-goods and yarn were the most important, and tobacco preparations next.

In the field of exports, China Proper relied on Manchuria chiefly as an increasing buyer of a large variety of domestic manufactures, among which cotton piece-goods and yarn were by far the most important. Manufactured tobacco products were also very large; and silk and other textiles, paper, flour, tea, chemicals and drugs, clothing and potteries were of smaller but increasing importance. China Proper also sold some unmanufactured goods to Manchuria as well. Among these were raw cotton, fruits and vegetables, and miscellaneous specialities.

China Proper's dependence on Manchuria as a source of raw materials for manufacturing purposes potential rather than existing.

China Proper has depended on Manchuria in the past chiefly for a supply of foodstuffs on the one hand, and for a market for manufactured wares on the other. Manchuria had not yet come to supply China Proper with very much in the way of raw materials for strictly manufacturing purposes, coal, raw silk, and iron being the partial and limited exceptions. China Proper's dependence on Manchuria for such raw materials was chiefly potential. To an increasing extent, however, it was beginning to employ some of the imports for manufacturing purposes.

China Proper apparently not dependent on Manchuria as the exclusive supplier or buyer of important specialities.

From the incomplete data available, it does not appear that China Proper was dependent on Manchuria for special, though minor, products not readily obtainable elsewhere, nor does it appear that Manchuria was the sole buyer of any of China Proper's important specialities.

Trade connections between Japan and Manchuria far more developed than between China Proper and Manchuria. A portion of China Proper's trade with Manchuria fostered by Japanese and other foreigners.

By the outbreak of Sino-Japanese hostilities in the autumn of 1931 trade relations between China Proper and Manchuria were growing more intimate, but they were not nearly as extensive or as well developed as those existing between Japan and Manchuria. Japanese governmental organisations, railroads, banks, steamship lines, trading firms and insurance companies were far more active in fostering trade between Japan and Manchuria than were similar Chinese organisations in fostering trade between China Proper and Manchuria. In fact a portion of China Proper's trade with Manchuria, particularly in the case of transhipped foreign imports, was carried on through Japanese and other foreign banks, steamship lines, shipping agencies and trading organisations.¹

Table IX.

PRINCIPAL ARTICLES IMPORTED FROM MANCHURIA INTO CHINA PROPER, 1926-1930.
(Quantities in piculs, and values in thousands of Haikwan taels.)²

| Articles | 1926 | | 1927 | | 1928 | | 1929 | | 1930 | |
|-------------------------|----------|--------|----------|--------|----------|--------|----------|--------|----------|--------|
| | Quantity | Value | Quantity | Value | Quantity | Value | Quantity | Value | Quantity | Value |
| Small beans | 238 | 967 | 535 | 2,033 | 161 | 746 | 80 | 333 | 106 | 505 |
| Red beans | 55 | 209 | 36 | 129 | 15 | 97 | 11 | 51 | 34 | 163 |
| Soya beans | 2,961 | 11,227 | 4,306 | 16,404 | 3,525 | 14,270 | 3,967 | 15,376 | 4,231 | 17,916 |
| Kaoliang | 3,043 | 7,469 | 4,156 | 10,020 | 4,665 | 11,669 | 1,449 | 3,621 | 967 | 2,834 |
| Maize | 3,099 | 7,810 | 1,158 | 3,158 | 714 | 1,991 | 368 | 972 | 456 | 1,308 |
| Millet | 574 | 1,560 | 225 | 562 | 61 | 278 | 40 | 150 | 68 | 242 |
| Wheat | 7 | 26 | 133 | 540 | 132 | 513 | 16 | 64 | 92 | 363 |
| Ground-nuts | 50 | 243 | 177 | 1,103 | 363 | 2,753 | 241 | 1,903 | 451 | 3,808 |
| Bean oil | 26 | 1,336 | 184 | 2,108 | 643 | 7,199 | 463 | 5,121 | 211 | 2,584 |
| Seeds | 142 | 1,389 | 53 | 634 | 225 | 1,416 | 78 | 1,103 | 56 | 816 |
| Bean cakes | 5,764 | 16,661 | 8,158 | 22,755 | 5,393 | 15,086 | 3,827 | 11,646 | 4,782 | 14,468 |
| Silk, raw, wild | 8 | 3,400 | 5 | 2,274 | 4 | 1,467 | 9 | 3,070 | 10 | 3,581 |
| Coal (tons) | 1,039 | 10,045 | 1,145 | 9,486 | 1,167 | 9,353 | 1,222 | 7,239 | 1,399 | 12,995 |
| Timber | | 1,584 | | 1,671 | | 1,008 | | 2,271 | | 1,016 |
| Pig-iron | 141 | 222 | 288 | 505 | 394 | 717 | 397 | 736 | 650 | 1,441 |
| Cigarettes | 3 | 283 | 13 | 1,104 | 13 | 1,079 | 9 | 793 | 3 | 289 |

Table X.

ARTICLES OF IMPORT INTO CHINA PROPER WHICH COME LARGELY FROM MANCHURIA :
AVERAGE OF FIVE-YEAR PERIOD 1926-1930 INCLUSIVE.

(Quantities in piculs, and values in thousands of Haikwan taels.)²

| Articles | (a) Estimated imports from Manchurian ports | | (b) Imports from foreign countries | | (c) Total imports (a) + (b) | | Percentage of Manchurian imports to total imports (c) (a) + (b) | |
|---------------------|---|-------|------------------------------------|--------|-----------------------------|--------|---|-------|
| | Quantity | Value | Quantity | Value | Quantity | Value | Quantity | Value |
| Wheat | 76 | 301 | 3,028 | 12,502 | 3,104 | 12,803 | 2.5 | 2.5 |
| Ground-nuts | 256 | 1,962 | 216 | 1,374 | 472 | 3,336 | 54.0 | 59.0 |
| Seeds | 111 | 1,071 | 44 | 566 | 155 | 1,637 | 72.0 | 66.0 |
| Coal (tons) | 1,198 | 9,823 | 2,013 | 18,354 | 3,211 | 28,177 | 37.0 | 35.0 |
| Timber | | 1,510 | | 17,074 | | 18,584 | | 8.0 |
| Pig-iron | 370 | 724 | 227 | 466 | 597 | 1,190 | 62.0 | 61.0 |

V. SUMMARY AND CONCLUSIONS.

Manchuria's trade with the outside world began almost as soon as the Chinese farmers began to settle Manchuria.

Manchuria's trade with the outside world began almost as soon as the first Chinese migrants from Shantung and Chihli (now Hopei) had settled the region and had begun to cultivate the

¹ The problem of Japan's economic dependence on Manchuria is not here considered, as it forms the subject of a special report.

² From a special report prepared by the Chinese Assessor's Office.

soil. As early as the Ming dynasty they were exchanging their surplus produce, chiefly soya beans, for the specialities of the South. The original inhabitants did little to develop Manchuria economically, and in fact retarded its growth by placing a ban on Chinese migration.

Trade expands with the opening of Treaty Ports.

With the opening of Newchwang (Yingkow) to foreign trade in 1860, Manchuria's trade developed considerably, and, with the opening of several other Treaty Ports following the Russo-Japanese war, it expanded on an unprecedented scale. In the course of this development Dairen quickly surpassed Yingkow in importance and to this day has continued to be the dominant port of Manchuria.

Manchuria's trade difficult to analyse because of incomplete and inaccurate Customs returns.

There are numerous difficulties in the way of analysing Manchuria's trade satisfactorily. The Chinese Maritime Customs returns are both incomplete and inaccurate. They do not include an important junk trade, or all of the overland trade between Manchuria and the Union of Soviet Socialist Republics, Korea, and particularly China Proper. Nor do the returns allow for a complete segregation of Manchuria's trade from that of the trade of China as a whole. Furthermore, the values given in the trade returns are incomplete and are too low. They necessarily take no cognisance of the smuggling trade which is known to be substantial, and as a consequence understate the aggregate import values even more than the aggregate export values. Their most serious defect from the standpoint of this paper, however, is that they are decidedly inaccurate with respect to the real origins and destinations of goods, the result of which is that the trade of certain countries is overstated and that of others understated. The Union of Soviet Socialist Republics, for example, does not buy nearly as many goods from Manchuria as the returns indicate ; and Germany, on the other hand, buys many more.

Manchuria's trade has expanded rapidly and exports have exceeded imports.

Manchuria's trade has grown phenomenally from almost the outset and has developed far faster than has that of China as a whole. For over the past decade, Manchuria has had a substantial favourable balance of trade in contrast to the unfavourable balances of Japan, Korea and China Proper. This has generally been given a mercantilistic and otherwise improper interpretation by both the Japanese and Chinese.

About 60 per cent of Manchuria's trade is handled through Dairen, while Yingkow and Antung handle each about one-seventh and Harbin about one-tenth of the total. All the other ports combined handle only an insignificant percentage of the trade.

Most of Manchuria's imports and exports carried in Japanese bottoms.

Manchuria's imports and exports are carried chiefly in Japanese bottoms, but in recent years Chinese tonnage has expanded considerably in the coastwise trade and largely at the relative expense of Japan and the United Kingdom. Almost two-thirds of the tonnage handling Manchuria's external trade, however, yet flies the Japanese flag.

Soya bean and derivatives chief export, and cotton piece-goods chief import.

Manchuria's chief exports are the all-important soya bean and derivatives, coal and coke and a variety of cereals of limited and varying importance. Her imports consist chiefly of manufactures, among which cotton piece-goods, wheat flour, machinery, iron and steel, and tobacco products are the most important, with a great variety of general manufactures making up the balance.

Trade with China Proper was large and was expanding.

Manchuria's trade with China Proper in recent years has grown even more rapidly than has Manchuria's total trade, particularly in the field of imports. During 1929-30, Manchuria purchased about 30 per cent of her total recorded imports from China, and exported to it about one-fourth of her total exports.

Japan was Manchuria's best customer and chief supplier, and China Proper ranked second.

According to Customs returns, Manchuria's best customer and chief supplier has been Japan and next China Proper. Trade with Japan has far exceeded that with China Proper until more recently, though the latest returns still show that Japan occupies a position in Manchuria's trade considerably greater than does China Proper.

China Proper's chief imports from Manchuria were the soya bean and derivatives; and her chief exports cotton piece-goods and general manufactures.

China Proper's chief imports from Manchuria are the soya bean and its derivatives, coal, small amounts of ground-nuts, raw silk, miscellaneous cereals, and a very limited amount of iron, maize, wool and timber. Her chief exports to the region are cotton piece-goods, tobacco preparations, silken and other textiles, tea, cereals and seeds, raw cotton, paper and wheat flour.

China contends that she is greatly dependent on Manchuria for economic reasons.

China contends that she is economically dependent on Manchuria for a partial solution of her population problem; for food, timber, minerals, animal products, raw materials for manufacturing purposes; for a market for her manufactures of Manchuria's and other raw materials; and for help in balancing her unfavourable balance of trade.

China's contentions not altogether substantiated.

The author renders no opinion as to the extent to which Manchuria offers a solution for the Chinese population problem, but he believes that the Chinese have overstressed its importance in this connection. China Proper does rely on Manchuria for certain agricultural products, most important of which is the soya bean and its derivatives, but her imports of minerals, with the exception of coal, and her imports of timber, animal products and raw materials for manufacturing purposes have in the past been slight. Furthermore, China Proper is able to use only a portion of Manchuria's favourable balance to offset its own unfavourable balance. It is able to do this, not by virtue of its political affiliation as such, as is generally thought, but chiefly because the Manchurian Post Offices and Customs have been highly profitable institutions, and because the annual remittances of Shantung and Hopei settlers in Manchuria to China Proper have been substantial.

China relies on Manchuria chiefly for agricultural products and for a market for manufactures.

Partly because of the lack of adequate Chinese statistics, it is difficult to determine the extent of China's economic dependence on Manchuria. In any event, it would be practically impossible to determine this quantitatively, because of the large number of constantly shifting variables involved in such an analysis. So far as the dependence or reliance can be gauged by incomplete trade data, however, China Proper relies on Manchuria chiefly for agricultural products, notably soya beans and derivatives, and to a limited extent for coal and iron. She does not at present rely on Manchuria for much in the way of other raw materials for strictly manufacturing purposes. In the field of exports, she relies on Manchuria chiefly as a customer for domestic manufactures, among which cotton piece-goods are the outstanding.

Trade between Manchuria and Japan more extensive and fostered to a greater extent than that with China Proper.

Although China Proper's trade with Manchuria has been increasing of late, it has not been nearly as extensive as that between Japan and Manchuria. Nor have the Chinese governmental organisations, railroads, banks, steamship lines, trading firms and insurance companies done as much to foster it as have similar Japanese institutions in the trade between Japan and Manchuria. Much of China Proper's trade with Manchuria, more especially in the case of transhipped foreign imports, has in the past, in fact, been handled by Japanese and other foreign organisations.

STUDY No. 7.

CHINESE, JAPANESE AND OTHER FOREIGN INVESTMENTS IN MANCHURIA

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I. INTRODUCTION.

One of the most vital questions and yet probably the most difficult on which to gather reliable data is that concerning the Chinese, Japanese and other foreign investments in Manchuria. The difficulty arises from a legion of causes, the most important of which are as follows :

Extent of Manchurian investments not known.

(1) With the exception of the Japanese, neither the Chinese nor foreigners even pretend to know with any precision the present or recent values of the investments of their respective nationals in those instances where these are of any consequence. The Chinese have never made any serious attempt to gather such data and most of the foreign consuls and trade commissioners who have made attempts have not been altogether successful for one reason or another. The Japanese alone among the foreigners have prepared detailed compilations, but how accurate these are is difficult to say, particularly in view of the fact that various of their compilations are not always in substantial agreement.

Investment data not usually made available.

(2) In the several instances where foreigners other than Japanese had succeeded in gathering data on investments, they were not always willing to make them available to the Commission. The reasons generally given were ; that they were specifically instructed by their Governments not to co-operate with the Commission in supplying any such information (Union of Soviet Socialist Republics) ; that they were not at liberty to supply the information, except on instruction from their Governments ; that such information could not be released without violating confidences ; that the interests were so slight that a statement in any detail concerning them would reveal the values of particular enterprises ; and that they "did not feel that they should release such information". A few consuls and trade commissioners did not actually refuse to supply the desired information, but, even after repeated request, did not actually provide it, despite the fact that in several instances, they had promised to do so. A few of the consuls and trade commissioners, however, were most helpful in supplying the data wanted in the best form they were able.

Supplied data not very satisfactory.

(3) In the several instances where data were supplied, they were generally not uniformly compiled and were in terms of currencies that could not be used in any comparative analyses. Further, they were often out of date, lacking in detail, incomplete, and in many instances obviously inaccurate. Scarcely any two consuls, trade commissioners, or heads of Chambers of Commerce entertained similar ideas on the exceedingly knotty problem of what constitutes an "investment" and how its value ought to be determined. The consequence was that some showed that their nationals' investments were expanding as a result of the inability to collect outstanding accounts; and others included "goodwill" at such figures as scarcely to suggest that their firms had not been making money for some time past and were even less likely to make any in the future. One compilation included as an investment "the total sum disbursed" in payment of police expenses "till 1930, in order to insure peace". Some included personal property, while others did not. Even the same consul or trade commissioner would value his nationals' investments in terms of as many as four or five different currencies or combinations of these, without giving any clue as to the most appropriate conversion rates to employ in arriving at aggregates for comparative purposes. Nor were they always specific as to the areas their estimates covered. Some few reported on Manchuria as a whole, others only on parts of it (without always giving indication as to which), and some included other parts of China along with Manchuria. In some instances, the whole value of an organisation having branches in Manchuria was given with no intimation as to what portion might appropriately be credited to Manchuria. The various consuls and trade commissioners — even those representing the same country — who did make compilations, often did not make them at the same time, with the result that the same firm would appear, for example, as French in an early compilation and as American in a later one (due probably to a bank foreclosure). Further, many of the "latest" compilations included firms no longer in existence.

Not all "foreign investments" are of the country declared.

(4) A number of the smaller firms, particularly in and around Harbin, claiming foreign registry (which they may or may not have) are in fact owned by "White" Russians (or even Chinese) who have devised means, by one manner or another, to escape being dealt with more or less arbitrarily under Chinese law.

The estimates on investments that the Commission was able to obtain were therefore far from satisfactory, particularly for comparative purposes. They were given in terms of Chinese taels, silver yuan and several depreciated currencies; and in terms of Japanese "gold"¹ and silver yen, U.S. dollars, English pounds, French francs, German marks and Russian roubles. Practically all of these currencies have fluctuated with respect to one another, in the course of the past several years, within such a wide range as to make impossible the selection of "normal" conversion rates. This applies particularly to the currencies most frequently employed for purposes of valuation.

Consuls and Trade Commissioners face difficulties in obtaining and supplying information.

The above should not be considered altogether a reflection on the consuls and trade commissioners of the various countries. In many instances, they faced difficulties similar to those faced by the Commission. Often their own nationals were actually unable to supply the desired information and frequently were unwilling to do so. Moreover, the task of valuing foreign investments in Manchuria is particularly difficult, since almost all of the important foreign firms there, other than the Japanese — oil companies, banks, shipping companies, and import and export houses — are only branches of establishments having their head offices elsewhere. Further, even where consuls and trade commissioners have obtained data, it must be appreciated that they are obliged to respect the wishes of their Governments and nationals, with regard to releasing them.

Existing data do not warrant theoretical analysis.

In view of the extremely limited amount of reliable data available on Manchurian investments, it would serve no useful purpose to enter upon a theoretical discussion of what ought properly to be considered a "capital investment" or how it ought to be calculated under existing conditions. As was stated above, this would be especially difficult under any circumstance. But, while the available data do not warrant any quantitative analysis based on theoretical considerations, they nevertheless do warrant some description relative to the nature and probable magnitudes of the Chinese, Japanese and other foreign investments. Since the Chinese investments far exceed all others in importance, they will be dealt with first.

¹ For an explanation of the inverted commas, see the chapter on "Japanese Currencies" in the report on Manchurian currencies.

II. CHINESE INVESTMENTS.

The largest Chinese investment in Manchuria is in agriculture, but other interests are also substantial.

Since Manchuria is primarily agricultural, the major investment is in land, and by far the greatest proportion of this is, and for a long time past has been, owned by the Chinese. Precisely what the value of the Chinese land holdings in Manchuria amounts to is of course not even approximately known, but the Chinese have roughly estimated it at somewhat over 15,000,000,000 silver dollars.¹ In addition to their holdings in agricultural projects, the Chinese have very large interests in railways, mines, forests, banks, public utilities, factories, retail shops, trading organisations and the like.

The aggregate mileage of standard-gauge railways entirely owned by the Chinese exceeds even that owned by the South Manchuria Railway, which incidentally is the only railway in Manchuria in which the Chinese do not have an interest.² At the end of 1930, the Chinese completely owned, or had a part interest in, almost 80 per cent of the total railway mileage in Manchuria. Most of the Chinese railway investments are of comparatively recent date, however, the Chinese interest in the Chinese Eastern Railway (of which more will be said later) having developed out of treaty right rather than any substantial monetary outlay. The Chinese also own a number of important coal-mines, having an output estimated at over 10,000,000 tons annually and with a "capitalisation" (to what extent this is paid up is not given) of almost 15,000,000 silver dollars.³ They own a number of iron, gold, pyrite, and talc mines and a few deposits of clay, slate, limestone and natural soda. They estimate that their total investment in mining industries exceeds 15,000,000 dollars silver,³ almost the entirety of which is invested in coal-mines. Estimates are not available on the extent of the Chinese timber holdings, but they unquestionably make up the bulk of the total which is estimated at over 360,000 square kilometres.⁴ In the field of banking, the Chinese claim investments aggregating over 200,000,000 dollars.³ They also own a number of light and power plants as well as other public utilities. The investments in factories and mills are undoubtedly large but impossible to estimate, due particularly to the large number of small ones of which no record whatsoever is obtainable. These industrial establishments consist of arsenals, iron and steel mills, breweries and distilleries, bean-oil plants, flour mills, lumber companies, match factories, tanneries and a host of others. Among these, the Mukden arsenals are the outstanding. In addition to munitions, they manufactured a large variety of articles including even motor-trucks. Chinese likewise own a great number of retail and wholesale establishments, since almost all of the local wholesale and retail buying and selling is in their hands. They do practically all of the importing of Chinese goods from China Proper and, to a limited extent, Japanese goods from Japan. They do not, however, export much of Manchuria's staples abroad, nor do they do much direct importing from foreign countries other than Japan. This business is done largely by foreigners, but the Chinese do most of the initial gathering for export and most of the retail distributing of the foreign imports. To an increasing extent the Chinese were handling their own coastwise shipping.

Public and private business.

Chinese enterprise in Manchuria can conveniently be divided into two categories, the publicly and privately owned. Nearly all of the larger Chinese enterprises were directly or indirectly owned or controlled by the provincial governments, and, in this sense, were "public". So closely was the public property linked with the private property of the officials that it was not always possible to distinguish between them. Most of the Chinese-owned railways, banks, large agricultural projects, mines, forests, utilities and large factories were "publicly" owned, but many like enterprises were privately owned by officials either individually or along with others, foreigners included. There was actually no clear line of demarcation between publicly owned property and officially owned private property, and practically all the "big" Chinese business in Manchuria was in one or the other category.

Strictly private Chinese enterprise is confined chiefly to small businesses with capitals ranging from 100 to 10,000 silver dollars, although a number of private establishments have considerably larger capitals. The private businesses consist chiefly of wholesale organisations, an enormous number of retail shops, and a huge number and variety of small factories. These are financed largely by local banks and importers and exporters, Chinese as well as foreign.

Japanese occupation seriously injured Chinese business, particularly small private business.

The Japanese occupation of Manchuria seriously damaged both the "publicly" and privately owned big business and the privately owned small business. The damage to the latter was the more lasting, however. The Japanese and "Manchukuo" authorities found

¹ Chinese Memorandum on "China's Economic Dependence on her Three Eastern Provinces".

² Since *Railways* form the subject for a special report, they are merely referred to in this one.

³ *Op. cit.*, Chinese Memorandum.

⁴ *The Manchuria Year-Book*, page 84.

no great difficulty in restoring the officially controlled big business to operation with new sets of officials, but they obviously could not restore private business to its former state. The enormous exodus of the wealthy and middle-class Chinese from Manchuria, following the incident of September 18th, seriously disrupted the whole economic life of the region, from which shock it has yet fully to recover. As an illustration of what happened, the Chinese Municipality of Mukden states that, on September 18th, there were about 12,000 retail establishments doing business in the city, whereas even seven months later, there were only about half this number back in business.

III. JOINT ENTERPRISES.

Sino-Russian enterprises.

As well as being large sole owners, the Chinese are likewise interested, along with Russians, Japanese, and other foreigners, in a number of Manchurian enterprises. The most important of these joint ventures is the Chinese Eastern Railway. China supplied practically none of the capital for its construction, but has an interest in the management and earnings of the Railway and certain reversionary rights allowing for purchase of the Russian interest at an early date or for its return without payment at a later one. (More will be said concerning this in the section on Russian investments.) Apart from the Chinese Eastern Railway, the Sino-Russian enterprises are not important and most of these are locally owned by Chinese and "White" Russians. These latter jointly operate some coal and other mines, agricultural projects, timber concessions, flour and bean mills, wholesale and retail establishments, small factories, forwarding agencies, money exchange shops and the like. In the case of the "big" business, the Chinese participation is (or was) in the person of officials acting in their official or private capacities.

Sino-Japanese enterprises.

The number of Sino-Japanese enterprises in Manchuria is fairly large, but few have been financially or otherwise successful. In most instances, the Chinese and Japanese did not embark on these enterprises out of purely economic consideration alone. More often political consideration or coercion of one kind or another was the motivating force. The more important of these enterprises are railways, mines, timber companies, banks, produce and financial exchanges, bean-oil plants, flour mills, sugar factories, etc.

Other joint enterprises.

The Chinese have engaged in joint ventures, not only with Russians and Japanese, but with British and Americans as well. The chief Sino-British and Sino-American enterprises consist of tobacco companies and marketing organisations. Russian and Japanese interests have likewise embarked with one another on such joint enterprises as electric, transport and steamship companies. Japanese and Swedish capital is also to be found in the form of several Manchurian factories.

IV. JAPANESE INVESTMENTS.

Japanese investments are the largest among the foreign.

The investments in Manchuria on which the most detailed data is available are those of the Japanese. This is largely due to the enormous extent of these investments and to the intelligent efforts of the South Manchuria Railway Research Bureau in compiling information concerning them.

Among the foreign investors in Manchuria, the Japanese are unquestionably the largest, having a practical monopoly of foreign investments in South Manchuria. While the Japanese investments are chiefly in South Manchuria and within the leased areas, they are also of significance in North Manchuria and have shown expansion there in recent years. Neither time nor facilities permitted the Commission to make a thorough study of the Japanese investments, so the latest South Manchuria Railway figures are given as the most authoritative and reliable from among the several different estimates supplied by various Japanese organisations. From the information and data supplied, both in interviews and memoranda, it was not possible to determine the precise manner in which the Japanese arrived at their totals, or the propriety of including all of the listed items as "investments" and at the values given; nor was it possible to discover to what extent, if any, various of the items were counted more than once. The statement of investments as given by the South Manchuria Railway (see table below) must therefore be accepted only as an authoritative Japanese representation and not as a statement which the Commission was able to verify.

JAPANESE INVESTMENTS IN MANCHURIA¹
(March 31st, 1931)

| Investors | | Items of investment | Amount (yen) |
|---|---------------------|--|---------------|
| South Manchuria Railway Company. | Direct undertakings | Railways | 270,230,960 |
| | | Railway workshops | 6,465,032 |
| | | Harbours and wharves | 83,200,948 |
| | | Coal-mines | 117,871,977 |
| | | Oil-shale plant | 8,824,461 |
| | | Ironworks | 27,716,716 |
| | | Chemical fertiliser manufacturing plant | 50,939 |
| | | Sanitation | 15,842,006 |
| | | Education | 14,304,671 |
| | | Municipal undertakings | 146,125,530 |
| | | Others | 51,435,966 |
| | | Total | 742,069,206 |
| | | Securities of affiliated companies and Public Bonds | 93,391,089 |
| | | Loans to Chinese Railways and for encouraging industries | 69,185,869 |
| | | Cash advanced for contract construction of Chinese Railways, deposits, uncollected credits, etc. | 158,158,384 |
| | | Total | 320,735,342 |
| | | Combined total | 1,062,804,548 |
| Japanese Government's guarantee | | Loans to Chinese Government | 98,730,823 |
| Japanese corporations | | Loans to Chinese Government and individuals | 20,282,080 |
| Japanese corporations | | Capital Funds invested by corporations | 439,003,410 |
| Japanese individuals | | Capital Funds invested by individuals | 94,991,560 |
| | | Total | 554,277,050 |
| | | Grand total | 1,715,812,421 |

According to the latest statement, the South Manchuria Railway's direct undertakings, which include the railway, workshops, harbours and wharves, coal-mines, ironworks, chemical plants, sanitation projects, educational institutions, municipal undertakings and others, have a value of almost 750,000,000 "gold" yen. In addition, the South Manchuria Railway owns securities of "affiliated companies and public bonds" and has extended loans and advanced cash to Chinese railways, the aggregate of which amounts to over 200,000,000 "gold" yen.

Total Japanese investment inclusive of loans amounts to over 1,700,000,000 "gold" yen.

The total South Manchuria Railway interests thus amount to slightly over one billion yen, and make up the major portion of the Japanese investments in Manchuria. Japanese corporations and individuals have investments reckoned at over half a billion yen, and the loans of Japanese corporations and the Japanese Government to the Chinese Government and individuals amount to over 100,000,000 yen. The total investments, exclusive of loans to the Chinese, may therefore be considered at almost 1,600,000,000 yen, or at slightly over 1,700,000,000 yen if the loans be included.

South Manchuria Railway represents the chief Japanese commercial interest in Manchuria.

Practically all of the large Japanese companies are joint-stock companies and most of the smaller ones are partnerships. The South Manchuria Railway is by far the largest Japanese joint-stock company in Manchuria, representing a capital investment of about three-fourths of the entire Japanese investment in joint-stock companies and partnerships. If the South Manchuria Railway holdings in other companies be included with its own capital, the South Manchuria Railway then represents almost nine-tenths of the total commercial capital of the Japanese in Manchuria.

The South Manchuria Railway in its statements of Japanese investments quite properly does not include the aggregate annual expenditure of the Kwantung Government during the past twenty-five years "to ensure peace in Manchuria and Mongolia", but elsewhere¹ suggests that such an item might be included. Other Japanese estimates, that of the Dairen

¹ "Third Report on Progress in Manchuria to 1932", page 48.

Chamber of Commerce, for example, very definitely include such items. The Dairen Chamber of Commerce, incidentally, places the Japanese investments in Manchuria in excess of two billion yen, based on figures for the year 1926 for everything but loans, which are for 1930.

Other Japanese interests also large.

In addition to the South Manchuria Railway and its affiliated enterprises already referred to, the Japanese own banks, bean and flour mills, various kinds of factories, transportation and forwarding companies, mines, forests, agricultural projects, large import-export organisations and the like. As has already been mentioned, they own some of such enterprises jointly with Chinese and others. Unlike most other foreigners, the Japanese are interested chiefly in organisations having their head offices in Manchuria. This is due primarily to the preponderant interest of the South Manchuria Railway, however, for a number of the other large Japanese organisations in Manchuria have their head offices in Japan.

V. RUSSIAN INVESTMENTS.

Russian investments second largest among foreign.

Next to the Japanese, the Russians have the largest foreign investment in Manchuria. Most of it is to be found in the north and centres very largely around Harbin and the Chinese Eastern Railway.

The chief Russian investment is in the Chinese Eastern Railway, the longest railway in Manchuria. The "value" of it, however, is impossible to determine. The original capital was only 5,000,000 *roubles*, but much more than this was actually expended. Russia provided practically all of the money—which she borrowed largely from French investors—for the construction of the line,¹ but China, by treaty (1896), was given an interest in it and the alternatives of buying it at the end of thirty-six years from its opening by reimbursing Russia for her initial outlays and the Railway's accumulated debts, or of receiving it without payment at the expiration of eighty years² from its opening. Because of the purchase option in the treaty, the Russians tend to place a high "value" on the Railway and the Chinese a low one. As a consequence, one finds estimates of the value ranging from around 400,000,000 *roubles* to over one billion. None of these, needless to say, seems to have been arrived at from a capitalisation of prospective earnings.

At present, the Union of Soviet Socialist Republics considers itself the sole owner of the Chinese Eastern, but the Chinese have (or did have) an interest in its management and earnings.

*Present ownership of Chinese Eastern Railway
vested directly in Union of Soviet Socialist
Republics.*

From the time of the 1917 Russian revolution until about seven years later, the Russian control over the Railway was negligible, but at this time the Union of Soviet Socialist Republics succeeded *directly* to the interest which Tzarist Russia had held only *indirectly* through the Russo-Chinese (later Russo-Asiatic) Bank.

From the very outset, the Chinese Eastern has been more of a political than an economic undertaking and its failure to make the profits which it otherwise might have made, has very definitely reflected this. Its earning capacity has been very seriously impaired at one time or another by all the countries whose nationals have any substantial interest in Manchuria as well as by others.

Other Soviet interests.

In addition to the Chinese Eastern Railway, the Union of Soviet Socialist Republics has other interests in Manchuria. These consist chiefly of banks and various foreign trade "trusts". The "Dalbank" is the official Soviet bank, which, through its several branches in Manchuria, handles most of the Soviet's banking business in the region. Part of the Chinese Eastern's banking, however, is (or was) done through Chinese banks. The various "trusts" each specialise in the buying or selling of certain commodities or groups of commodities, or in the rendering of certain services. Along the more important of these are the oil, tobacco, textile, coal, timber, metal, factory equipment and manufactured goods selling syndicates and the produce buying organisations which specialise chiefly in beans and derivatives, wheat and other staples. In addition, the Union of Soviet Socialist Republics renders shipping, forwarding, steamship and insurance services through its various "trusts", railways and other organisations.

Other than the above-mentioned, there are few Soviet Russian investments in Manchuria. These minor ones consist of the privately owned small shops and enterprises of Soviet citizens resident in Manchuria.

¹ The exact financial interest of China in the railway is a matter of some controversy. China, however, did subscribe at least 5,000,000 Haikwan taels toward the Russo-Chinese Bank, which had charge of the construction of the line

² Altered to sixty years in the Mukden Agreement of 1924 between the Union of Soviet Socialist Republics and Chang-Tso-lin. The Peking Agreement earlier in the same year concerning the same matter is silent on this point, however.

“ White ” Russian enterprises.

“ White ” Russians, however, have considerable investments. They own a few large mines and timber tracts jointly with Chinese and operate many of the smaller manufacturing and commercial establishments of various kinds. They likewise own a large number of small retail shops, particularly in and around Harbin and along the Chinese Eastern Railway.

A number of firms in and near Harbin which fly foreign flags are in fact owned by “ White ” Russians who, in one manner or another, have contrived means of gaining some measure of foreign protection.

VI. OTHER FOREIGN INVESTMENTS.

Foreign investments in Manchuria other than Japanese and Russian are comparatively negligible and, in the aggregate, probably do not exceed as much as five per cent of the total foreign investments.¹ Among these, the British are the most important, the American next, then German and French, and after these, the various minor Scandinavian, Czechoslovak and others.

British.

The British investments are chiefly in the form of a small interest in the Peking-Mukden Railway, and about twenty-five important establishments, among which the branches of two large banks, a tobacco company, an oil-distributing organisation, several large import-export houses and a few shipping agencies are the most important. Until recently, the British also owned a substantial amount of securities in Japanese enterprises in Manchuria.

American.

The American investments in Manchuria are estimated at about four and one-half million gold dollars. These are centred largely around Harbin, the investments around Dairen and Mukden aggregating only about one-third of the total.² The chief American organisations in Manchuria are two large oil companies, several branches of a large bank, automobile and machinery distributors, a large agricultural equipment concern, a few import-export houses, and insurance and shipping agencies.

German.

German interests in Manchuria are comparatively slight, and consist only of a dozen or so firms. Like the Americans, the Germans do most of their business in the north. The more important organisations are two large importers of technical and electrical equipment and a variety of German manufactures, one exporter of Manchurian staples, some shipping, insurance and brokerage agencies, and an engineering firm.

French.

French interests also are slight and are likewise found chiefly in the north. They consist of several import-export firms, an engineering firm, branches of a savings society, a telephone company, and several smaller organisations. The exporters deal largely in Manchurian staples, notably soya beans and derivatives, and the importers in liquors, perfumes, drugs, machinery and technical equipment, and other French specialities.

Scandinavian.

The Swedish investments consist entirely of match factories located at Kirin, Changchun and Mukden. With the exception of one of the factories, these are registered as Japanese firms and are in charge of Japanese managers, but are controlled by Swedish interests.

The Danish and Norwegian interests consist chiefly of import-export firms handling a small amount of machinery and a very substantial amount of soya beans and derivatives.

Czechoslovak and others.

The Czechoslovak investments in Manchuria are relatively trifling and consist essentially of one large importing firm which specialises in machinery ranging all the way from arsenal equipment to locomotives, cranes and aeroplanes. Czechoslovaks likewise own a few small breweries, alcohol distilleries and shops. Most of the present Czechoslovak “ investments ” is in the form of unliquidated credits granted to Chinese “ railways, transport societies and private persons ”. The total Czechoslovak “ investments ” are estimated at 1,300,000 U.S. dollars of which 750,000 consist of outstanding accounts, many of which may possibly never be satisfactorily liquidated.

Polish, Italian, Latvian, Lithuanian, Estonian and Dutch investments are likewise to be found in Manchuria (chiefly in the north), but they are so comparatively insignificant as not to warrant consideration here.

¹ See *Manchuria Year-Book*, page 272.

² Julean ARNOLD, “ China through the American Window ”; Shanghai, 1932, page 45.

VII. SUMMARY AND CONCLUSIONS.

Chinese and foreign investment data very unsatisfactory.

It is impossible to gather comprehensive data on the Chinese and other investments in Manchuria for a number of reasons. The Chinese have practically nothing in the way of satisfactory statistical data on the subject, and most of the foreigners with the exception of the Japanese likewise have little, and furthermore, for one reason or another, are usually reluctant to release even that. Such compilations as the Commission was able to obtain were for the most part not in such form or in terms of such currencies as to allow any comparative analyses. Further, the lists were uniformly lacking in detail, were usually incomplete, were often out of date, and in many instances obviously inaccurate. Very few of the foreign consuls, trade commissioners, or heads of Chambers of Commerce, entertained the same ideas as to what constitutes a capital investment, or how it ought to be valued. Such estimates as were obtained were in a host of different, violently fluctuating currencies and were of such different dates as to prevent their being of use at all for comparative purposes. The Japanese investments were listed in considerable detail and, in this sense, were satisfactory. Neither time nor facility permitted thorough examination of them, however, so it was impossible to determine to what extent, if any, they probably overstate or understate the Japanese position.

Chinese holdings far exceed all others.

The Chinese holdings in Manchuria unquestionably exceed all the foreign investments combined and many times over. The bulk of the Manchurian wealth is in agriculture and in this the Chinese have, and for a long time past have had, the overwhelming interest. The Chinese also own mines, forests, banks, a multitude of factories and shops, and have, more recently, come to own a number of utilities, notably railroads.

Characteristic of Chinese holdings.

The chief characteristic of the Chinese holdings in Manchuria is that the larger ones are (or were) either officially owned or privately owned by officials, wholly or in part. Most of the Chinese investments in Manchuria were largely in the hands of the provincial governments or residents of Manchuria, exceptions being chiefly in the case of some few banks, trading organisations and land, mine and timber projects owned by non-residents (usually friends or relatives of Manchurian officials). Indirectly, the people of Shantung and Hopei also had a large economic interest in Manchuria. It was one which developed largely out of the long-standing ties of blood and culture between their peoples and the settlers in Manchuria. The heavy remittances from Manchuria to Shantung and Hopei are in part testimony to this.

Many persons in appraising the extent of the Chinese economic interests in Manchuria have overlooked those in agriculture, paying chief attention only to the more recent and conspicuous Chinese investments in railroads and the like. This has led them to conclude wrongly that Chinese investments in Manchuria are only of recent date and that, until recently, foreign holdings in Manchuria have exceeded those of the Chinese.

Joint enterprises.

Chinese not only own most of the wealth of Manchuria themselves, but are interested in some portion of the remainder along with foreigners, notably Russians and Japanese.

The largest joint enterprise is the Chinese Eastern Railway, which, while almost or entirely owned by Russia, is one in which the Chinese have an interest both in management and earnings, as well as important purchase and reversionary rights. The enterprise has not been a success from an economic standpoint chiefly because of the frequency with which its operations have been hampered because of strategic and political considerations.

Chinese have also engaged in joint enterprises with "White" Russians. In the case of the larger enterprises, Chinese officials, either in their official or private capacities, have made up the Chinese participation. The smaller joint enterprises, however, usually grew out of purely economic considerations.

There is a greater number of important Sino-Japanese enterprises than Sino-Russian, but none is as large as the Chinese Eastern Railway. Most of the Sino-Japanese enterprises consist of railways, mines, timber companies, banks, produce and financial exchanges, bean-oil plants, flour mills, and sugar factories, and of such other properties in which Chinese officials were apt to be interested. Most of these enterprises developed as much out of political as purely economic considerations and, as a result, have not been very successful.

Chinese have also joined with British and Americans in several enterprises, the most important of which are tobacco companies.

As a whole, the larger Chinese joint enterprises with Russia and with the Japanese have not been successful, due largely to their political or semi-political character from which they have never been able completely to rid themselves. The other joint enterprises have been more successful but neither Russia nor many Japanese have participated in these.

Japanese interests.

The Japanese unquestionably are the largest foreign investors in Manchuria. Their investments consist chiefly in the South Manchuria Railway and its numerous subsidiaries, and in banks, trading organisations, mines, forests, agricultural projects, numerous factories, public utilities, shipping and forwarding companies, financial and produce exchanges, bean and flour mills, and public and educational institutions. The Japanese likewise have made a number of loans to the Chinese. The bulk of their investment is within the Leased Territory and the Railway "Zone", and most of their direct investment is represented by firms having their head offices in Manchuria. The Japanese claim a total investment in Manchuria of over 1,700,000,000 yen, inclusive of over 100,000,000 yen in public and private loans to the Chinese Government and Chinese individuals.

Russian interests.

Next in importance to the Japanese come the Russian investments. These consist of the Chinese Eastern Railway (in which the Chinese have certain rights in management and earnings, as well as purchase and reversionary rights); an official Soviet bank with branches; marketing, buying and service organisations; and a number of small establishments owned by Soviet citizens. The Chinese Eastern is usually appraised at a figure ranging from 400,000,000 roubles to over one billion, but no estimates of any kind are available for the other interests. "White" Russian investment in Manchuria is fairly substantial, but for the most part consists of numerous small shops and factories, some of which are operated jointly with Chinese. Some few "White" Russians have also been operating big timber, mining and agricultural projects, but usually along with Chinese officials acting either in their public or private capacities.

Other foreign investments.

The foreign investments in Manchuria other than the Russian and Japanese are exceedingly small and probably do not amount to as much as five per cent of the total of the foreign investments. Among these, the British are in the lead, with the Americans next, and the German, French, Scandinavian, Czechoslovak and others following.

The British are chiefly interested in a railway, several large import-export firms, banks, tobacco companies, an oil-marketing organisation, some selling organisations, and shipping companies. Americans are interested in the import-export business (chiefly import), banks, and, to a limited extent, insurance, brokerage and shipping. The Germans are chiefly interested in the import-export business (chiefly import) and shipping; and the French in a few import-export houses, branches of a savings organisation and an engineering firm. Swedish capital is found only in match factories and Danish and Norwegian chiefly in import-export organisations (chiefly export). The Czechoslovak "investment" consists almost entirely of a large machinery importing firm and its questionable assets in the form of credits extended to former Manchurian officials in their official or private capacities. The other foreign investments are too trifling to warrant consideration.

Position of foreign interests other than Japanese.

For the most part, foreign interests other than Japanese are in the northern part of Manchuria and in the past have depended for their direct business chiefly on the Chinese and Russian trade. Most foreign business in South Manchuria is in the hands of the Japanese, even non-Japanese foreign goods being distributed through Japanese wholesale channels. With the possible exception of some of the foreign firms selling automobiles, gasoline and certain types of agricultural and other specialised machinery, few are interested in seeing a further extension of Japanese influence in Manchuria. The general feeling among those interviewed was that, if Japanese trade and investments increase, the *direct* trade and investments of other foreigners will decrease until Manchuria will become somewhat similar to Korea, where there is not even a single foreign bank to be found and where there are only a few foreigners left in business. Certain of the European and American business men interviewed, however, felt that, even though the Japanese capture most of the business, there will be growing *absolute* shares left for the others. Peace and order, if and when restored, along with improvements in administration and communications, they feel, will enormously expand the Manchurian market for all; and an improved economic world will increase the shares each will have in the shipping of Manchurian staples to the various foreign markets. Whether either the extreme pessimism on the part of most foreigners other than Japanese or the mild optimism on the part of the remainder is warranted doubtless depends on the conditions that will obtain for this region in the future.

STUDY No. 8.

MEMORANDUM ON BOYCOTTS AND JAPANESE INTERESTS IN CHINA.

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Section I.

ORIGIN OF CHINESE BOYCOTTS.¹

The Chinese Assessor of the Commission of Enquiry observes in his "Memorandum on the Boycott" submitted to the Commission that "the boycott, a method of pressure employed in international relations, is not a recent invention, nor is it of Chinese origin", and then goes on to quote a few cases of boycotts well known in history, such as the boycott started in 1765 by merchants of New York, Massachusetts, Rhode Island, and Pennsylvania, against British goods, and similar boycotts in 1769 and 1774. He also quotes the continental blockade organised by Napoleon I against the United Kingdom as well as a boycott proclaimed by Turkey in 1908 against Austrian and Bulgarian goods. Although it should be observed that there are fundamental differences between such boycotts as Napoleon's continental blockade and the present severance of economic relations between China and Japan (to mention only one case when the term "boycott" is used to cover rather different things), the above statement can, in a general way, be admitted as correct. It is to be noted, however :

- (1) That the mentality of the Chinese people seems to be particularly well fitted for the use of a certain type of boycott as an instrument to resist pressure by, or to exercise pressure on, a foreign State ; but quite particularly for the first purpose ;
- (2) That the particular form in which the boycott has been used by China against Japan and other foreign powers is typically Chinese, and, in this form, has probably never in history been used on such an extensive scale and with so much effect.

¹ *Boycott*, the refusal and incitement to refusal to have commercial or social dealings with anyone on whom it is wished to bring pressure. As merely a form of "sending to Coventry" or (in Gladstone's phrase) "exclusive dealing", boycotting may be legally unassailable, and, as such, has been justified by its original political inventors. But, in practice, it has usually taken the form of what is undoubtedly an illegal conspiracy to injure the person, property or business of another by unwarrantably putting pressure on all and sundry to withdraw from him their social or business intercourse. The word was first used in Ireland, and was derived from the name of Captain Charles Cunningham Boycott (1832-1897), agent for the estates of the Earl of Erne in County Mayo. For refusing in 1880 to receive rents at figures fixed by the tenants, Captain Boycott's life was threatened, his servants were compelled to leave him, his fences torn down, his letters intercepted and his food supplies interfered with. It took a force of 900 soldiers to protect the Ulster Orangemen, who succeeded finally in getting in his crops. Boycotting was an essential part of the Irish Nationalist "plan of campaign", and was dealt with under the Crimes Act of 1887. The term soon came into common English use, and was speedily adopted into many foreign languages (*Encyclopædia Britannica*, 14th Edition, 1929).

Both these points require some further examination. It has often been said that the boycott is the weapon of the weak and that China, being a country without military or naval strength, is using the boycott as the only weapon at her disposal in her struggle for emancipation against Powers materially stronger. However, other weak nations have felt, at certain periods in their history, the need of throwing off some form of foreign domination or to resist foreign pressure and even aggression, and in only a very few known cases have they chosen to use the boycott in the same form as China has repeatedly employed in the last three decades of her history. None, moreover, has ever used this form of boycott to the same extent as China has done, the only case which can more or less be compared to Chinese boycotts being the one of British goods by the Nationalist movement in India. Therefore the question arises whether, in the case of China, special causes have perhaps contributed to further the use of this weapon — so much the more formidable, as in modern times the economic relations between nations have become constantly more interwoven. It seems that two causes or reasons may be quoted which at least give a partial explanation, one being the existence of certain traditional customs in Chinese economic and social life¹; and the other one being China's position in to-day's world trade, particularly in her trade relations with Japan.

The boycott an old Chinese custom.

In connection with the first of these causes, attention should be drawn to the peculiar part played in the past and still played to-day in Chinese economical life by the "guilds" (the craft guilds, the merchant guilds, etc.), and in their modern form — the chambers of commerce, labour unions, and other professional organisations. At the same time, it should be noted that the Chinese people seem to possess a special gift for organising themselves, secretly or openly, for the attainment of special purposes, practically always of a defensive nature. As far as the above-mentioned guilds are concerned, they have been created as in mediæval Europe for the purpose of protecting the common interests of people engaged in a certain trade or profession, and as such they generally exercised a great authority, not only outwardly in their relations with authorities and general public, but also inwardly over their own members. However, while the European guilds, for reasons which need not be examined in detail for the purposes of this memorandum, have disappeared altogether or lost their influence, the Chinese guilds are powerful organisations even to-day. One of the reasons explaining this difference in development between Europe and China may be said to have been that, in the Western Hemisphere, the law has gained at an early date sufficient strength to protect the individual against arbitrary attacks on his interests, a thing which has not been the case — at least, not to the same extent — in China.

H. B. Morse,² in his study on this subject, expresses himself in the following way :

"In Europe generally, the administration of the law is so equitable, and, even in the middle ages, was so open, that the people even then were not averse to calling it to their aid. In China, whatever the case may have been in a bygone golden age, the application of the law is to-day so uncertain, and its administration so much at the mercy of hidden influences, that the people shrink from appealing to it, and prefer to settle their differences among themselves whenever possible."

Both in Europe and China, the guilds, in order to enforce the rules established by them, have found it necessary in the interest of their members to invest themselves with a certain power, either to impose their will on outsiders (officials and general public) or on recalcitrant elements among their adherents. The coercive measures used for this purpose were very similar to what we call to-day "boycott". Morse² states :

"The verb 'boycott' is of modern coinage, but the thing has existed for centuries ; and, in former times, the boycotted man was an outcast, not even solaced by the sympathy of a political party. In China, these conditions still exist. . . ."

Although many things have changed, or are changing, in China since this statement was written (1909), time has been as yet too short to wipe out the deep-rooted traces left on Chinese mentality by age-old habits of this kind.

Explaining the effect which the absence of legal security has had on the development of Chinese guilds, Morse goes on to say :

"The trade guilds have grown up apart from and independent of the Government ; they have moulded their own organisation, sought their own objects, devised their own regulations, and enforced them in their own way and by their own methods. Working thus without support or restraint from the Government of the Empire or the city, the

¹ An authoritative European observer at Shanghai remarks in a report under date of January 27th, 1932 :

"The hostility which the Japanese aggression has aroused among the inhabitants of the chief Chinese towns found its expression in the boycotting of goods of Japanese origin . . . a war of commercial reprisals which the Chinese have so often practised with success, and which, even to-day, appears to be, along with riots, the only form of national reaction within their power."

² Hosea Ballou MORSE, "The Guilds of China, with an Account of the Guild Merchant, or Co-Hong, of Canton". Longmans, Green & Co., London, New York, Bombay and Calcutta, 1909.

Chinese guilds could easily have remained entirely without power ; but, partly from the irresistible dead-weight force of an Asiatic democracy, partly because the agents of Government are drawn largely from the mercantile class, partly because the guild is able to profit from the business instinct which is so strongly developed in the official mind, and partly because of the enormous impulsive power of a mediæval form of public opinion and the development of the boycott by centuries of practical use, the guilds have in fact obtained an enormous and almost unrestrained control over their respective trades. . . .”

Quoting from several sources — as “ The Decennial Reports of the Chinese Imperial Maritime Customs ”, First Series (1882-1891), Second Series (1892-1901), 2 volumes ; D. J. Macgowan, M.D., in the journal of the North China Branch of the Royal Asiatic Society, 1888-89, pages 133 to 192 — Morse then gives a great number of examples of boycott rules and practices as applied and executed by these guilds, some of which are so curiously similar in spirit, and even in wording, to the practices used in modern boycotts by bodies such as the “ National Salvation Association for Resisting Japan ” that they make one understand to a certain extent the organisation, the methods and the underlying spirit of a movement which, otherwise seen, remains almost a mystery to the western observer. Typical examples are the following :

Bankers' Guild at Wuhu. — The rules provide that for breach of guild rules, the persistent defaulter shall be expelled and boycotted.¹

Tea Guild at Shanghai. — One rule, always enforced, and with no redress by appeal to the courts is the following :

“ Pending litigation with a foreign firm, members of the guild shall transact no business with the delinquent firm ; relations are not to be resumed until the case is adjudicated.”¹

Fishmongers' Guild at Ningpo. — The rules provide that every fish boat coming in shall be reported to the guild, which, upon verification of the lading, will then affix its seal to the manifest ; no member (and most certainly no non-member) would dare to buy a boat's lading of fish which had not been duly passed by the guild.¹

Expressing a general opinion on these guild regulations, Morse¹ observes that :

“ All Chinese guilds are alike in interfering with every detail of business and demanding complete solidarity of interest in their members, and they are alike also in that their rules are not a dead letter but are actually enforced. The result is a tyranny of the many over the individual, and a system of control which must by its nature hinder ‘ freedom of enterprise and independence of individual initiative ’.”

and furthermore :

“ They have developed as self-governing bits of democracy. Such jurisdiction as they exercise is of their own creation ; and, not being delegated by a superior authority, there is never any question of control or of resumption. Their jurisdiction over their members is absolute, not by reason of any charter or delegated power, but by virtue of the faculty of combination by the community and of coercion on the individual which is so characteristic of the Chinese race. . . .”¹

As an example of the method employed in exercising this jurisdiction, the following stipulations of a certain guild may be quoted :

“ It is agreed that, after a member of the guild—an individual, or a firm—has been expelled, all business relations with him shall cease. Any member discovered to have had dealings with him from sympathy or friendship shall be fined 100 taels.”¹

Although more or less nation-wide boycotts against foreigners are considered to have started in 1905 with a boycott against American trade, there have been anti-foreign boycotts of a more local character as far back as the eighteenth and nineteenth centuries. In this connection, the Japanese Assessor, in a document “ The Present Condition of China ”, Document “A”, Appendix 7, “ Anti-foreign Boycotts in China ”, quotes the case of a boycott which occurred in 1741 at Canton against a Dutch ship ; a second one in 1898 at Shanghai was declared against France by Ningpo merchants of that city who were exasperated over a question concerning cemetery lots in the French Concession. This latter case is also quoted by Morse¹ who, moreover, cites a dispute which arose in 1884 between the Opium Guild at Ningpo and foreign merchants. The guild decreed that importers, foreign or Chinese, should sell to no one but its members. The foreigners protested to their Consuls, but the decree was obeyed. On this action, the British Consul at Ningpo stated :

¹ Hosea Ballou MORSE, “ The Guilds of China, with an Account of the Guild Merchant, or Co-Hong, of Canton ”. Longmans, Green & Co., London, New York, Bombay and Calcutta, 1909.

“ British merchants here have constantly assured me that, if any member of the guild attempted to deal with them except on such terms as the guild approved, and these would always include purchase at below cost price, he would be ostracised ; and that if any non-member ventured to similarly infringe the rules of the guild, although he could in no legal sense be bound by them, he would be subjected to such persecution, by means of trumped-up charges or actual personal violence, as these associations in China well know how to employ. ”¹

Another quotation from Morse¹ showing by what methods guild regulations used to be enforced runs as follows :

“ The Chinese trade guilds establish rules and compel obedience to them ; they fix prices and enforce adhesion ; they settle or modify trade customs and obtain instant acquiescence ; they impose their will on traders in and out of the guilds, and may even, through the measure known as the ‘ cessation of all business ’, cause Government to modify or withdraw its orders ; and their end, that of having the absolute control of their craft, is obtained by methods, some of which are indicated above. ”

In explaining the organisation and the working of the Swatow Guild, Morse, quoting from the “ Decennial Report of the Chinese Imperial Maritime Customs ”, states that :

“ The income of the home guild is provided by taxes on the trade of the port according to a tariff as elaborate in some ways as that of a Custom-house, including fees on steamers, sailing-vessels and junks, owned or chartered by members, payable on each entry of the vessel ; and taxes, either per package or *ad valorem*, on about fifty enumerated categories of goods. . . . ”

To-day's boycotts a development of existing conditions.

It will be noted from these quotations, which could easily be supplemented by the findings of other authors² who have studied the same subject in even greater detail than Morse has done, that many of the most salient characteristics of present day anti-foreign boycott movements in China, far from being inventions of a recent date, are rather modern developments of a deep-rooted mentality and of well established customs such as the influence of organised collectivities over their individual members ; the faculty to act independently of the authorities and, if necessary, against the authorities ; the power of organising and establishing regulations and of applying them if necessary by coercive measures ; the habit of taking the law in their own hands, and, most typical of all, the tendency to use the boycott as a coercive weapon for defensive purposes.

On the other hand, far reaching as this mentality and these customs may be in explaining the spirit and the organisation of to-day's boycott movement, the modern offspring of the old time “ cessation of all business ” practices would not be understandable if the powerful influence exercised by certain new elements introduced in more recent times were not taken into account. Burgess, in his book on Peiping (one of the two just referred to), says, on page 208 :

“ The boycott has been used on a larger scale, not only by individual guilds, but by the combined merchant and student class of China in dealing with international injustices. The most striking recent instance is the boycotting of British trade in Canton, which was a protest against the shooting of students in Shanghai by the municipal police on May 30th, 1925. The tremendous strength, determination and unity of spirit exhibited in these boycotts has in recent years become a factor of first importance in the settlement of international questions in the Far East. ”

What we watch to-day is the application of an old custom adapted to modern circumstances. Instead of being applied for the attainment of professional purposes, the boycott is now used to realise political aims, and, instead of being practised locally, has now become a national issue. In addition, the technique employed by the boycotters has been adapted to the more complicated conditions of modern economic life. This development can only be understood if one takes into account the tremendous changes which have taken place in China during the last three decades — that is to say, the awakening of a feeling of nationalism in constantly widening classes of the population, the creation of a nationalist party organisation, and the influence of a powerful propaganda machine controlled by this party, which has endeavoured to mobilise for its purposes some of the fundamental instincts of the Chinese people, one of which is a feeling of cultural superiority over other nations, easily taking the form of anti-foreignism. However true this may be, even these developments do not sufficiently explain the importance taken by the modern Chinese boycott movement as long as certain purely economic factors are left out of the picture ; above all, the importance of China, even in its present depressed and chaotic condition, as a market and as a source of supply of raw materials and foodstuffs for certain nations, and more in particular for Japan.

¹ H. B. MORSE, “ The Guilds of China, with an Account of the Guild Merchant, or Co-Hong, of Canton ”.

² “ Peking : A Social Survey ”, by Sidney D. GAMBLE ; New York, George H. Doran Company ; and “ The Guilds of Peking ”, by John Stewart BURGESS, Ph.D. ; New York, Columbia University Press, 1928.

Section II.

THE ORGANISATION OF CHINESE BOYCOTTS IN MODERN TIMES (1905 to 1929).

In studying the organisation of the Chinese boycotts in modern times, beginning with the anti-American boycott in 1905 up to the present one directed against Japan, it will be found that the organisation of these successive movements (there have been eleven of them between 1905 and 1932, all of which can be considered as having been more or less national in scope and nine of which were directed against Japan, not to mention a certain number of anti-foreign local boycotts) shows a steadily increasing efficiency both in the establishment of the regulations and in the way these regulations are being carried out. It is evident that the boycott societies have gained in experience and influence with each boycott, and that, with the rising tide of nationalism, the moral support they received from the general public has also been increasing until it reached, during the boycott of 1931-32, an unprecedented degree of intensity.

The hotly debated point whether, and, if so, to what extent, the Chinese Government is behind the boycott and can be made responsible for it (Japanese contention), or whether these movements are simply spontaneous and subsequently privately organised outbursts of popular feeling aroused by some foreign act of pressure or aggression (Chinese contention) will be examined at a later stage of this memorandum. Special attention will likewise be given at a later stage to the effects of the various boycott movements — and especially of the present one — on the trade and economic life of the two interested countries and of Japan in particular.

As far as the organisation of the boycott movements in modern times is concerned, the description given in document "A", "The Present Condition of China", and in Appendix 7 to this document, entitled "Anti-foreign Boycotts in China", submitted to the Commission by the Japanese Assessor, may generally be taken as correct. Competent experts on, and observers with long years of experience in, Chinese affairs whom the Commission has been able to consult on the subject have expressed the opinion that, as a whole, it is a moderate, and even rather understated, exposition, while the Chinese Assessor's document (document No. 14), written with the knowledge of the Japanese document, is completely silent on the organisation of these movements, apparently in conformity with the Chinese official point of view that boycotts are entirely spontaneous and the Government is not informed on the subject. The Japanese version is, in a general way, also in conformity with the statements made by certain American and European observers, one of whom in particular, John E. Orchard, in his book "Japan's Economic Position", has written with authority on the subject, particularly on the economic effects, after having devoted a great deal of work to original research.¹ However, as a whole, only a very few people outside the specially interested circles of diplomats, consuls, and trade commissioners seem to have made the recent Chinese boycotts an object of serious study, and the number of publications is extremely limited. Anyway, it seems that the following statements made by the Japanese Assessor can be taken as correct :

"The earlier boycotts originated usually among students and merchants. But, beginning with the anti-Japanese boycott, which occurred as an aftermath of the Tsinan incident of 1928, the Kuomintang — the mother party of the National Government — has assumed the central control of the campaign, providing the various boycotts with organisation and direction . . ."

"Chinese boycotts, from the original form of a refusal to buy foreign goods, advanced a step further by including a refusal to sell to foreigners, and, finally, they have now taken the form of a complete severance of all economic relations with foreigners.

"Thus, at present, any Chinese boycott aims to put an end to all export and import trade with the country against which it is directed, in the endeavour to cut the subjects of that country off from all economic activities in China."

"The executive body of a boycott under the direction of the Kuomintang is allowed to set up and enforce quasi-legal regulations and to inflict upon the violators penalties — confiscation of goods, fines, public exposure, imprisonment . . ."

It may be helpful to a better understanding of the present boycott, using both the Japanese Assessor's documents and Orchard's book, to show by way of a short description the trend of increasing efficiency which is to be noted in the development of these movements during recent years.

1905 boycott.

The boycott of 1905, directed against the United States of America, was caused by a stipulation in the Sino-American commercial treaty, as renewed and revised in 1905, restricting more severely than before the entrance of Chinese into America. The initiative

¹ John E. ORCHARD, "Japan's Economic Position"; McGraw-Hill Book Company, Inc., New York, 1930. As far as the part played by the "Kuomintang" in the later boycotts is concerned, Orchard is far less explicit than the author of the Japanese Assessor's document. It must be noted, however, that Orchard does not deal with the present boycott; nor does he mention the anti-American boycott of 1905.

of this movement was taken by the leaders of commercial circles in Shanghai, who met at the Shanghai Chamber of Commerce. A resolution was adopted and communicated to thirty-five chambers of commerce in various parts of China, to the effect that the Chinese would refuse employment to the American banks and commercial houses, and would also refuse to purchase directly or indirectly American products. Students, including girls, and labour unions passed resolutions for the purpose of putting into practice the recommendations of the commercial leaders. The movement spread from Shanghai to a great many provinces and cities in China and even to Chinese communities abroad, while, in certain cases, organisations were formed to put into circulation propaganda for the boycott and to enforce the rules. In reply to a protest by the American Government, the Chinese Government answered :

“ This idea of a boycott of American products comes directly from the trade people. It did not come from the Chinese Government by any means and the Chinese Government certainly cannot assume the responsibility. ”¹

Further developments resulted in moderation on both sides, and the movement gradually came to an end.²

1908 boycott.

The boycott of 1908 against Japan was caused by the seizure of the Japanese steamer *Tatsu Maru*, bound for Macao, by Chinese gunboats, who suspected the vessel of smuggling arms and munitions into the hands of Chinese revolutionaries — a suspicion which subsequently was confirmed by the character of the cargo. When the Peking Government was forced by Tokio to present apologies and to pay an indemnity, on the Japanese claim that the vessel had been overhauled in Portuguese waters, commercial guilds in South China decided to start a boycott, the organisation of which seems to have been in many respects similar to the preceding one. Centres of the movement were Hong-Kong and Canton. The leaders announced that the boycott would not cease until the damage inflicted on Japanese trade should amount to 10,000 dollars for every dollar of indemnity that had been paid to Japan.

A particular feature was that the Cantonese shipping circles at Hong-Kong adopted a resolution for the boycott of Japanese ships to be enforced under penalty of heavy fines. At Canton, a women's organisation decided not to use Japanese articles, while on the same day a society of prominent citizens opened an exhibition of Japanese articles on the boycott list. This boycott developed into a national movement, but it was more effective in South China than elsewhere in the country.

1909 boycott.

The 1909 boycott, directed against Japan, was caused by the Japanese request for the reconstruction and improvement of the Antung-Mukden Railway, a request to which the Chinese Government finally agreed after having made objections. During the negotiations, the anti-Japanese feeling in China was aroused, and students and commercial leaders started a boycott. When, however, the two Governments came to an agreement the agitation died down. This boycott was only of short duration and its organisation never came to full development.

1915 boycott.

The 1915 boycott was also directed against Japan in order to resist the “ Twenty-one Demands ”. This time the organisers of the movement not only tried to inflict harm upon Japanese trade by the usual methods, but also made a definite attempt to encourage the use of Chinese-made goods by starting a special “ Society for the Promotion of the use of Domestic Articles ”. This society became at the same time the centre of the boycott movement. For the rest, the organisation of this boycott was again very similar to that of the preceding ones.

At Canton, the journalists took a leading part in the movement. At two stages of the conflict, the Japanese Government required that the Chinese Government suppress the movement. The first time, this attempt met with only a temporary and partial success. The second time, after the Sino-Japanese treaty of May 25th, 1915, had been concluded, the order issued by the Chinese Government seems to have had the effect of putting an end to the agitation. According to the Japanese Assessor's document, various acts of violence were committed during this boycott which had not only spread all over China but also to Chinese communities abroad. The boycott came to an end after about six months, mainly because Europe, owing to the war, could not supply China with the goods it refused to buy from Japan, but anti-Japanese feeling remained strong.

¹ “ Foreign Relations of the United States, 1905 ”, page 223, quoted by the Chinese Assessor in his memorandum on the boycott.

² According to Edward Thomas WILLIAMS in his book “ China, Yesterday and To-day ”, revised edition, 1929, Thomas Y. Crowell Company, New York :

“ . . . The boycott was suggested by Chinese in San Francisco and other American cities. It is a favourite weapon in China. Through several months in 1904 and 1905, American trade suffered considerably. The Chinese Government did not authorise the boycott. On the contrary, at the request of the American Minister, they issued proclamations against it. Nevertheless, it was a plain revelation to the Peking authorities of the sentiment of the Chinese people. The negotiations for a new treaty failed. The boycott, too, was abandoned.”

1919 boycott.

In 1919, another boycott was declared against Japan, this time in connection with the Shantung issue then under discussion at the Paris Peace Conference. This boycott definitely had the double purpose of protesting against Japanese policy and bringing pressure to bear upon the Chinese Government not to sign the treaty. According to Orchard,¹ the 1919 movement was better organised and more effective than the previous boycotts. In addition to the usual boycott methods, bank-notes issued by Japanese banks in China were refused by the Chinese public, and Chinese funds were withdrawn from these banks.

The initiative this time seems to have been, above all, with the student unions, which founded special boycott associations for the purpose. The regulations laid down by the student unions were :

- (1) Not to do business with any Japanese ;
- (2) Not to transport cargoes on any Japanese ship ;
- (3) Not to accept or handle any Japanese bank-notes.

Commercial circles joined in the movement, but active leadership seems to have remained to a great extent with the students.

The Japanese Assessor's document states, in regard to this boycott, that various outbursts of violence took place, while Orchard¹ mentions that there was little rowdyism, the student unions and the leaders of boycott associations having stressed the importance of order and quiet. According to this author, "large consignments of goods were confiscated and burned in quiet and orderly demonstration". This time the Government acted against the students, who ignored, however, the orders that were given. Military force was used against them and several hundreds of them were arrested. This aroused the rest of the nation to such extent that a general strike movement sprang up, which lasted four days. As a result, the Government released the imprisoned students, and some time afterwards announced that the Chinese delegates in Paris had declined to sign the Peace Treaty. At the same time, a difference of opinion seems to have arisen between students and merchants over certain questions of boycott tactics. Orchard¹ gives the following description of this instance :

"While Japanese goods on hand were burned and destroyed in large quantities, these demonstrations did not actually affect the Japanese trade. Orders of goods were cancelled wherever possible, and new orders were not placed with Japanese firms if the goods could be secured from other sources, but a great deal of trade continued to come in from Japan on long-term orders that had already been placed. In fact, when the student unions were too insistent about the destruction of Japanese goods in stock, the chambers of commerce finally arranged a compromise permitting the sale of Japanese goods already on hand or paid for though not received, but forbidding the ordering of any more Japanese goods and providing that all trade in Japanese goods would stop after the Chinese New Year, whether stocks had been sold or not."

As in 1915, the boycott of 1919 also had the definitely stated additional purpose of favouring Chinese industries, an attempt which was not entirely without result.

The boycott virtually continued with intermittent ups and downs during 1920, 1921 and 1922, until the Shantung issue was settled at the Washington Conference.

1923 boycott.

In 1923, a boycott was declared against Japan as a result of Tokio's refusal to admit the Chinese claim that the original lease of the Kwantung Territory, which as a result of the "Twenty-one Demands" had been prolonged, should be brought back to the original terms. According to the Japanese Assessor's document, this time the boycott was instigated by the Chihli group as part of its policy against the Mukden group. The same document states that "the boycott was supported by unscrupulous merchants for their own selfish ends". It is probably more correct to say that, during each boycott, certain Chinese merchants are glad to get rid of Japanese competition. Anyway, the initiative this time seems to have been on the Chinese side. The actual leadership was in the hands of the Chamber of Commerce at Shanghai, which organised for the purpose a "People's Anti-Japanese Foreign Policy Association", and an "Economic War Committee".

Orchard¹ states that this boycott was marked by demonstrations very similar to those on previous occasions, by students, merchants, chambers of commerce, tradespeople and labourers, who all participated in the movement. The boycott regulations were also along the usual lines. A novelty was, however, the following notice, which appeared in a Chinese paper at Shanghai :

"People should regard the Japanese goods as poisonous. Do not supply the atrocious people with rice and wheat." ¹

Thus the boycotters evidently tried to cut off Japanese residents from certain daily necessities of life.

At the request of the Japanese Government, the Chinese authorities issued a proclamation prohibiting any further boycott of Japanese goods. This, however, had no immediate effect, and it took several more months before the movement came to an end.

¹ John E. ORCHARD, "Japan's Economic Position".

1925 boycott.

The 1925 boycott was directed against Japan and the United Kingdom as the result of a labour dispute at Japanese spinning-mills in Shanghai. According to the Japanese Assessor's document, this dispute, not very serious at the outset, developed into a great conflict because of the "insidious manoeuvres of communists and professional agitators". As a result, a clash took place between strikers and police, in the course of which one Chinese mill-hand was killed and six were injured. Immediately an anti-Japanese boycott was started apparently by students and labourers. Demonstrations grew more serious, and, on May 30th, 1925, during another clash with the police of the International Settlement, eleven Chinese were killed and a great number were injured. The police detachment which resisted the manifestations was commanded by a British Inspector. From this moment onward, popular sentiment turned against the United Kingdom also¹ and a subsequent boycott, proclaimed by the Chinese Chamber of Commerce at Shanghai, was directed against both Japan and the United Kingdom. The organisation of the movement, which had a particularly violent character, seems to have been along the usual lines. In August of the same year, however, when a satisfactory settlement of the original dispute at the Japanese cotton-mill was effected, the anti-Japanese boycott came to an end. The movement then continued exclusively against the United Kingdom, and more particularly against the trade and shipping of Hong-Kong. A blockade was immediately instituted against this port, and the following regulations were promulgated by the Chambers of Commerce and the All-China General Labour Union in association with the Canton-Hong-Kong Strike Committee :

" Goods via Hong-Kong or Macao, of whatever country, shall not be permitted to come to Kwantung. And goods exported from Kwantung, to whatever country consigned, shall not be allowed to go to Hong-Kong or Macao.

" Any British vessel, and vessels of any country passing through Hong-Kong or Macao, shall not be allowed intercourse with inland Kwantung for discharge of cargo.

" All non-British merchandise, and non-British vessels, which do not pass through Hong-Kong or Macao, shall have freedom to trade. " ²

The " Report on the Commercial, Industrial and Economic Situation in China " covering the period July 1st, 1925, to June 30th, 1926, issued by the British Department of Overseas Trade, states with regard to this boycott :

" The immediate effect of this incident was the calling of a general strike by the Chinese Chamber of Commerce, whereupon all Chinese shops and banks in the International Settlement were immediately closed. This was followed by strikes of workers in numerous industrial concerns, both foreign and Chinese, on employees in public utility establishments, domestic servants in foreign employ, seamen and firemen on British and Japanese ships, stevedores and cargo coolies, wharf and godownmen, laundrymen, carpenters, etc. No less than 80,000 industrial workers were unemployed in Shanghai alone a few days after the strike started. Before the end of June, business in Chinese concerns was resumed on a normal basis, and the strike was gradually narrowed down to British and Japanese institutions (though Chinese industrial concerns were affected by the inability of the electrical department of the International Settlement to supply power owing to the striking of their employees), and finally confined itself to British interests alone. It was accompanied by violent propaganda, intimidation and bribery, and every effort was made to produce a complete boycott of British goods and British ships. During June, the agitation quickly spread up the Yangtze River to Kiukiang, Hankow and Chungking, and down the coast to Foochow, Amoy, Swatow and Canton, where serious incidents occurred. In the northern provinces and Manchuria, the boycott never obtained a strong footing ; but in Shanghai and Central China generally it paralysed British coastal and river shipping for some four or five months and reduced the sales of certain classes of British goods to about a third of the normal, while at Canton and Swatow an anti-British boycott was declared which has lasted ever since, involving a complete stoppage of all direct British trade and the forcible prevention of all communication with Hong-Kong" (pages 42 and 43).

" . . . Native agents of foreign firms competing with British were not slow to encourage and subsidise the agitation for their own ends. Support was openly given to it by Chinese Chambers of Commerce and Chinese merchants and industrialists, though the latter soon found that the encouragement of strikes in British concerns was a weapon that was apt to recoil on their own heads. The strikers were largely subsidised on funds subscribed by Chinese sympathisers throughout the country and abroad. The effects on British shipping were to some extent mitigated, after the first few weeks, by the engagement of Russians and northern Chinese to replace the normal crews, composed principally of Ningpo and Canton men, who were completely under the influence of the Chinese Seamen's Union, directed from Canton. The strikes in the British and Japanese factories and ships ended on terms favourable to the owners to the extent that no strike pay or rise in wages was conceded, though there has since been a general increase of 10 per cent in the wages of cotton-mill employees. By the end of 1925, British trade in China

¹ There is reason to believe that several outstanding issues between Chinese and British, like the question of extra-territoriality, the status of mixed courts, etc., also played a part in this outburst.

² Quoted from an article by Dorothy J. ORCHARD in the " Annals of the American Academy of Political and Social Science ", November 1930.

had resumed its normal course, except at Swatow and Canton, and in the districts served by these ports, where British goods can still only be sold with difficulty.

“ While the force of this boycott and the continuance of the unfortunate situation in South China would seem to indicate an unenviable future for British trade in China, it is impossible to resist the conviction that the present anti-British bias is largely an artificial one, due entirely to the predominant part that Great Britain has hitherto played in foreign relations with China, as a result of which she has momentarily become a convenient whipping-horse in the eyes of the young Chinese nationalist, who is anxious to wipe out with a stroke of the pen all the so-called privileges that the foreigner has acquired by treaty in China ” (pages 43 and 44).

The 1927 issue of the same report states, on pages 34 and 35 :

“ The boycott of British goods and shipping, which was almost completely effective in South China until the latter part of 1926, gradually diminished in intensity after the Canton Government withdrew its support, and, although relations are still far from normal, a fair amount of business has been effected in Canton and other southern ports during the past six months. In some parts of South China, and especially at Canton, native competitors are still doing their best to exploit the boycott movement for their own purposes, and in other provinces, notably in Szechuen, Hunan, Hupei and Kiangsi, there has been much active interference with British shipping and with the business of British firms. ”

Orchard observes on page 463 of his book ¹ that :

“ In fact, Japanese trade later benefited very considerably by the boycott against British goods, and the years 1925 and 1926 were decidedly good years for the Sino-Japanese trade. ”

In the course of this struggle, the Kuomintang seems to have tried for the first time to intervene directly in the organisation of the boycott, and its influence on the movement is reported to have been steadily increasing, and the communists, who for some time past had obtained a foothold in South China, seem to have been also particularly active. The boycott gradually wore itself out in view of new political developments. ²

1927 boycott.

The 1927 boycott was directed against Japan in connection with the despatch of Japanese troops to Shantung. When studying this boycott, one has the impression that the Kuomintang had been steadily attempting to increase its share in the direction of the movement, although its activity still seems to have been more of a local character than that of a central organising and co-ordinating institution, as it became afterwards. At Shanghai, the movement was directed by the “ Federal Committee of Trade Unions ”, which convoked a “ Conference of Citizens opposed to Japan’s Despatch of Troops ”, which in its turn organised a “ Campaign Committee to oppose Japan’s Despatch of Troops ”. At a later stage, this Campaign Committee organised a “ General Economic War Alliance ”. These bodies established the usual type of boycott rules and seem to have enforced them with utmost rigour, even to the extent of provoking protests from Chinese merchants, which had some moderating effect. In South China, the influence of the Kuomintang was more apparent, as in Foochow and in Amoy, than in the north. Particularly in Shantung Province, the effect of the boycott remained relatively weak. In Amoy, the party organised an “ Inspector Corps ”, whose task it was to supervise the enforcement of the boycott rules. The activity of this corps seems to have been particularly resented by the local merchants. At Canton, according to the Japanese Assessor’s document, the centre of the movement was located in the “ General Political Department ” of the Kuomintang, which had organised the movement according to the usual pattern.

At Canton this time, the Japanese merchants put up a resistance by refusing to sell coal, sulphur, and other articles which could not be obtained from other sources. As a matter of fact, a large number of Japanese goods had to be excepted from the boycott lists.

The boycott was called off when it became known that the Japanese army was to be withdrawn.

1928-29 boycott.

The 1928-29 boycott was declared against Japan as a result of the so-called Tsinan incident, the Japanese Government having decided to redespach troops to Shantung. Again special boycott societies were set up in many cities and ports of China Proper and in most of the Chinese communities in the South Seas, but their activities seem to have been rather unequal as far as effectiveness goes. On the other hand, a determined attempt was made this time to make the various anti-Japanese societies adopt uniform rules. Orchard observes ¹ in regard to this boycott that it was characterised by more effective organisation than had previously been the case, and that the agitation appears to have come from the merchants

¹ John E. ORCHARD, “ Japan’s Economic Position ”.

² Dorothy J. ORCHARD in an article in the “ Annals of the American Academy of Political and Social Science ” November 1930, mentions that the Canton Government repeatedly denied any responsibility for the boycott. On October 10th, 1926, however, the boycott was reported to have ended by a proclamation from this Government.

and shipping *hongs* rather than from the student classes. The Japanese Assessor's document states that the movement was conducted under the direct guidance of the Kuomintang, the heads of the anti-Japanese societies in each city being always either a member or an official of the local party headquarters. Evidence from other sources confirms this statement. The Japanese document states, furthermore :

“ Whereas on previous occasions agitators often resorted to acts of violence against Japanese merchants, or made unlawful demands upon them, the present boycott was accompanied with but a few minor cases of violence, such as the detention of Japanese-owned goods, efforts having been concentrated upon the control of Chinese traders.

“ In contrast with the haphazard manner in which former campaigns were conducted by students, workers and professional agitators, the present one under the direction of the Kuomintang and in accordance with the rules of the Anti-Japanese Society possessed organisation and method aiming at thoroughness and uniformity . . . ”

The “ Programme for Economic Rupture with Japan ” adopted by all the Anti-Japanese societies in China during 1928-29 was drawn up on the following lines :¹

“ As to exports to Japan : (a) the export of foodstuffs, cotton, hemp, coal, iron, camphor, paulonia, oil, and all other important raw materials to be declared absolute contraband ; (b) surplus products which could not be absorbed by Chinese factories of which their financial resources did not permit them to warehouse, to be declared conditional contraband ; (c) the export of articles of luxury to be permitted free (Article II).

“ As to imports from Japan : (a) articles of Japanese culture, sciences and medicine, and any raw materials indispensable for Chinese industry or for daily subsistence to be declared conditional contraband ; (b) all other Japanese products to be declared absolute contraband (Article III).

“ As to the financial phase : (a) Japanese notes and currency not to be used ; (b) deposits in Japanese banks to be withdrawn ; (c) bill transactions between China and Japan to be prohibited (Article IV).

“ As to communications : (a) not to take passage on Japanese vessels ; (b) not to ship goods on Japanese vessels ; (c) not to unload goods from Japanese vessels (Article V).”

To enforce these rules, a strict control was exercised on the import and sale of Japanese goods, and offenders were punished by the usual means of fines, confiscation of goods, and even public exposure in a wooden cage.

Orchard² mentions as a special feature of this boycott that the proceeds of fines of the sales of confiscated Japanese goods and of registration fees served to finance the campaign. Important sums thus collected were also used for the purpose of financing new industrial enterprises.

In June 1929, a “ Conference of Anti-Japanese Societies ”, convened at Nanking, decided to reorganise the society into the “ Society for accelerating the Cancellation of Unequal Treaties ”. Its branches, according to the Japanese Assessor's document, were to be established in every province and district, and Chinese communities abroad were to engage, under the direction and supervision of the local Kuomintang headquarters, in an economic war on Japan until the unequal treaties with Japan were abrogated.

The boycott came to an end in May 1929.

Section III.

THE ORGANISATION OF THE 1931-32 BOYCOTT.

There does not seem to be any doubt among impartial observers who are watching the present boycott that it is the most extensive, best organised and probably most efficient movement of its kind ever launched by the Chinese against Japanese economic interests. It was launched as a result of the indignation roused in China by the massacre of Chinese in Korea following the Wanpaoshan incident in June 1931, while the events of September 18th at Mukden, the subsequent landing of Japanese troops on the night of January 28th, 1932, and the reported military operations of the Japanese against Jehol each time made their influence on the movement felt.

The Kuomintang and the boycott.

Although the present boycott is actually carried out by organisations which are acting under the name of “ Fight Japan and Save the Nation Societies ”, while the Kuomintang remains more or less in the background, as it has been in the habit of doing on previous

¹ Japanese Assessor's document A, Appendix 7.

² John E. ORCHARD, “ Japan's Economic Position ”.

occasions, it seems evident that the Nationalist Party is the real driving, organising, co-ordinating and supervising power responsible for the uniformity in methods which particularly characterise the present movement. The way in which these societies were established and the methods they were told to employ are shown in a document submitted to the Commission by the Japanese assessor and reproduced below. (In this connection it should be noted that the "Fight Japan and Save the Nation Societies" are not established for the sole purpose of boycotting Japan. They are the local executive organs responsible for the whole of an anti-Japanese campaign.)

"Plan of action to be directed against Japan under the leadership of all the Kuomintang Save the Nation Committees.¹

"A. *Direction.*

"1. All the Party Committees will organise a 'Fight Japan and Save the Nation Society' by means of the popular groups already existing in each place.

"2. The Fight Japan Society as thus constituted will draw up a plan of action, according to the local circumstances, and will ask the opinion of the local Higher Committee of the Party. After obtaining authorisation from the Higher Committee, the Fight Japan Society will take measures to carry out the plan agreed upon.

"3. All members of the Party Committees and all persons participating in this action shall be bound to act jointly against Japan.

"4. During the action taken against Japan, it shall not be permitted to destroy commercial houses or to inflict bodily injury on the Japanese.

"B. *Investigations.*

"1. All the Party Committees and Fight Japan Societies shall form secret organisations consisting of Chinese employed in Japanese factories, shops, companies, consulates, and any other Japanese establishments. These Chinese shall keep watch on all the activities and intrigues of the Japanese, and shall report confidentially in due course either to the Party or to the Fight Japan Society.

"2. All the Party Committees and Fight Japan Societies shall detail their chief leaders to form secret committees of investigation, in order to collect information and watch over all the activities of the Japanese.

"3. Those entrusted with the service of committees of investigation shall be responsible for keeping watch on all meetings, and shall seek out undesirable characters and arrest them.

"C. *Propaganda.*

"1. All Party Committees and Fight Japan Societies, in conjunction with the people's groups, shall organise propaganda sections to deliver lectures and distribute propaganda articles.

"The Higher Committee in each place shall state, by secret order, the main lines of the propaganda to be carried on.

"2. The propaganda sections will write plays and form modern theatrical companies and companies of lecturers in disguise. It shall be the duty of these propagandists to enact scenes of Japanese violence in China, in order to impress the masses.

"D. *Information.*

"1. All the Party Committees and the Fight Japan Societies shall have an information service which will be responsible for correspondence.

"2. The information service shall report in due course to the Higher Committee on the activities in each place.

"3. The information service shall collect all possible information as to anti-Japanese activities in each place, and shall publish such information in the Press in order to attract public attention."²

The societies thus established, which are to be found in all the larger ports, cities and trading centres, usually include the local party leaders as well as representatives of commercial and industrial groups and of labour unions. At the same time, the Federation of Chambers of Commerce of China, the General Federation of Postal Workers of Shanghai, and various student organisations were supporting the movement which, organised in this way, made itself felt throughout the whole country. The Chinese communities all around the Pacific, and more especially those in the South Seas, have equally been lending their material and moral support, and, according to various sources of information, they often show even more patriotic zeal and spirit of sacrifice than their countrymen at home.

¹ Translated from the Chinese.

² See page 230, Section IV, of the present memorandum for confidential orders issued by the Executive Yuan to the provincial and municipal authorities when communicating to them the plan of action mentioned above.

*The first six months of the boycott
(July to December 1931).*

As pointed out already, the boycott rules which are being applied during the present movement seem to be more thorough and complete than on any previous occasion, aiming, as they do, at a complete severance of economic relations with Japan, and enforcement is more rigid than has ever before been the case. A vivid description of the way in which the movement was started and conducted during the first six months has been given by an authoritative observer of unquestionable reliability in the following words :

“ The anti-Japanese boycott at Shanghai had begun even before the events in Manchuria. At the beginning of July, as soon as the Korean and Wanpaoshan incidents were known, delegates representing some thirty commercial organisations had met at the Chinese Chamber of Commerce and formed a committee, which has remained the directing organ of the Anti-Japanese Association. This committee included nine representatives of the local Tangpu (local Kuomintang Party office), eight representatives of business firms, eight workers' representatives, and a number of trade-union delegates. The avowed object of this movement was the destruction of Japanese trade as a measure of reprisal for the massacres on the Korean frontier. As far back as August, pickets of inspectors began to confiscate goods of Japanese origin in the Shanghai region, inflicting fines on the Chinese traders who were selling them. The local authorities made no attempt to stop them, but did not take a really active part in the growing movement.

“ Then came the Japanese surprise attack on Mukden. The Committee of the Anti-Japanese Association met on October 3rd, and, in agreement with the members of the Chinese Chamber of Commerce, adopted measures against Japanese trade which were very much stricter and more far-reaching than those that had hitherto been ordered. It was forbidden to all Chinese to buy, sell or convey Japanese goods, no raw materials might be supplied to Japanese industry, no Japanese vessel might be used to carry Chinese freight or passengers, Japanese currency was to be refused everywhere, no transactions were to be allowed with Japanese banks, and no more work was to be done by Japanese workers. Hundreds of inspectors were specially told off to exercise very strict supervision over goods unloaded at stations and on the quay. Varying penalties were provided for breakers of the orders : public admonitions, confiscation of goods, and fines in cash or in kind.

Attitude of the Chinese courts.

The same author states that the pickets of the Anti-Japanese Associations patrolled the whole town of Shanghai, even the Foreign Settlements, molesting on various occasions Chinese merchants rightly or wrongly suspected of selling or having in stock Japanese goods. He adds that the association even went so far as to imprison on the territory of the International Settlement, and to keep prisoner in their offices, Chinese merchants accused of “ treason ”. It took the municipal police some time before they were able to stop these illegal boycott methods. In doing so, the police were handicapped by failure to receive sufficient support from the Chinese district court. In November, four officials of the anti-Japanese Association, one being the secretary and the three others inspectors, were brought before the local court of the First Special Administrative District of Shanghai, charged with robbery by the Louza police-station. The judgment given in this case is to be found in the memorandum on the boycott submitted to the Commission by the Chinese Assessor. According to this judgment, the facts were the following :

“ On November 22nd, 1931, this association (the Anti-Japanese and National Salvation Association) received two letters giving the information that a certain Tang Chun-huo is secretly selling in his premises, the Ta-Ching Gauze store, located in No. 1 Chung-Sin Li, Ningpo Road, Japanese gauze under the name of *Kuo Huo* (national product), etc. Ko Yun-ting and the others, along with four coolies, whose whereabouts until now are still unknown, went to the above-mentioned store and seized eleven bundles consisting of 200 pieces of oblique-striped cloth under the trade-mark of ‘ Ten Beauties ’ manufactured by the Shin-Chuen factory in Woosung. These were transported to the General Chamber of Commerce in Shanghai for examination. Le Chai-foo and Wu Ju-kang, employees of the store, tried to stop them, but in vain, whereupon Wu-Ju-kang notified the police. The defendants were arrested when they were filing the receipts of the goods. They were being prosecuted under Article 348 of the Criminal Code.”

The judgment then explains that, for legal reasons, the robbery charge could not be sustained against the defendants, considering that their act had not brought any profit to them or to any third person. Consequently, they were found guilty on the grounds that they “ resorted to violence and intimidation which endangered personal rights and freedom ”. “ But ” says the judgment, “ leniency should be granted to the defendants because they committed a crime due to the over-expression of patriotism and because every one of them has legitimate business and has never been arraigned in the court before ”. For this reason, they were fined 20 Mexican dollars each, or one day in prison to three dollars for the fine. Because of the considerations just mentioned, the penalty was deferred, however, for two years.

A judgment of this kind is characteristic of the attitude adopted by Chinese courts in cases of this type. In this connection, the Chairman of the Shanghai General Chamber of Commerce,

Mr. H. W. P. McMeeking, in his speech at the annual meeting of the Chamber held on March 15th, made the following remarks :

“ The Shanghai provisional court has continued to be the subject of adverse criticism both from the local municipal authorities and from merchants . . . the Shanghai municipal council being prevented on several occasions from obtaining convictions in cases of flagrant breaches of the Criminal Code, while in a number of cases where convictions were obtained punishment of offenders was considered to be quite inadequate. The court has been constantly subject to Chinese political, military, and civil interference, and its repeated failure to render justice was undoubtedly a further contributory cause of the Sino-Japanese trouble.”¹

The situation in other parts of China and amongst the Chinese communities abroad.

Such, during the summer and autumn of 1931, was the boycott situation in Shanghai, where the movement had originated and from whence it had spread to other cities and ports. Subsequent to the incident of September 18th, a similar movement occurred in the Peiping-Tientsin district, and was zealously carried forward. The movement showed itself particularly effective in the Yangtze Valley with Shanghai and Hankow as centres. In South China, the movement was also strongly felt, especially after September 18th. In North China, the boycott was far less effective with the exception, as just mentioned, of the Peiping-Tientsin district. A strong anti-Japanese movement was started by the students in this district, but, as in the case of previous boycotts, the movement had little effect in Shantung, for reasons which it is not easy to establish. According to information from Chinese sources, the population of this province is still so much intimidated by the use of Japanese military force that they dare not openly participate in any anti-Japanese agitation. The Japanese, on the other hand, claim that “ an outward calm was maintained through the suppressive measures taken by the provincial authorities ”, which is probably correct, and should be explained by certain internal divergencies in Chinese national politics. It should be noted that the two contentions just mentioned do not necessarily conflict, and that in both of them there is probably some truth. With regard to Chinese communities abroad, the Japanese Assessor pictures the situation as follows :

“ Chinese abroad, among whom little anti-Japanese spirit had been noticed previously, began to be active after the outbreak of the Manchurian incident. Among the Chinese colonies in foreign countries, anti-Japanese agitations first appeared at Bangkok and Singapore, and subsequently extended to Rangoon and Batavia. But, thanks to the control exercised by the local government authorities, they did not grow serious except at Singapore and Rangoon. In North America, an agitation against Japanese occurred at Vancouver at the end of September, obliging some Japanese merchants to suspend their business ; while, at San Francisco, Chinese business men put up an exhibition of samples of Japanese goods to further the boycott of them, and at Chicago an anti-Japanese demonstration was held by Chinese residents. Many Chinese communities abroad sent telegrams to the Nanking Government, urging them to declare war on Japan, and a great number of Chinese have returned home.”

The rules of the boycott.

As far as the rules of the present boycott are concerned, the Japanese Assessor gives a summary of them in his document “A”, “ The Present Condition of China ”. When asked to supply the Commission with a copy of these rules, the unofficial reply received from the Chinese Assessor's office was to the effect that such a document did not exist, and that the summary prepared by the Japanese Assessor had been pieced together from fragments of resolutions adopted by different boycott organisations. The summary mentioned runs as follows :

“ (a) Not to purchase, use, or carry Japanese goods ; (b) not to patronise Japanese banks, ships or warehouses ; (c) not to offer labour or service to Japanese ; (d) not to supply foodstuffs or daily necessities to Japanese, and not to maintain social intercourse with Japanese. In other words, these rules aim, not only at the prohibition of business transactions with Japanese, but at cutting off Japanese from social contact and food supply in order to make it impossible for them to remain in China.

“ As a means of putting into practice the above rules, the society (a) conducts registration of Japanese goods, collecting fees therefor, and sends out the Inspection Corps for the inspection and seizure of Japanese goods ; (b) by intimidation, forces Chinese in Japanese employ to leave or go on strike ; (c) obstructs the communication and traffic and the delivery of goods, not only between Chinese and Japanese, but between Japanese themselves ; and (d) punishes the violators of the rules by confiscation of goods or property, by fines, by parading them on the streets, exposing them in a wooden cage, or by other brutal treatment.”

There is no reason to doubt that the statement made by the Chinese Assessor's office as to the absence of one uniform set of boycott regulations is correct ; on the other hand, the summary given by the Japanese Assessor may be taken as fairly representative of the resolutions

¹ A similar complaint was made by General MacNaughten in the ratepayers' meeting of the International Settlement of Shanghai on April 13th, 1932.

adopted by the different boycott associations. These resolutions of the different associations, for reasons of tradition, experience and co-ordination by the Kuomintang, are very similar to each other.¹

Propaganda was being spread by means of meetings, placards, handbills, etc.; while intelligence bureaux were established for collecting and disseminating information concerning the anti-Japanese movement. Furthermore, investigation was to be carried out for the purpose of the boycott into particulars of Sino-Japanese economic relations (see plan of action already quoted on page 28). Samples of the posters used were shown to the Commission by the Japanese Assessor and by various other people of different nationalities who had collected copies for the sake of curiosity. They are often of a violent character, as may be expected in the present state of tension which has arisen between the two countries, and well calculated to inflame the anti-Japanese feelings of the man in the street. At the same time, slogans were posted everywhere over China, and were even printed on bank-notes. Typical examples of these slogans are the following :

“ Those who buy Japanese articles with this note are either inhuman or cold-blooded.”

“ Die for your country rather than buy Japanese articles.”

“ Anybody who buys enemy articles shall lose his sons and have his grandchildren made extinct.”

“ Act upon your own conscience and don't buy Japanese articles with this note”.

“ Those who buy Japanese articles with this note shall ultimately meet with ill-fate ; a man will be forced to join brigands and a woman will become a slavish prostitute — and their grandfather will die and their mother will marry another man.”

“ Those who buy Japanese articles shall be sworn as fatherless.”

Various boycott methods.

A powerful means of carrying on the boycott is the compulsory registration of Japanese goods held in stock by Chinese merchants. Inspectors of the anti-Japanese societies watch the movement of Japanese goods, examine goods of doubtful origin in order to ascertain whether they are Japanese or not, undertake raids on stores and godowns where they suspect the presence of non-registered Japanese goods, and bring to the attention of their principals any case of violation of the rules they discover. Merchants who are found to be guilty of such a breach of rules are fined and publicly exposed to popular disapproval, while the goods in their possession are confiscated and sold at public auction, the proceeds going into the funds of the anti-Japanese organisations.

As will also be seen from the rules quoted above, and from the document Annex A to this Section of the Memorandum, the boycott does not limit itself to trade only. Chinese are forbidden to travel in Japanese ships, to use Japanese banks or to serve Japanese in any capacity, either in business or in domestic service. There is evidence indicating that those who disobey these orders are open to various forms of disapproval and even molestation. As during previous boycotts, students are amongst the warmest supporters of the movement, with the more directly interested people, such as merchants, bankers, and so on, co-operating to an extent that is difficult to ascertain. It is evident that many of them, either through a spirit of patriotic sacrifice or under more or less strong pressure, are ready to accept losses in their business and even serious damage ; but there is also evidence to the effect that, when this damage goes beyond a certain limit, they insist on a relaxation of the boycott, with the result that certain rules are either temporarily not enforced or applied with less severity.

Another special feature of this boycott, which has been noted already on previous occasions, and which is again in evidence this time, although it is too early to judge the effects produced, is the tendency, not only to do harm to Japanese economic interests, but to further Chinese industries by attempting to produce certain articles which until now have been imported from Japan. This seems to have resulted more particularly in an extension of the Chinese textile industry at the expense of Japanese-owned mills in the Shanghai area, which have remained idle for quite some time. On the other hand, it would be an error to think that the boycott organisation has succeeded in severing completely economic relations between the two countries. Not only have Japanese goods been coming in, in a clandestine or roundabout way, but the boycott rules themselves allow a certain latitude for the import of those Japanese commodities which cannot be easily replaced from home supplies — as, for instance, coal. Consequently, the import of this commodity was not altogether stopped, but an attempt was made to reduce it to a minimum (see document B, quoted on page 231 of this memorandum).

On the other hand, the export of Chinese commodities to Japan was equally governed by certain boycott rules ; but, as is known from experience in the past, this part of the movement is only of secondary importance.

Notwithstanding the fact that the Kuomintang had prescribed that no violence should be used (see Plan of Action quoted on page 218, Section “ Direction ”, Article 4), it is clear that a movement of this kind, which is conducted in an atmosphere of great national excitement, cannot be carried through without a certain amount of violence taking place. There is evidence of several cases of this kind, many Japanese residents, especially in the Yangtze Valley, finding

¹ At a later stage of the enquiry, the Chinese Assessor's office handed, unofficially, to the Commission a document entitled “ The Organisation of the Shanghai Anti-Japanese Association ” and which will be found annexed to this section as Annex A.

it safer to leave their homes. In doing so, they may have been moved also by the consideration that, in the absence of business, it did not pay to stay. On the other hand, it should be noted that, as far as it has been possible to ascertain, there have been no cases of loss of Japanese lives, although a certain number of Japanese residents have suffered physical hardship.

During the negotiations which took place in Shanghai between Japanese and Chinese prior to the incident of January 28th, the Chinese authorities had promised to dissolve the local anti-Japanese society, and this promise was actually carried out.

The situation in Shanghai during the summer of 1932 ; Japanese declarations.

In the course of an enquiry carried out on the spot during the month of July amongst Chinese, Japanese and foreign merchants, bankers, and people in various official capacities, the Japanese contended that China was doing very little at that moment to suppress boycott activities, which were going on almost as effectively as ever, having slackened only for a brief interval during and following the Shanghai truce. The boycott was no longer carried on as openly as had been the case before — that is to say, no longer were Chinese merchants who had dealt in Japanese goods paraded along the streets ; no longer were goods of Japanese origin openly seized, or fines imposed for holding such goods ; no longer were anti-Japanese posters exhibited in towns ; but, according to the Japanese, the boycott was carried on subterraneously, and, if not with the connivance of the officials, at least without their interference.¹ The methods now used were of quite a different type, such as threatening letters and set time-bombs, which were sent to Chinese merchants suspected of dealing in Japanese goods. Reports to the same effect appeared in the newspapers about that time — for instance, by the end of July the following telegram emanating from the Chinese Press Agency, Kuo Wen, appeared in a great number of Chinese newspapers :

“Shanghai, July 28th. — One shop-assistant was wounded and the establishment partly ruined to-night when a bomb was thrown into the Yung Chang, a coal-dealer's compound, in Shanghai, by a person or persons opposing the action of the proprietor in handling Japanese goods. Supporters of the boycott movement are sending a warning to other dealers in Japanese goods, threatening similar action against them.”

Another newspaper report which was published during the first week of August gave the following text of a threatening letter having been received by two large Chinese retail stores in Shanghai :

“Your stores are the biggest retail stores in Shanghai. The success of Chinese trade depends on you, but, instead of serving national interests, you are serving the Japanese by putting Japanese goods on sale. We give you a week to remedy this state of affairs, and order you to publish a notice in the local Press informing the public that in future you will cease to offer Japanese goods for sale.

“A week from now, we shall send delegates to your premises to ascertain whether you have obeyed our orders, failing which we shall blow up your premises.”

Similar letters are reported to have been sent also to the owners of other shops. Other means of anti-Japanese propaganda were articles in the Chinese Press, urging readers not to buy Japanese goods, and circular letters to the same effect, the recipient being urged to send out copies to his friends. Annex B to this Section is a reproduction of such a letter. There were even indications of a revival of more direct anti-Japanese measures. For instance, a newspaper report, also dating from the beginning of August, stated that the Coal Merchants' Guild in Shanghai had decided to restrict to the utmost minimum the import of Japanese coal. Evidence was given by two foreign firms to the effect that, in the Yangtze Valley, Chinese officials were still more or less openly interfering with the sale of Japanese goods. It was felt in Japanese circles that, if this interference came to an end, and if anti-Japanese societies would really stop threatening and intimidating the people, there would be little difficulty in selling Japanese goods, particularly with the low yen rate of exchange tempting buyers at that moment. These Japanese evidently felt, as practically all Japanese were found to do in the course of the enquiry, that there was no large body of Chinese who, out of patriotic motives, would refrain from buying Japanese goods. Some of these Japanese believe that, if a feeling of this kind existed, it was rather to be found amongst the Chinese abroad than amongst the Chinese in China Proper — a statement which is, to a certain extent, in conformity with reports received from other sources to the effect that the Chinese communities in the South Seas show considerable patriotic zeal and are regularly remitting considerable sums for the support of the Nationalist movement in general, while at the same time they are particularly active in helping to carry out the boycott. It should be noted that, among these communities, the Kuomintang has the same influence and plays the same part as in China Proper. It is also reported that, in communities abroad, Government officials have had serious difficulty in suppressing illegal boycott methods.

The Commission was furthermore told by Japanese shipping firms that neither river nor ocean vessels operated by Japanese companies received any cargo consigned to Chinese merchants, or carried Chinese passengers in any considerable number, which was felt to be proof that the boycott was going on as strongly as ever. Some Japanese merchants stated that they

¹ There is reason to believe that this change in methods was definitely planned.

had been able, during the period of boycott relaxation, to sell a little cotton yarn, piece-goods, iron and coal to the Chinese, and that some Japanese goods were again coming to Shanghai. At the same time, they complained bitterly about the damage done by vermin and the like to goods which had been lying for months in the godowns, much of which had considerably diminished in value. As a whole, they felt very pessimistic on the prospect of a Japanese business revival in the immediate future.

According to a statement made by the Japanese Consul-General, twenty-one out of 125¹ Japanese-owned factories in and near Shanghai had resumed operations on a part-time basis. The factories re-opened included all of the twelve Japanese-owned cotton-mills. Curiously enough, those mills had no difficulty in employing Chinese labour, the explanation being given that, if the anti-Japanese organisations prevented large numbers of Chinese from taking employment in the Japanese-owned mills, the organisations would then have to provide food and other necessities of life for these people. Under these circumstances, the organisations apparently preferred to allow their compatriots to work for the Japanese. The Japanese mill-owners did not experience any difficulty in recruiting labourers nor had they any difficulty with them subsequently.

Declarations by Chinese.

Chinese, on the other hand, who were asked for information on these points took a different attitude, contending that, although the boycott had been virtually called off, as far as Shanghai and the neighbourhood were concerned, the Chinese masses voluntarily refused to buy Japanese goods, notwithstanding the very tempting prices. The Kuomintang and the anti-Japanese associations, these Chinese said, no longer need coerce and intimidate the people, considering that the Chinese masses no longer cared to deal in or consume Japanese goods. Other Chinese stated, however, that the abstention of buying Japanese goods was rather due to the enormous unemployment and the poverty-stricken plight of the Chinese masses, which had very considerably reduced the demand for any goods — native, Japanese, or of other foreign origin. What the Japanese considered as a subterraneous continuation of the boycott was contended by these Chinese to be simply the result of a widespread depression.

Again, other Chinese claim that considerable quantities of Japanese goods were actually moving, and the failure of trade returns to definitely reflect this was due to the large godown stocks available for distribution. It was pointed out by some of these Chinese that the opportunity of buying very cheap goods, which under the present circumstances are more than ever of Japanese origin, constitutes a temptation which far outweighs any patriotic inclination the Chinese masses may have.

Most of the Chinese informants were willing to admit that trading in Japanese goods was not altogether "respectable", and that, as a pure business proposition, it was probably not wise to have it known that one dealt in them. No Chinese who was questioned admitted using or selling Japanese goods knowingly, although all of them thought that some other Chinese were doing so. Some even intimated that "pressure" was still being exerted against their dealing in Japanese goods.

Declarations by foreigners.

Amongst the foreigners questioned for the purpose of this enquiry, there was a considerable difference of opinion concerning various aspects of the boycott movement. On some points, however, there was practical unanimity. They all felt that, at the outset of the boycott, certainly, the agents of the Kuomintang and of the special organisations waging the anti-Japanese campaign had gone decidedly beyond the limits of the law, and that they were highly irregular in their methods of searching, intimidating, detaining, confiscating, arresting, fining, and imprisoning their compatriots suspected of having broken the rules of the boycott. Many examples of this were quoted, and even those foreigners most sympathetic with the Chinese cause felt unable to defend these extra-legal practices.

There is considerable evidence to show that, at the beginning of the boycott at least, there had been a certain amount of "racketeering". In many instances, it was reliably stated that releases for illegally confiscated goods were obtained by using the well-known method of "squeeze". In other instances, of which examples were given by reliable people, it was stated that agents of boycott associations had blackmailed Chinese as well as foreigners to pay fines under threat of publicly exposing the fact that they were dealing in "enemy" goods. In one instance of this nature, the fact was brought to light that certain British and French firms had been selling Japanese cotton piece-goods for European merchandise, and, rather than have this fact publicly announced, these firms, it was told, consented to pay fines. It is evident that, in a case of this kind, the distinction between "fine" and "squeeze" is not very sharply drawn. Another point on which foreigners agree was that, during the month of July, Japanese goods were moving, although it was impossible to indicate the volume of these transactions. For the most part, these goods consisted of commodities which cannot easily be identified with their Japanese origin — as, for instance, coal, iron, and cotton yarn.

There was a considerable difference of opinion amongst the foreigners as to why Chinese were not buying Japanese goods in great quantities, as might have been expected, considering

¹ The Japanese Assessor's document "A", "The Present Condition of China", gives the number of Japanese factories at Shanghai as 157, including 96 within the International Settlement and French Concession, and 61 outside of them. The total number of Japanese and Chinese employed by these factories, according to this document, is about 2,600 and 72,400 respectively. The number of Japanese spinning-mills at Shanghai is given at 21.

their unusually low price. At this same moment, the Osaka Chamber of Commerce also confirmed that the depreciation of the yen did not seem to tempt Chinese buyers.

A good many foreign observers in Shanghai felt that the Chinese masses had gradually taken such a thorough dislike to Japan that nothing will tempt them to buy Japanese goods, and that this feeling will continue for a long time. Other foreign observers felt, however, that it was only because of intimidation and punishment via underground channels that the Chinese refused to buy Japanese goods. These latter foreigners evidently shared the opinion of the Japanese quoted previously — that, once the boycott was actually lifted, the Chinese masses would again take to buying Japanese goods.

The foregoing is the result of enquiry conducted on the spot and in the course of which every means was used and every precaution taken to approach the true situation as nearly as possible.

Annex A.

THE ORGANISATION OF THE SHANGHAI ANTI-JAPANESE ASSOCIATION.

At the first meeting of the Shanghai Anti-Japanese Association, held on July 17th, 1931, four general principles concerning the boycott of Japanese goods were adopted :

- “ (a) To withdraw the orders for Japanese goods already ordered ;
- “ (b) To stop shipment of Japanese goods already ordered, but not yet consigned ;
- “ (c) To refuse taking Japanese goods already in the godowns, but not yet paid for ;
- “ (d) To register with the Anti-Japanese Association Japanese goods already purchased and to suspend temporarily the selling of these goods. The procedure of registration will be separately decided upon.”

At the third meeting of the Anti-Japanese Association, held on July 28th, 1931, the following principle for the boycott of Japanese goods was adopted :

“ Japanese goods must be boycotted permanently, but, in the case of raw materials which are absolutely needed for the development of industrial enterprises and if there are no other materials which can be used to substitute them, the management of the factories should make a detailed report to the Association as to the name, kind and quantity of Japanese goods needed. Materials which have been already ordered must be registered with the Association ; those which are going to be ordered must also be reported beforehand to the Association. A definite period of time shall be fixed for the guild of the said industry to devise ways and means for the establishment of factories in order to manufacture the products so needed and to decrease the consumption of the imported materials.”

At the fourth meeting of the Anti-Japanese Association, held on July 29th, 1931, the following methods of dealing with the Japanese goods were adopted :

“ A. There are three steps in dealing with Japanese goods :

“ (1) The merchants who ordered and paid for Japanese goods before July 14th, 1931, must register with the Association within the period of registration. At the expiration of the period they will be given permits for the selling of their registered goods, and no fee will be collected ; but those who bought and paid for the Japanese goods before July 14th, and try to sell them without having them properly registered beforehand shall, if discovered, be fined 10 per cent of the value, as contribution to the fund for anti-Japanese activities and for the subsidy of the Chinese victims of the Korean riots, in addition to making up for the registration.

“ (2) The merchants who ordered and paid for Japanese goods from July 14th to 24th inclusive shall be required to register with the Association within the period of registration. At the same time of registration, 10 per cent of the value of the goods shall be collected toward the fund for anti-Japanese activities and the subsidy of overseas Chinese. At the expiration of the period of registration, permits for selling the goods will be issued. Those who ordered and paid for Japanese goods after July 14th and before July 24th, trying to sell them without having registered beforehand, shall be fined double amount if discovered by the Association, as contribution to the fund for anti-Japanese activities and the subsidy of overseas Chinese, in addition to making up for the registration.

“ (3) Japanese goods purchased after July 24th shall be confiscated upon discovery. Goods purchased before July 24th without proper registration with the Association shall be also confiscated upon discovery.

“ B. After Japanese goods are registered, they shall be stored in godowns designated by the guilds concerned, which shall officially request the Association by letter to examine and check the goods thus stored, in co-operation with the Chinese Chamber of Commerce. Every article shall be stamped authorising the owner to sell. In case the goods are for export, a request shall be addressed by the guild concerned to the Association

for a pass. That pass is to be stamped by the Association and the Chinese Chamber of Commerce as a means of checking. Upon the arrival of the goods, the consignee shall report to the local anti-Japanese association and the Chamber of Commerce for examination and registration. If the goods are found without being properly stamped, they shall be detained and confiscated for the fund for anti-Japanese activities and the subsidy of overseas Chinese.

“ C. Goods which have already been registered shall be stated clearly as to their trade-mark, number and godowns in the columns for that purpose.”

The above-mentioned methods have not undergone revision since their promulgation. Upon the outbreak of the incident of September 18th, 1931, the Shanghai Anti-Japanese Association, in order more effectively to help the Chinese victims of the Korean riots, called a meeting in the Chinese Chamber of Commerce, attended by representatives of different organisations, to extend the scope of the anti-Japanese movement, and the name of the new organisation is called the Anti-Japanese Salvation Association of Greater Shanghai.

Annex B.

EXAMPLE OF ANTI-JAPANESE CHAIN LETTER.

The following advertisement, entitled “ The Anti-Japan Chain ”, appeared in a vernacular newspaper (*Ching-Pao*) on July 27th, 1932 :

“ To my enthusiastic and warm-blooded countrymen and comrades :

“ Dr. Sun Yat Sen said that China could be conquered every day by Japan if the latter would rush in. Now the Japanese imperialists have taken steps to conquer China. We must quickly devise various measures for the persistent resistance against Japan's aggression, and resolve on oath that :

“ (1) We will never buy any Japanese goods ;

“ (2) We will never sell any goods to Japan ;

“ (3) We determine to revenge and to wipe away our humiliation ;

“ (4) We unite ourselves with one mind and one heart in severing our relations with Japan.

“ The above-mentioned oath should be carried into effect faithfully and you should send without delay nine copies of the same within twenty-four hours to your well-acquainted friends. Bad luck and calamity will be brought upon you if you fail to do so.

“ *Comment.* — We know that Japan is our everlasting enemy and that the economic severance with her is the only way to strangle her. Unfortunately, the Japanese trade in China has been recently promoted from the third position to the first. It grieves us to notice that, despite the fact that we constantly declare boycott against Japanese goods, her trade in China has been increasing more rapidly than the time when the *Manchuria incident* had not yet happened. After having occupied Manchuria the Japanese now attack Jehol. We doubt much as to whether those whose hearts have been dead would come to life again or not. Although this *Anti-Japan Chain* may seem superstitious, yet it serves properly as a strong stimulant. We expect that our readers will act up to the *Chain* and, if everybody acts like that, it is not impossible for us to reach after our aim of fighting down Japan. This is our chief purpose in introducing this *Chain* to you.

CHANG I WEI. ”

Section IV.

THE QUESTION OF RESPONSIBILITY.

The question whether the boycott as a weapon of retaliation is admissible in time of peace is extremely controversial. This is so much more the case in connection with the present Sino-Japanese dispute, as the Chinese boycott against Japan has never been officially proclaimed by act of Government. But even if this were so, in case the boycott was carried out with methods remaining within legal bounds, and if it could be proved beyond doubt that irregular methods were properly suppressed by the Chinese authorities, there would still remain to be solved a problem of international law, on which very different and even opposing opinions would probably be expressed. In the circumstances in which the present boycott issue has presented itself to the Commission of Enquiry, the purely legal issue seems inextricable, and, moreover, it may be questioned whether any useful purpose would be served by examining the question from a theoretical point of view. On the other hand, a study based on the organisation of the boycott and the way in which it is virtually carried out will do more to clarify this burning issue than lengthy and complicated legal considerations. For this purpose, it is necessary to state, first, the contentions of the two parties as to the fundamentals of the case, then to compare these with the analysis of the facts as they have appeared in the course of the enquiry.

The Japanese contention.

The Japanese contention, as it was brought to the notice of the Commission, is to be found in the Japanese Assessor's document "A", "The Present Condition of China", Appendix 7, and the "Foreign Boycott in China", where, in a memorandum sent by the Japanese Government under date of October 8th, 1931, to the Chinese Government, the following statement is made :

"It is to be noted that the anti-Japanese movement in China is conducted as an instrument of national policy under the direction of the Nationalist party, which, in view of the peculiar political organisation of China, is inseparable from the Government. That movement must therefore be clearly distinguished from one which originates spontaneously amongst the people. It is therefore evident that the present anti-Japanese movement in China is not only in contravention of the letter and spirit of the treaties existing between the two countries, but constitutes a form of hostile act without use of arms contrary to all standards of justice and friendship. The Chinese Government will be assuming a very serious responsibility if they should fail to take prompt and effective measures to quell that agitation. Moreover, in meting out penal sentences to individual citizens, the anti-Japanese organisations are clearly usurping the authority of the National Government."

The Chinese contention.

The Chinese contention, as expressed in a reply given to the Japanese memorandum just quoted, is that the Chinese Government confirms :

" . . . to have imposed a rigorous discipline upon the nation in order to ensure in every respect the protection of the persons and property of Japanese residents in the Chinese territories under Chinese administration."

The Chinese reply then goes on to say :

"The world is indeed surprised to see that the Chinese people in their indignation have not gone beyond merely refusing to buy Japanese articles. The liberty of choice in making purchases is a personal right which no Government can interfere with. While the Governments are responsible for the protection of foreign lives and property, they are not required by any commonly recognised regulations and principles of international law to prohibit and punish the exercise of an elemental right of every citizen. If responsibility lies anywhere in this matter, it must rest entirely with the Japanese Government, since the Wanpaoshan incident had, through a number of unfriendly acts, created a general aversion to Japanese merchandise."

In conversations which the Commission of Enquiry had with a representative of the Chinese Government, this point of view was brought out with even more force, the spokesman of the Government expressing himself on one of these occasions as follows :

"The boycott has been a last resource when all others had failed ; but we have been driven to it as we have been before. . . . We use this weapon very reluctantly, because it is we who suffer from it. . . . The Government cannot restrict this movement so long as persistent attacks lead to the destruction of Chinese lives and property. The Government will not interfere with the private and voluntary undertaking of Chinese citizens not to buy any Japanese goods. It would, of course, however, intervene as soon as any illegal action, or acts of violence, took place, or if property were seized simply because it was regarded as Japanese. . . . The voluntary decisions not to trade with Japanese merchants have varied according to the methods taken by different Chinese Chambers of Commerce. Cases of actual violence have been very rare, even when the property involved belonged to the Chinese merchants."

In reply to a question whether it would be regarded as lawful to seize goods in the hands of Japanese merchants, the spokesman of the Chinese Government replied :

"In such a case, punishment would follow, and the goods would be returned."

In reply to another question whether Government officials and departments have issued instructions that Japanese goods should be boycotted and the use of Japanese ships avoided, the reply given by the same spokesman was to the effect that :

" . . . the Government had issued no such orders : members of the Kuomintang may possibly have done so."

From these quotations, it appears clearly that the attitude of the Chinese Government has not fundamentally changed since the reply given in 1905 by Prince Ching to the United States Government in connection with the boycott then going on against American goods, which was quoted on page 213 of this memorandum.

To understand clearly the Chinese thesis, particular mention should be made of a point which seems essential in the present issue, and which has been brought forward in the conclusions of the document on the boycott submitted to the Commission by the Chinese Assessor, stressing the declarations mentioned above by the spokesman of the Chinese Government :

(a) That the boycott of Japanese goods . . . is pursued, generally speaking, in a legitimate manner and under a form which does not involve any responsibility of the Chinese Government ;

(b) That the so-called irregular activities manifested in the course of the boycott do not always involve this responsibility.

The impression gained in the course of the enquiry : The boycott : Organisation.

These are the two opposing contentions. When examining them in the light of the facts as they have appeared to the Commission and as they have been exposed in the foregoing sections of this memorandum, it is difficult to admit or to reject fully either one or the other of them. It rather appears that both contain elements of truth, while both are partially based on misinterpretation of these facts. This applies as well to the organisation of the boycott as to the methods employed.

With regard to the organisation, it is impossible to deny that, at the bottom of the present boycott, as in the case of the preceding movements, there is an impulsive outburst of popular feeling against Japan, or some other foreign Power, caused by certain incidents or issues of a political nature.

Until 1925 — or, anyway, until 1928 — popular outbursts of this kind used to be organised and directed by students' unions, guilds, chambers of commerce and labour unions who, under the influence of nationalist propaganda, acted together in more or less loosely-organised associations, using methods derived from the old guild practices as described in the first section of this memorandum. There are indications that, while the students and labour unions were generally moved by nothing else than patriotic feelings, the guilds and chambers of commerce, though sharing the popular indignation, found a certain interest in participating in the direction of the movement for the purpose of controlling it.

It is evident, on the other hand, that, to begin with the boycott of 1925, and, quite clearly, with that of 1927-28, the direction of the movements was more and more centralised in the hands of the Kuomintang, which, as the standard-bearer of Chinese nationalism, quite naturally took the lead in a movement which had proved itself so suitable and effective in the particular circumstances of China to be used as a national weapon of defence against foreign Powers.

In doing so, the Kuomintang did not dismiss the associations which, up to that moment, had been responsible for the local direction of boycott movements. It rather co-ordinated their efforts, systematised and made uniform their methods which essentially remained the same, and put unreservedly behind the movement the moral and material weight of its powerful party organisation. Having branches all over the country, possessing vast propaganda and information services, and inspired by a strong national feeling, it rapidly succeeded in putting organised vigour into a movement which, up to that moment, had been often erratic and decentralised. It naturally followed that, simultaneously, the coercive authority of the boycott leaders over their adherents and over the Chinese public at large became stronger than it had ever been before, although a fair margin of autonomy and initiative was left to the individual boycott associations (see, in this connection, the instructions issued by the Central Executive Committee of the Kuomintang to its local party offices and reproduced on page 218 of this memorandum).

The methods employed.

As regards methods employed by the present boycott organisations, it is difficult to agree with the Chinese thesis that, generally speaking, the "boycott is pursued in a legitimate manner". This would imply that, in a general way, the boycott was carried out within the bounds of law. And although it cannot be doubted that this is true to a great extent as far as the general public is concerned, there is also abundant evidence to prove that irregular methods have been used in a great many cases, especially with regard to merchants who were suspected of dealing in or having stocked Japanese goods in secret. At the same time, it is not surprising, in the circumstances, that the Chinese authorities, and especially courts and tribunals, have not succeeded in properly suppressing the irregular methods applied by the boycott associations and their agents. It should not be forgotten that, with a few exceptions, officials and magistrates also belong to the Kuomintang, and are inspired by its ideals. The leniency shown in the sentence quoted on page 219 may be taken as characteristic of this state of mind.

Thus the description given in the document "A", Appendix 7, submitted to the Commission by the Japanese Assessor, may be safely taken as correct. Evidence given by the witness quoted on page 219 of this memorandum supports the Japanese allegations, and so do a great many declarations made to the Commission by reliable observers, and even by Chinese, none of whom, however, for obvious reasons, care to be quoted. Indeed, there is no need for a detailed enquiry in each case to come to the conclusion that such methods as the cancellation of commercial contracts for no other reason than the declaration of a boycott by a private organisation, accompanied by intimidation, the entering of private houses, godowns and stores for the purpose of seizing goods, forced auctions of these goods, the imposition of fines and other punishments by the boycott organisation, have been frequently used, and the statement quoted on page 220 from the President of the General Chamber of Commerce in Shanghai, supported by many other declarations to the same effect, which, for reasons given above, cannot be quoted, prove that these irregular activities of the boycott organisations were not suppressed by the authorities and the courts to the extent which might have been expected. In this connection, it is interesting to note from the instructions issued by the Central Executive Committee of the Kuomintang to its party offices, which have been reproduced on page 218 of this note, that the only restriction which evidently was imposed

upon the boycott associations consisted in a prohibition to destroy commercial houses belonging to Japanese, or to cause them physical harm. There is no reason to believe, as certain observers have a tendency to do, that this restriction was not seriously meant, but it should be noted, on the other hand, that, in the passion of battle, even the authority of the Kuomintang has not always been sufficient to restrain the patriotic zeal of its agents and followers. It should also be noted that this state of affairs cannot be excused by using arguments of a technical legal character. On the contrary, it would have been the duty of the authorities and the courts either to amend the laws on this point or to apply them in such a way as to punish acts which are evidently contrary to principles of sound administration and jurisdiction.

In view of the very strained relations between China and Japan, and the indignation prevailing in educated Chinese public opinion, it is only fair to add that due allowance should be made for the methods employed as well as for the attitude adopted by the authorities and the courts. It should also be pointed out that, in a great many cases — for instance, those of Chinese refusing to serve in Japanese families or to travel in Japanese ships — it is difficult to state precisely whether they have acted under the menace of actual coercion or simply given in to the moral pressure exercised by public opinion surrounding them. But even with these latter considerations in mind, it is difficult to come to another opinion than the one just expressed.

The rôle of the Government.

Considering the problem, not from a legal, but from the practical point of view, the question arises as to what extent the Government can be made responsible for the boycott as practised in China against Japan. This question is more complicated than it would look at first sight, because of the particular constitutional position of the Chinese Government. There is no doubt that, formally speaking, the Government is responsible internally for the maintenance of peace and order and for the application of the law, and in its relations with foreign States for the upholding of treaty obligations such, for instance, as stipulated in the commercial treaties to which it is a party, each time when, as has happened during boycotts, foreign contractually established rights and interests are trodden upon by irregular activities of Chinese citizens.

In this connection, distinction should be made between irregular acts committed directly against foreign residents, in *casu* of Japanese, and similar acts committed against Chinese with the avowed intention of causing damage to Japanese interests. As far as irregular acts of the first category are concerned, there cannot be any doubt that they represent a violation of certain rights established by treaty — such as protection of lives and property, liberty of trade, and others. The Chinese do not contest the Japanese allegation regarding this point, and the boycott associations themselves, as well as the authorities, have been trying to prevent cases of this kind, which, during this boycott, seem to have been less frequent than on previous occasions.

With regard to the second type of irregular activities, the Chinese Assessor observes on page 21 of his memorandum on the boycott :

“ We like to observe, in the first place, that a foreign nation is not authorised to raise a question of internal law. In fact, we find ourselves confronted with acts denounced as unlawful but committed by Chinese nationals in prejudice to other Chinese nationals. Their suppression is a matter for the Chinese authorities and it seems to us that nobody has the right of calling into account the manner in which the Chinese penal law is applied in matters where both offenders and sufferers belong to our own nationality. No State has the right of intervention in the administration of exclusively domestic affairs of another State. This is what the principle of mutual respect for each other's sovereignty and independence means.”

This point of view could indeed be admitted if the Chinese authorities did succeed in suppressing these irregular activities, a thing which, however, is not the case, as we have seen. The truth is rather that irregular practices against Chinese merchants who have broken or are suspected of breaking the rules of the boycott are taking place on such an extensive scale that, as an indirect result, the contractual rights and interests of Japanese residents are constantly violated. Thus a situation arises where acts “ committed by Chinese nationals in prejudice to other Chinese nationals ” virtually renders impossible, or anyway seriously hampers, the normal application of the Sino-Japanese commercial treaty obligations, and, for such a situation, the Chinese Government must be considered as responsible.

The relations between the Kuomintang and the Government.

The real question, however, is to know to what extent the Chinese Government is capable of *assuming* this responsibility. To give a reply to this question, it is necessary to examine the Chinese constitution and, for this purpose, a few quotations will have to be made from a book which appeared in 1930, entitled “ Two Years of Nationalist China ”, by M. T. Z. Tyau, L.I.D. (Lond.), and which, as the author says in his preface, “ has been written with the help of data and information supplied by a great number of members and officials of the National Government ”. This publication may thus be taken as semi-official. In Chapter 2 of this book, entitled “ The Kuomintang ”, the author states that :

“ With respect to the National Government and its predecessor — the Nationalist Government — the Kuomintang has, from the very beginning, assumed a position of direction and control.”

On October 3rd, 1928, the Standing Committee of the Central Executive Committee adopted the "Principles underlying the Period of Political Tutelage", which were confirmed on March 19th, 1929, by the Third National Congress of the Kuomintang. These principles contained, amongst others, the following articles :

"Article 4. — The exercise of executive, legislative, judicial, examination, and control powers shall be delegated to the National Government, so as to lay the foundations for representative government in the constitutional period.

"Article 5. — The direction and control of the National Government in the administration of important State affairs shall be entrusted to the Central Political Council of the Central Executive Committee of the Kuomintang.

"Article 6. — The Organic Law of the National Government of the Republic of China may be amended and elucidated by resolution of the Central Political Council of the Central Executive Committee of the Kuomintang."

In other words, as the author puts it in a comment on these principles :

"The National Government, subject to the direction and control of the Central Political Council, is to exercise the five administrative powers in carrying on the affairs of the State. The line of authority runs thus from the Central Executive Committee of the Kuomintang through the Central Political Council to the National Government. This is clearly stated in another resolution, adopted by the Third National Congress on March 31st, 1929, which reads :

"The Central Political Council of the Central Executive Committee of the Kuomintang, in determining the fundamental policies of the "Period of Political Tutelage" and in guiding the National Government, shall be responsible to the Central Executive Committee of the Kuomintang. The National Government, in executing the political tutelage programme and policies, shall be responsible to the Central Political Council of the Central Executive Committee of the Kuomintang."

But not only does it enter into the competence of the Central Political Council of the Kuomintang to determine fundamental policies to be executed by the National Government ; amongst the functions of this Council as defined by the regulations revised by the third plenary session of the Kuomintang Central Executive Committee on March 4th, 1930, there is also one formulated as follows :

"Selection of the President and Members of the State Council, Presidents, Vice-Presidents, and members of the various Yuan, as well as the other specially-appointed officials of the National Government."

Thus it is clear that, according to the principles of the Kuomintang, this party exercises, through the intermediary of its Central Political Council and also through the intermediary of its Supervisory Council—whose duty it is, amongst other things, to supervise the conduct of "the National Government and see if its policies and record conform with the policies of the party"—a very direct power over the National Government, directing and controlling its policy and nominating its members. This power is only formally curtailed by another stipulation in the regulations of the Central Political Council that it :

" . . . shall not practically issue orders or mandates to carry out political affairs ",

and, by Article 1 of the Organic Law of the National Government, ordained and promulgated by the Kuomintang, which runs as follows :

"The National Government shall exercise all the governing powers of the Republic of China".

These two articles, though apparently restricting the power which the Central Political Council of the party exercises over the Government, do not change the fact that, during the "Period of Political Tutelage" or education, the Government is virtually under the immediate direction and control of the party, its powers having only been delegated to it by the party.

It is not difficult to see that this peculiar constitutional construction, for whatever sound reasons it may have been adopted, tends to create confusion in the field of practical politics. The Government is made constitutionally responsible for certain policies determined — or, anyway, inspired — by the party, but its members can always be impeached and eventually revoked. It results from this situation that, whatever the legal responsibility of the Government may be, its practical responsibility is very limited. So is its power to apply any other policy than those prescribed by the Kuomintang. In matters of boycott, this means that the Government has not a free hand in the suppression of irregular methods employed by the boycott associations or their agents because :

(1) The boycott is not under the direction of the Government, but of the Kuomintang and certain private organisations ;

(2) It may be assumed that, if the Government tried to intervene energetically in an attempt to suppress irregular methods, such as mentioned above, it would clash with the Kuomintang, of which it is an organ ;

(3) The Government is obviously in full sympathy with the Kuomintang and is naturally inclined to help the party in its boycott policy rather than to hinder it.

It is clear, at the same time, that the Government does not like to show too openly the assistance which it has granted on certain occasions to the boycott movement. As a matter of fact, except in certain cases to be mentioned hereafter, its assistance is mostly given in the form of indirect co-operation, of passive sympathy, and of not interfering with the activities of boycott organisations. This also goes to explain to a certain extent the leniency shown by the authorities and the courts in the suppression of irregular activities. On the other hand, there are indications which make it probable that, at certain moments when considerations of general policy make it necessary to let the organisations act entirely on their own account, the Government keeps completely aloof. There seems to have been an instance of this kind at the end of November 1931, and during the month of December. An authoritative observer expressed his impressions on this point in the following words :

“ Towards the end of November, public attention was violently directed to the students' demonstrations which the Canton opposition was organising against the Chiang Kai-shek Government. From that moment, either because they thought it advisable, after the session of the Council of the League of Nations, not to provide too obvious justification for the complaints made in the Japanese notes, or because they realised the danger of encouraging public disorder at the very moment when anti-Government demonstrations were being prepared, which would have to be suppressed, the Chiang Kai-shek Government and the Kuomintang Party appeared to abandon to its own resources the movement started by the Anti-Japanese Association. Indeed, during the month of December, and since the advent of the Sun Fo Government, the boycott has receded into the background of public preoccupations.”

Direct assistance granted by the Government.

On the other hand, documents have been brought to the notice of the Commission of Enquiry by the Japanese Assessor, which indicate that, on certain occasions, the Chinese Government has lent more or less direct assistance to the boycott movement.

A. A first instance of such direct assistance is to be found in the following Secret Instructions issued to all *Tangpus* (Kuomintang Party Offices) for their general guidance in directing actions opposing Japan for the salvation of the country. For secret communication to all subordinate authorities :

“ Confidential Instructions from the Executive Yuan to Provincial and Municipal Authorities, No. 04582.¹

[See footnote.]

“ The Secretariat of the Central Executive Committee has decided upon the programme of action to be taken against Japan under the direction of all the Kuomintang Committees to save the country, and has given telegraphic instructions to its subordinate bodies. Having had the programme printed, the Secretariat has sent a copy by confidential letter No. 941 to the “ Wen Kuan Chu ” (Civil Secretariat of the People's Government), with the request that it be brought secretly to the knowledge of the Provincial and Municipal Authorities, so that they may act accordingly.

“ The Civil Secretariat of the People's Government, having caused us to act accordingly by order of the President of the Government, has replied to the Secretariat of the Central Executive Committee and has, at the same time, sent us letter No. 7863, requesting us to take steps with the utmost urgency.

“ We, the Executive Yuan, having immediately telegraphed to you on the subject, and having also notified the Civil Secretariat of the People's Government :

“ Therefore request you to inform all your subordinates confidentially, after carefully examining the programme of action, copy of which is enclosed, so that they may act accordingly.

“ The 25th day of the 9th month of the 20th year of the Chinese Republic (September 25th, 1931).

CHIANG CHUNG-CHENG,
President of the Executive Yuan.

[Seal of the Executive Yuan.]

“ Verified by Pi Chi-Yuan.

“ Collated by Yang Wen-Hung.

“ (Seal of verification of the Secretariat of the Executive Yuan.)

“ Appendix : One copy of the programme of action to be taken against Japan under the direction of the Kuomintang Committees to save the country.”²

¹ The space left open in the translation contained on the original the address of the Kuomintang Party Office to which this particular copy of the order had been despatched (footnote by the author of the present memorandum).

² See, for the text of this programme of action, page 218.

In reference to the aforementioned instructions, the Chinese Assessor has supplied the Commission of Enquiry with the following comments :

“ August 31st, 1932.

“ Dear Mr. Secretary-General,

“ I am in receipt of your letter of August 28th enclosing a photographic reproduction of a Chinese document which the Commission has received in the course of its enquiry and asking if I could transmit to you any comment which I might desire to present in connection therewith.

“ I have referred it to Nanking to verify whether there was such a document issued by the Executive Yuan on September 25th, 1931. Meanwhile, I wish to observe that, assuming the document in question to be authentic, its contents merely indicate certain decisions taken on the basis of two considerations which have guided the Chinese Government in meeting the situation created by the events of September 18th, 1931, and thereafter. One is that, at the date of the alleged document, Mukden, Kirin, Yinkow, etc., had just been unlawfully occupied by Japanese troops, and the Chinese Government, while refraining from resorting to resistance by military force in order to avoid possible aggravation of the situation, was constrained to utilise all peaceful means of legitimate self-defence. The other is that popular indignation was so aroused at the time that the Chinese Government, while finding it impossible to impose undue restraint upon it, considered it necessary to put into effect certain measures designed to keep popular manifestations of indignation within lawful bounds and also to ensure the security of the lives and property of Japanese nationals in China, as evidenced in clause 4, Part I.

“ As soon as I shall have heard from Nanking, I hope to communicate with you again, presenting such comments as may be desired to add.

“ Yours sincerely,

(Signed) V. K. Wellington Koo,

Chinese Assessor.

“ M. R. Haas,

Secretary-General, Commission of Enquiry, League of Nations. ”

B. Another instance of Governmental assistance is an instruction issued by the Ministry of Railways to the administrations of the Peiping-Mukden, Peiping-Hankow, Tsingtao-Tsinan, Tokochan-Chinkochen, Lungchin-Yuhai, Nanking-Shanghai and Hangchow-Tongchow Railways, which runs as follows :

“ The telegram of July 31st, 1931, sent by the ‘ Fight Japan and Save the Chinese ’ Committees in the different foreign concessions at Shanghai, reads as follows :

“ “ The Japanese, taking the Wanpaoshan incident as a pretext, and inciting the Koreans, have started an exceptionally violent anti-Chinese movement, followed by indescribable massacres and bloodshed. In view of these mortifying and critical circumstances, the whole Chinese nation, united as one people, must bring about at any price the rupture of economic relations with Japan.

“ Nevertheless, mere economic rupture being only a temporary means, it will not be possible to restrict the entry of Japanese goods unless effective measures are taken by China for the prosperity of the national industry. Chinese coal and raw material being essential elements for the development of industrial undertakings, all facilities must be granted for their transport, which will have the effect of considerably reducing cost prices. The measures thus taken, although it may be impossible to keep Japanese coal and raw material entirely out of China, will make it possible to reduce such imports very considerably.’

“ The railway administrations are therefore urgently requested to adopt these measures, and to put them into force in conformity with the resolution passed by the Fifth Permanent Committee of the ‘ Fight Japan and Save the Chinese ’ Committees.

“ To sum up, these measures being designed to encourage the use of Chinese coal and to restrict effectively the importation of Japanese coal, all possible facilities must be granted with this object, and the aforesaid administrations are accordingly requested to provide, when necessary, as many trucks as possible for the transport of Chinese coal.

“ Given August 7th, 1931, Lien Shanghai,

DD. Minister of Railways. ”

C. A third instance of governmental assistance to the boycott movement is an order which, in September 1931, was issued by the Harbour Commissioner of the Ministry of Communications at Tientsin, and which was probably by mistake distributed to the Tokai Transport Company, a Japanese shipping firm. The text runs as follows :

“ *The Instruction of the Bureau of Harbour Commissioner of the Ministry of Communications, No. 9, addressed to Tokai Steamship Co. :*

“ We notify you herewith the instructions No. 2708, issued by the Ministry of Communications, which was telegraphed to us by the Executive Committee of the Nanking Special Municipality on behalf of the Ministry of Communications. The text of the said instruction follows :

“ On September 22nd, at 8 a.m., a mass meeting was held at the National Theatre in the capital to voice protest against Japanese aggression and to ask for protection of Chinese residents in Korea, in view of the atrocious massacre of our nationals in Korea by riotous Koreans. Representatives of various walks of life in the capital took part in this mass meeting.

“ Upon the basis of the resolution adopted at the meeting, expressing our determination to recover the right of coastal navigation by refusing to board Japanese steamers, the Ministry of Communications desires to notify the various shipping firms under your jurisdiction of the above resolution. ”

D. A fourth instance, of minor importance, however, is the registration by the Ministry of Industry and Agriculture at Nanking of two anti-Japanese trade-marks, published in the *Official Bulletin*, No. 60, of the Registration Office of this Ministry :

“ ‘Anti-Japanese trade-mark’ (Kang-Ji-Pai) for a so-called ‘platinum’ heater, in the possession of Wang Ku-chin, of the firm of Jui Jung-chang, living at No. 49, Kang Miao Hou, Nanking Street, Shanghai.

“ Trade mark ‘18th September’ (Tchou-I-Pa) for a towel in the possession of Li Wei-cheng, of Chinese Products Ltd., living at No. 141, Kui Chou Lu Street, Shanghai.”¹

It will be noted from these documents that, in A and B, the Chinese Government acts as direct supporter of the boycott, in so far as it recommends and facilitates the application of certain anti-Japanese measures laid down either by the Kuomintang itself or by an anti-Japanese Association. In C, it simply appears in the part of a transmitting organ, drawing the attention of private shipping firms to an anti-Japanese resolution adopted by a mass meeting, but evidently with the purpose of spreading it and increasing its effect.

In D, by registering two anti-Japanese trade-marks, an administrative Government office has granted legal status to a form of commercial identification and advertisement which was evidently meant to attract customers by speculating on their anti-Japanese feelings.

It is not suggested that the support given to an anti-Japanese boycott by the Chinese Government under the present circumstances is improper, as long as the boycott methods employed remain within the limits of the law, and any attempted illegal means are properly suppressed.

It is suggested, however, as a sequel to the situation pictured in this section that, as far as foreign Powers are concerned, the Chinese Government must be held responsible both for the leniency shown in suppression of irregular boycott methods and for direct assistance granted to the movement. The special relations existing between the Government and the Kuomintang cannot alter the formal character of this responsibility (although, from the practical point of view the existence of these relations must be taken into account).

This probably also explains the apparent desire of the Chinese Government to remain in the background and avoid direct responsibility and its possible consequences.

Section V.

JAPANESE INTERESTS IN CHINA.

Sino-Japanese trade relations.

Considered in relation to world trade, China, with nearly one quarter of the world's population, secures only 2 per cent of world trade. Japan, including Korea and Formosa, with a population of nearly ninety million, secures only 2.8 per cent of world trade. In foreign trade (imports plus exports) per head of population, Japan is fiftieth on the list of countries,

¹ Documents A, B, C and D have been translated from the Chinese.

with approximately £6 5s. per head in 1928. China, with a population of four to five hundred million, is eighty-second and lowest on the list, with a foreign trade of approximately 12s. per head.¹

Thus it appears that, considered from the point of view of the world as a whole, neither China nor Japan are economic factors of preponderant importance, although both, particularly China, are of extreme potential importance. When, however, the economic relations between the two countries themselves are considered, it will be realised to what extent they need each other.

To show the importance of China as a market for Japanese goods, and also China's importance to Japan as a source of supply for certain raw materials and foodstuffs, it is necessary to examine closely the trade relations of these two countries, both between themselves and in relation to the rest of the world. Expressed in terms of silver, China's trade during the last three years has been as follows:²

China's trade.

| | Haikwan taels (000,000's omitted) | | |
|------------------------------------|-----------------------------------|-------|-------|
| | 1929 | 1930 | 1931 |
| Net imports | 1,266 | 1,310 | 1,434 |
| Exports | 1,015 | 895 | 909 |
| Total | 2,281 | 2,205 | 2,343 |
| Excess of imports over exports . . | 251 | 415 | 525 |

In view of the constant depression in the price of silver, which has been particularly marked since 1929, the same table is given also in terms of gold dollars, and then produces quite a different impression:³

| | Gold dollars (000,000's omitted) | | |
|------------------------------------|----------------------------------|-------|------|
| | 1929 | 1930 | 1931 |
| Net imports | 810 | 602 | 487 |
| Exports | 650 | 412 | 309 |
| Total | 1,461 | 1,014 | 796 |
| Excess of imports over exports . . | 160 | 190 | 178 |

Expressed in terms of gold dollars, China's foreign trade has dropped considerably since 1929, although, from the table in Haikwan taels, it showed an increase. Also, the excess of imports over exports for 1931 in gold dollars shows an increase of slightly over 11 per cent above the figures for 1929, whereas the table in Haikwan taels shows an increase of over 52 per cent for the same period.

In order to further ascertain the effect of this decline in trade (expressed in terms of gold dollars), this table is given again showing the *principal* component parts of China's foreign trade, and how they have been affected:⁴

In gold dollars (000,000's omitted)

| | Imports | | | Exports | | | Total foreign trade | | |
|------------------------------|---------|------|------|---------|------|------|---------------------|-------|------|
| | 1929 | 1930 | 1931 | 1929 | 1930 | 1931 | 1929 | 1930 | 1931 |
| Hong-Kong | 135 | 97 | 74 | 111 | 73 | 50 | 246 | 179 | 124 |
| United Kingdom | 76 | 49 | 41 | 48 | 29 | 22 | 124 | 78 | 63 |
| Japan | 204 | 148 | 99 | 164 | 100 | 90 | 368 | 248 | 189 |
| United States of America . . | 147 | 107 | 109 | 89 | 61 | 41 | 236 | 168 | 150 |
| Total (of all countries) . . | 810 | 602 | 487 | 650 | 412 | 309 | 1,461 | 1,014 | 796 |

It appears from this table that, during 1931, America took first place from Japan in imports, the latter taking second place, and the United Kingdom (excluding Hong-Kong) taking third place. In exports, however, Japan maintained the first place, despite heavy losses in trade towards the end of the year, second place going to America and third to the United Kingdom (excluding Hong-Kong).

In total foreign trade, the nations maintain the same line-up as in exports, Japan steadfastly maintaining first place.

¹ Figures quoted from report of the British Economic Mission to the Far East, 1930-31, issued by the Department of Overseas Trade at London.

² Figures taken from the report on the Foreign Trade of China, 1931, prepared by H. G. MacEwan, officiating statistical secretary of the Chinese Maritime Customs.

³ Figures converted from Haikwan taels to gold dollars at the following average yearly rates of exchange: 1929, 0.64 gold dollar; 1930, 0.46 gold dollar; 1931, 0.34 gold dollar.

⁴ *Op. cit.*

Japan's trade.

Orchard¹ states that Japanese export trade moves in two streams — her luxury product, raw silk, moves to the United States; her staple manufactures, chiefly cotton textiles, go to the countries of Asia, the United States taking 42 per cent of Japan's exports and the Asia market taking, as a whole, 43 per cent. China, Hong-Kong, and the Kwantung Leased Territory take 26.6 per cent of the total Japanese exports, and a large share of the remainder goes to Chinese merchants in other parts of Asia, and is consequently subject to boycott measures. The relative importance of Asia as a market for Japanese manufactures appears even more striking if raw silk, which goes almost entirely to America, is excluded from the export figures. Asia then takes 68 per cent of the exports, and China's share is 43 per cent.

During the year 1930, the last for which complete official figures are available, Japan's total exports amounted to 1,469,852,000 yen, her imports to 1,546,071,000 yen; her total foreign trade being 3,015,923,000 yen. From the exports, 260,826,000 yen, or 17.7 per cent, went to China (excluding Kwantung Leased Territory and Hong-Kong); while, of the imports, 161,667,000 yen, or 10.4 per cent, came from China (excluding Kwantung Leased Territory and Hong-Kong).

The following table represents an analysis of these figures with regard to the principal items concerned in Japan's import and export trade with China, and the proportion of their value to the total amount of Japan's import and export trade in those items. Thus a better idea may be obtained concerning the extent of Japan's reliance upon China's trade.

JAPAN'S IMPORT AND EXPORT TRADE WITH CHINA (principal items)^{2 3}

(Excluding Kwantung Leased Territory and Hong-Kong.)

| Item | Amount exported to China | Total amount exported | Proportion of exports to China to total exports | Average |
|--------------------------------------|--------------------------------|-----------------------------|---|---------|
| | (In yen, 000's omitted) | (In yen, 000's omitted) | Per cent | |
| Aquatic products | 5,975 | 18,080 | 32.8 | 51.6 |
| Refined sugar | 22,771 | 26,734 | 84.6 | |
| Coal | 12,520 | 21,783 | 57.1 | |
| Cotton tissues | 86,913 | 272,116 | 31.9 | |
| Total, including miscellaneous . . . | 260,826 | 1,469,852 | 17.7 | |

| Item | Amount imported from China | Total amount imported | Proportion of imports from China to total imports | Average |
|--------------------------------------|----------------------------------|-----------------------------|---|---------|
| | (In yen, 000's omitted) | (In yen, 000's omitted) | Per cent | |
| Beans and peas | 12,897 | 49,784 | 24.5 | 34.5 |
| Oilcake | 35,132 | 66,416 | 53.0 | |
| Vegetable fibres | 4,549 | 16,448 | 25.0 | |
| Total, including miscellaneous . . . | 161,667 | 1,546,071 | 10.4 | |

From the standpoint of exports to China, it is not particularly significant that the amount exported to China comprises 17.7 per cent of the total of Japanese exports; but, examined with regard to the actual items constituting the exports to China, it is found that an average of 51.6 per cent of these items find an outlet in Chinese markets.³ The same is true with regard to the percentage figure of 10.4 per cent, representing the proportion of amounts imported from China to total imports; when examined with regard to actual items, Japan is dependent upon China for an average of 34.5 per cent of the total of these particular items which she imports. An additional 58.4 per cent of the first two items on the import list comes from Kwantung Leased Territory.

In order to show the relative importance of Japan's principal export markets in the course of the last twenty-five years, the following table was composed from Japanese trade statistics (converted from yen into gold dollars at the average rate for the year concerned).

The United States of America, taking practically the entire export of raw silk, is consistently shown as Japan's best customer, averaging for the twenty-five years 35.8 per cent of Japan's total export trade. China comes next, taking an average of 19.3 per cent of Japan's exports for the same period, attaining, in 1914 (just prior to the 1915 boycott, and a year in which Japan's total exports decreased), the highest peak of her relative importance, 27.4 per cent, and the lowest point in 1931, of 13.5 per cent, undoubtedly due to the boycott.

¹ John E. ORCHARD, "Japan's Economic Position".

² Figures taken from the thirty-first *Financial and Economic Annual of Japan*, 1931, published by the Department of Finance, and *Japan Year-Book*.

³ To what extent these figures may include re-exports, it has not been possible to ascertain.

PROPORTION OF JAPAN'S EXPORTS TO PRINCIPAL MARKETS, 1907 TO 1931.

| Year | United States Per cent | China Per cent | Kwantung Leased Territory Per cent | Hong-Kong Per cent |
|------|---------------------------|-------------------|--|-----------------------|
| 1907 | 30.3 | 19.7 | 4.7 | 5.6 |
| 1908 | 32.3 | 15.9 | 4.5 | 4.6 |
| 1909 | 31.8 | 17.6 | 3.9 | 5.2 |
| 1910 | 31.3 | 19.6 | 4.1 | 5.1 |
| 1911 | 31.8 | 19.7 | 5.1 | 5.4 |
| 1912 | 32.0 | 21.7 | 5.2 | 5.4 |
| 1913 | 29.1 | 24.4 | 4.7 | 5.3 |
| 1914 | 33.2 | 27.4 | 3.7 | 5.6 |
| 1915 | 28.8 | 19.9 | 3.1 | 3.8 |
| 1916 | 30.1 | 17.0 | 3.2 | 3.1 |
| 1917 | 29.8 | 19.8 | 4.1 | 3.5 |
| 1918 | 27.0 | 18.3 | 5.9 | 3.2 |
| 1919 | 38.5 | 21.2 | 7.1 | 2.8 |
| 1920 | 28.9 | 21.0 | 5.8 | 3.8 |
| 1921 | 39.6 | 22.9 | 6.1 | 4.7 |
| 1922 | 44.7 | 20.3 | 4.3 | 3.9 |
| 1923 | 41.8 | 13.9 | 4.6 | 3.8 |
| 1924 | 41.2 | 19.2 | 3.9 | 4.3 |
| 1925 | 43.6 | 20.3 | 4.4 | 3.1 |
| 1926 | 42.1 | 20.6 | 4.8 | 2.5 |
| 1927 | 41.8 | 16.7 | 4.5 | 3.3 |
| 1928 | 41.8 | 18.9 | 5.5 | 2.8 |
| 1929 | 42.5 | 16.1 | 5.7 | 2.8 |
| 1930 | 34.4 | 17.7 | 5.9 | 3.7 |
| 1931 | 37.0 | 13.5 | 5.7 | 3.2 |

The extent to which Japan's foreign trade is dependent upon China has always been realised by Japan ever since she became a trading nation in the modern sense of the word. In a statement made in 1915 by Baron Makino, the Minister of Agriculture and Commerce, quoted by Orchard from the "United States Bureau of Foreign and Domestic Commerce Bulletin", the Japanese statesman expressed himself in the following terms: ¹

"China has people, and population is what makes trade. No other country in the world offers so vast a field for trade. With the growth of education and the development of material progress, the possibilities of commercial enterprise in China are simply unlimited. The anxiety of the Powers to enter into more and more intimate commercial and political relations with China cannot but excite intense interest in Japan; for China is our nearest neighbour, our best customer, and our commercial and political relations with that country are superior to those of any other nation . . . There was a time when Japan hoped to find her chief field of commercial enterprise in the West; but to-day the mind of Japan is all toward China as the commercial hope of her future, not to say anything about geographical and racial advantages with that country . . ."

"Now is the time to explore China commercially, and any demand we create now for useful articles will in all likelihood become permanent. It is not too much to say that the great part of our hope for future financial rehabilitation in Japan depends upon how we can further develop trade with China. In this matter we cannot afford to be beaten by our foreign competitors, for the very welfare of the nation depends upon it. I would have all Japan regard it as the foundation of our national prosperity. Should we lose China as a customer, it would mean the ruin of our commercial prospects."

Moulton,² commenting upon the same subject, made the following observation:

"This Oriental trade is one which gives a maximum of reciprocal advantages to the countries concerned; hence, every effort should be made to further its development. Indeed, Japan's ability to find employment for increasing population depends to so great an extent upon the expansion of markets for manufactured products in the Orient that the promotion of peaceful commercial intercourse should be a fundamental principle of international policy . . . Without attempting to express in any way a judgment as to the merits of the complex issues which now exist between Japan and China, one may nevertheless observe that, from an economic point of view, the maximum gains for both China and Japan are to be derived from the expansion of reciprocally advantageous trading operations."

The figures and facts previously given clearly show the character of the Sino-Japanese trade relations, and the extent to which Japan relies upon China; but Japan's interest in

¹ It should be noted that the time of Baron Makino's speech was just following 1914 — the year in which the percentage of export trade with China was at its peak.

² Harold G. MOULTON, "Japan, an Economic and Financial Appraisal".

China is not only limited to trade. She has a considerable amount of capital invested in industrial enterprises, as well as banks, and the shipping industry. A brief summary of these other interests follows :

Investments and loans.

It was only after the conclusion of the Shimonoseki Treaty of 1895 that Japanese investment activity has witnessed expansion. By 1898, the only investment of any consequence was a small cotton-gin in Shanghai, representing about 100,000 taels. There were a few small branches of banks and a small amount of shipping on Chinese inland waterways. Also, there were a few persons occupied in mercantile pursuits in Tientsin and Shanghai. By 1913, the situation had already altered considerably. In 1907, as a result of the Treaty of Portsmouth, the Government received, without direct outlay, an investment of 100,000,000 yen in the South Manchuria Railway. Japan's total estimated foreign investments amounted to 535,000,000 yen, of which the estimated investments in China and Manchuria amounted to 435,000,000 yen.

By the end of the world war, Japan, which, from a debtor country (net foreign indebtedness in 1913, 224,000,000 yen), had become a creditor country (net foreign assets, 1,399,000,000 yen in 1919),¹ had more than doubled its investments in China as compared with 1913. Indeed, out of a total of 3,221,000,000 yen in foreign investments (including specie holdings abroad), an amount of 1,321,000,000 yen had been advanced to China (236,000,000 to the Central and the Provincial Governments and 1,085,000,000 in private loans and investments). A considerable part of this increase falls to the "Nishihara" loans.

Moulton¹ observes with regard to these loans :

"The war-time loans to China may be regarded as a venture in imperialism. While they were not made by the Japanese Government directly, most of them were made with the backing of the Government and with political objects in view."

During the period from 1919 to 1929, another great change took place in Japan's international debt and investment position, in so far as the country, from a net creditor in 1919 to the extent of 1,399,000,000 yen, had again become a debtor country to the extent of 738,000,000 yen, one of the main reasons being that loans made both to Russia and to China had defaulted. In 1926, the Japanese Diet passed a law requiring the Government to take over the "Nishihara" loans to the extent of 100,000,000 yen, plus interest. Many of the loans to Chinese enterprises had also proved to be of doubtful value. In 1929, 2,100,000,000 yen represented Japan's total foreign investments, of which almost 2,000,000,000 yen were in China, inclusive of Manchuria.¹

An idea of Chinese indebtedness to Japan may be obtained from a summary of amounts outstanding in 1925 of secured and unsecured loans made by Japan since August 1909.

| | In yen (000's omitted) | |
|---------------------|------------------------|--------------------------------|
| Secured | 93,526 | plus interest 2,970 |
| Unsecured | 210,932 | plus interest 15,067 |
| Total | 304,458 | 18,037 |

When it is considered that the original amount of the loans was 315,375,000 yen, it is evident that no progress has been made in their redemption.¹

A classification of business investments in China in 1929 by various groups shows :²

| | Yen |
|--|-------------|
| Railway, transportation, warehousing | 650,152,000 |
| Banking and trust | 256,332,000 |
| Spinning and weaving | 250,645,000 |
| Agriculture, mining, forestry | 206,695,000 |
| General trading | 162,860,000 |
| Manufacturing | 144,941,000 |
| Other | 137,529,000 |

Spinning and weaving, third on the list, represents, at the end of June 1929, 1,574,284 spindles in China, plus 125,000 Chinese spindles managed by Japanese under a trust, amounting to nearly 1,700,000, or nearly 50 per cent of the total in operation in China. While most of the mills located in China proper are cotton-spinning mills, those in Manchuria are engaged in highly diversified lines—cotton spinning and weaving, silk spinning, linen manufacture, woollen and worsted fabrics, etc.

To give some idea of the development of industrial and trading firms by outside interests in China, the following table shows the relative importance of the principal foreign Powers :²

| | Number of firms 1913 | Number of firms 1921 | Number of firms 1927 |
|-------------------|-------------------------|-------------------------|-------------------------|
| Japan | 1,269 | 6,141 | 4,848 |
| England | 590 | 703 | 617 |
| America | 131 | 412 | 551 |
| France | 106 | 222 | 171 |
| Germany | 296 | 92 | 307 |
| Russia | 1,229 | 1,613 | 595 |

¹ *Op. cit.*

² *Far-Eastern Review*, Vol. XXVI, No. 1, from paper by M. ODAKIRI, prepared for Institute of Pacific Relations.

Shipping.

In regard to shipping, the commercial relations of the various nations show an interesting comparison, in that Japan's carrying trade in tonnage is second to England and consistently greater than that of China, in spite of the greater number of Chinese vessels as against any of the other nations (except England in 1929). Comparative figures for 1913 and 1929 are given herewith :¹

| | (000's omitted in vessels and tonnage) | | | |
|-------------------|--|---------|---------|---------|
| | 1913 | | 1929 | |
| | Vessels | Tonnage | Vessels | Tonnage |
| Japan | 23 | 23,422 | 32 | 42,349 |
| England | 32 | 38,120 | 51 | 57,926 |
| America | 2 | 899 | 7 | 6,653 |
| France | 1 | 1,233 | 1 | 2,138 |
| Germany | 5 | 6,320 | 1 | 4,335 |
| China | 43 | 18,628 | 45 | 26,395 |

The number of Japanese banks in China is put at about thirty (not including branches),² a few of which are joint Sino-Japanese enterprises.

Thus it appears that Japan, looking to increased industrialisation as one of the means of solving her population problem, finds herself in close financial and economic relations with China — a country which, inclusive of Manchuria, is at the same time a source of supply of raw materials necessary to Japanese industries, and a market capable of absorbing a considerable portion of the finished products of these same industries.³ It is only natural, as will be shown in the next section of this memorandum, that a state of undeclared war and boycott as now exists between them must profoundly upset this relationship, to the detriment of both.

Section VI.

THE MATERIAL AND MORAL EFFECTS OF THE BOYCOTT.

The various boycott movements, and the present one in particular, have exercised a considerable influence on Sino-Japanese relations, both in a material and in a moral sense, although it is extremely difficult, if not impossible, to define in a precise way the extent of these effects, even of the material ones.

Material effects of past boycotts.

Nevertheless, an attempt will be made to give an outline of both, first of all, of the material — *i.e.*, the economic and financial effects — of the various boycotts, as expressed in the figures of Sino-Japanese trade. Before entering into figures and statistics, it should be pointed out, however, that these cannot be taken as giving an accurate picture of the effect of the boycott. Indeed, these trade figures are influenced by several incalculable factors which have nothing to do with the boycott as such — factors such as the fluctuation in the price of silver and in the yen exchange ; the reduced purchasing capacity of the Chinese people as a result of floods, famines, and internal strife ; the general trade depression ; and the ever-present possibility of inaccuracy of the figures presented for analysis (sufficient evidence of which was found to justify this reservation). Even if these factors did not enter into consideration, the Sino-Japanese trade figures still might not correctly represent the effect produced by the boycott, considering that there is reason to believe that part of Japan's trade with China was, during certain boycott periods, conducted in roundabout ways, as through Kwantung Leased Territory and Hong-Kong, although this is not definitely shown in the percentage of trade figures given in Section V. It has even been mentioned to the Commission that certain Japanese goods have been sent to the United States of America and imported to China disguised as American goods, but this can only have happened on a small scale.

As far as the trade figures since 1929 are concerned, it should not be forgotten that new and increased tariff schedules were announced to take effect on February 1st, 1929, and January 1st, 1930, as China regained tariff autonomy, and a new export tariff took effect as from June 1st, 1931.

Another question which is of the greatest importance in understanding the effect of the boycott on Japanese and Chinese trade figures is the period considered. The Japanese Assessor, in the documentation regarding the boycott which he has submitted to the Commission, has systematically compared the trade figures of the boycott year with those of the previous year and represents the difference as a loss to Japanese trade. The Chinese point of view, however,

¹ *Op. cit.*, and "Foreign Trade of China, 1929", Part 1, "Report and Abstract of Statistics".
² *China Year-Book*, 1931-32; *Japan Year-Book*, 1931.
³ China alone is principally a market for Japanese goods, although it is a source of supply of certain foodstuffs and fertilisers ; Manchuria is the principal source of raw materials.

is that, after each boycott, there is a resumption of trade which repairs the damage done. The Chinese Assessor, when discussing the effects of the boycott, expressed himself in the following terms :

“ It can be questioned whether a boycott, even run on a large scale, could, as is alleged, affect appreciably the commercial relations between the two nations, when such relations are considered in their entirety. ”¹

He even concluded from a statistical and graphical survey of Sino-Japanese commerce during the period from 1907 to 1931, which is part of the documentation submitted to the Commission, that :

“ . . . the years of boycott do not show a figure of worse business than the normal years. On the contrary, in certain years of boycott, the total of Sino-Japanese commerce increased instead of decreased. From the examination of these tables, one can almost conclude that the effects of the boycott are psychological rather than material in nature, and that the Japanese suffer less from pecuniary losses than from the resentment of the Chinese nation which they feel to weigh upon them. ”

A Chinese economist who has paid special attention to this subject wrote as follows :

“ I have been of the opinion that the effects of the anti-Japanese boycotts on the trade between China and Japan are more apparent than real. To a large extent, they have been much overestimated. The principal reason for my belief is that China's imports from Japan are predominantly daily necessities of the type which is more reasonable in cost than that from any other country. Such imports have a firm hold in China, a country which is at present fundamentally a price rather than a quality market. Because of the industrial paralysis in China, due primarily to the undesirable political environment, hardly any substitutes can be produced at home. Consequently, I do not think that the boycott could have produced any lasting effects at all. ”

In view of these opinions, the question might be raised as to what can be the real advantage to China in using the boycott if the material result is thus mitigated.

To the impartial observer it appears, nevertheless, that something is to be said for both theories, but that both are too positive in their conclusions. As far as the Japanese theory is concerned, there can be no doubt that a portion at least of the trade losses suffered during each boycott is definite and irreparable. Trade, banking, and shipping suffer definite losses : delivery of goods is suspended and, as a result, they decline in value, or even, in the case of certain commodities, deteriorate completely and become a total loss. In the case of banks, the number of transactions is reduced and, after the boycott is finished, it is highly doubtful whether the lost transactions will be replaced by new ones. Thus there is a reduced turnover and loss of profits. Ships have been running with less cargo and fewer passengers than they would have carried normally, and, in many cases, have even been laid up. Japanese factories and mills, and Japanese workshops in several cases, have been closed, while the plant and machinery remain idle. Finally, there has been a loss of goodwill. Is it probable that all these losses have been made good by subsequent resumption of trade ? And, as a matter of fact, what does this resumption of trade actually mean ? Part of it probably represents nothing more than the increase in trade which would have normally taken place if there had been no boycott at all, and which possibly has even been retarded by the boycott. Part of it may have been actually represented by transactions for the purpose of getting rid of accumulated Japanese surplus stocks withheld in Japan and filling gaps in the Chinese market. But then the question arises — at what prices have these postponed transactions been carried out ? Here, again, it is so utterly impossible, for lack of precise information, to come to a definite conclusion that the point remains necessarily unsettled. All one can say is that decidedly a part of the trade decline during the boycott is a definite loss, but that another part may possibly be recuperated by subsequent resumption.

From the Chinese standpoint, the opinions quoted are based on Chinese imports from Japan expressed in terms of Haikwan taels, and consequently the drop in the price of silver has to be taken into account, which probably explains to a certain extent the apparent increase in trade which has taken place in certain boycott years. Further, on certain occasions, when Japanese trade during a boycott year proved to be only slightly lower than during the previous year, exceptional elements may have made their influence felt — as, for instance, in 1915, the absence of European competition. Also, while Japanese trade showed an increase, during the boycott year 1919, other nations enjoyed a much greater increase. These points will be discussed more in detail in relation to a comparative table of yearly fluctuations in trade which appears later in this section.

From the considerations given above, it is apparent that the trade figures published for the purpose of illustrating the effects of boycotts on Sino-Japanese trade are to be taken rather as indications of trade movements than as representing a concrete value. Even if quantitative figures were used instead of value figures, the picture would not offer much more certainty of being absolute, as many of the disturbing factors previously mentioned apply equally to quantities, while, moreover, a new factor would have to be accounted for — the qualities of the goods purchased and sold which may have been influenced by such a factor as depressed buying capacity. Also, as has been mentioned before, the extent to which the figures are reliable is not known.

¹ See Chinese Assessor's document on the Boycott, page 25.

With these various reservations in mind, the following tables and figures are nevertheless of great interest, indicating in broad lines the effect of the boycott movements in Sino-Japanese trade. With regard to past boycotts, the following is a summary contained in statistics supplied to the Commission by the Japanese Assessor :

TABLE SHOWING THE EFFECT OF THE PAST BOYCOTTS ON JAPAN'S EXPORTS TO CHINA.

| Year | Total exports (Hong-Kong and Kwantung Leased Territory excluded) | Boycott origin | Boycott areas | Loss or gain as compared with preceding year |
|----------------|--|---|---|--|
| | (Yen) | | | (Yen) |
| 1907 | 85,619,000 | | | |
| 1908 | 60,506,000 | The <i>Tatsu Maru</i> incident | South China | — 25,000,000 |
| 1909 | 73,087,000 | The Antung-Mukden rail- way question | Whole China | + 13,000,000 |
| 1910 | 90,037,000 | | | |
| 1911 | 88,152,000 | | | |
| 1912 | 114,823,000 | | | |
| 1913 | 154,660,000 | | | |
| 1914 | 162,370,000 | | | |
| 1915 | 141,125,000 | The "Twenty-one Demands" | Whole China | — 21,000,000 |
| 1916 | 192,712,000 | | | |
| 1917 | 318,380,000 | | | |
| 1918 | 359,150,000 | | | |
| 1919 | 447,049,000 | The Shantung question | Whole China and South Seas | + 88,000,000 |
| 1920 | 410,270,000 | | | |
| 1921 | 287,227,000 | | | |
| 1922 | 333,520,000 | | | |
| 1923 | 272,190,000 | Port Arthur and Dairen recovery question | Whole China | — 61,000,000 |
| 1924 | 348,398,000 | | | |
| 1925 | 468,438,000 | May 30th incident | Whole China | + 120,000,000 |
| 1926 | 421,861,000 | | | |
| 1927 | 334,183,000 | Despatch of troops to Shantung | Whole China | — 87,000,000 |
| 1928 | 373,141,000 | Tsinan incident | Whole China and South Seas | + 39,000,000 |
| 1929 | 346,652,000 | | | |
| 1930 | 260,825,000 | | | |
| 1931 | 155,751,000 | The Manchurian affair | Whole China, South Seas, and regions where Chi- nese reside | — 105,000,00 |

It appears from the foregoing table that there has been a reduction in trade as compared with the previous year in each of the boycott years of 1908, 1915, 1923, 1927 and 1931, and an increase in each of the boycott years 1909, 1919, 1923 and 1928. A similar table, compiled by the Chinese Assessor in his memorandum on the boycott, gives the same picture.

The following table of *percentages of yearly fluctuation* of the export trade of Japan is composed from Japanese trade statistics showing the course of export trade since 1907 (after converting figures in yen to gold dollars at the average rate of exchange for each year). It gives a clear picture of the relative fluctuations in exports to Japan's principal markets, with special reference to boycott years. The conclusions which follow show the extent to which the boycott can be said to have an effect on exports to China, as shown by trade figures.

YEARLY FLUCTUATION OF EXPORT TRADE OF JAPAN.

| | Total exports Per cent | To the United States of America Per cent | To China Per cent | To Kwantung Leased Territory Per cent | To Hong-Kong Per cent |
|------------|------------------------------|---|----------------------|---|--------------------------|
| 1907 | | | | | |
| 1908 . . . | —12.4 | — 6.8 | —29.2 | —15.4 | —28.0 |
| 1909 . . . | + 9.4 | + 8.1 | +21.1 | — 5.8 | +23.9 |
| 1910 . . . | +10.5 | + 8.8 | +22.7 | +17.7 | + 7.8 |
| 1911 . . . | — 2.6 | — 0.9 | — 2.3 | +20.1 | + 4.2 |
| 1912 . . . | +18.0 | +18.4 | +30.5 | +19.7 | +17.3 |
| 1913 . . . | +20.2 | + 9.4 | +34.8 | + 8.4 | +17.2 |
| 1914 . . . | — 6.7 | + 6.2 | + 4.7 | —25.5 | — 1.2 |
| 1915 . . . | +18.9 | + 3.0 | —13.7 | — 1.0 | —18.2 |
| 1916 . . . | +62.8 | +70.5 | +39.7 | +70.7 | +30.6 |
| 1917 . . . | +42.3 | +40.7 | +65.3 | +77.5 | +63.8 |
| 1918 . . . | +25.6 | +13.7 | +15.7 | +81.7 | +14.2 |
| 1919 . . . | + 5.4 | +50.2 | +22.6 | +27.1 | — 8.4 |
| 1920 . . . | — 9.0 | —31.4 | —10.0 | —25.7 | +22.7 |
| 1921 . . . | —37.7 | —15.0 | —29.3 | —33.9 | —22.5 |
| 1922 . . . | +30.3 | +47.1 | +15.8 | — 7.7 | +10.0 |
| 1923 . . . | —10.7 | —15.5 | —48.9 | — 3.5 | —13.6 |

YEARLY FLUCTUATION OF EXPORT TRADE OF JAPAN (*continued*).

| | Total exports Per cent | To the United States of America Per cent | To China Per cent | To Kwantung Leased Territory Per cent | To Hong-Kong Per cent |
|------------|------------------------------|---|----------------------|---|--------------------------|
| 1924 . . . | + 7.2 | + 5.7 | +48.0 | — 8.7 | +22.7 |
| 1925 . . . | +23.7 | +31.0 | +30.4 | +36.8 | — 9.5 |
| 1926 . . . | + 2.0 | — 1.5 | + 3.5 | +12.7 | —17.2 |
| 1927 . . . | — 1.5 | — 2.1 | —19.9 | — 7.3 | +26.9 |
| 1928 . . . | — 3.7 | — 3.6 | + 8.5 | +17.3 | —17.8 |
| 1929 . . . | + 9.0 | +10.6 | — 7.0 | +13.0 | + 8.6 |
| 1930 . . . | —26.7 | —40.6 | —19.3 | —25.2 | — 2.3 |
| 1931 . . . | —21.9 | —15.9 | —40.2 | —24.4 | —33.9 |

During boycott years, there seems to be a definite effect on exports to China (in comparison with those to the United States, the largest factor in Japanese export trade).

In 1915, when the total exports and the exports to the United States *increased*, exports to China *decreased* by 13.7 per cent.

In 1908, 1923, 1927 and 1931, the total exports and the exports to the United States decreased, as well as the exports to China, but the latter decreased by a far greater percentage.

In 1919, the year following the world war, the exports to the United States jumped up 50 per cent, while those to China increased only 22.6 per cent, indicating a probable retarding effect of the boycott.

The years 1909, 1925 and 1928 are exceptions, the exports to China showing an increase over the previous year, and in greater proportion (1925 about equally) than exports to the United States. A probable partial explanation of this is the short duration of the 1909 and 1925 boycotts.

Neither Kwantung Leased Territory nor Hong-Kong show any tendency to give credence to the belief that exports go to China in a roundabout fashion during boycott years, with the exception of Hong-Kong in 1927, which shows a decided increase in trade in comparison with a general decrease. It will be noticed, however, that, for the two previous years, trade to Hong-Kong had decreased, undoubtedly due to the anti-British boycott, while others increased, so it is logical that this is a natural increase due to a resumption of trade.

The effect of the present boycott.

The *Monthly Trade Report on China*, compiled by the Foreign Commerce Service of the United States Department of Commerce, for June 1932, in reporting on conditions in Shanghai, ¹ states :

“ The anti-Japanese boycott is subsiding, and although there still remains a strong sentiment against Japanese goods, they are now to be seen on display and will doubtless gradually attain their former position in the trade of this port. Commodities entering into Chinese industries, and which Japan can supply at more favourable prices than other sources, will probably show a reaction in Japan's favour much more quickly than goods which are obviously Japanese and are consumed directly by the Chinese buyer. ”

There is evidence, however, to prove that, in a subterranean way, the movement has nevertheless continued, and, at the moment of writing, in August 1932, it appears that, under the influence of the recent events in Manchuria and Jehol, there is an increasing tendency to resume the boycott. A spokesman of the Chinese Government declared, in an interview with the Commission, that, as long as the Manchurian question remained unsettled, and particularly in view of the action taken in the Japanese Diet urging the recognition of the so-called “ Manchukuo ”, national feelings in China would be so intensified that he did not believe the Government would be able to take any effective measure for the suppression of the boycott; rather it was to be apprehended that the movement would assume even larger proportions. Thus the boycott situation at present is rather vague. However, the Japanese Assessor has used the Japanese trade figures for 1931 for the purpose of compiling a few tables which show a serious decline in trade, especially since September of last year, as compared with 1930. The table regarding Japan's exports to China is as follows :

Japanese statistics.

JAPAN'S TRADE WITH CHINA, 1931.
(Manchuria and Kwantung Leased Territory excluded.)

| A. Exports. | 1931 | 1930 (In yen, 000's omitted) | Decrease | Percentage decrease |
|-----------------------------|---------|---------------------------------|----------|---------------------|
| January to August | 144,999 | 179,607 | 34,608 | 19.2 |
| September | 16,307 | 24,418 | 8,111 | 33.2 |
| October | 9,555 | 28,093 | 18,538 | 65.9 |
| November | 4,903 | 24,218 | 19,315 | 79.7 |
| December | 4,866 | 24,561 | 19,695 | 80.2 |
| Total | 180,630 | 280,897 | 100,267 | 35.5 |

¹ The Shanghai Boycott Association was abolished by the Chinese authorities shortly before the Shanghai incident.

| <i>B. Imports.</i> | 1931 | 1930 | Decrease | Percentage decrease |
|----------------------------|-------------------------|---------|----------|---------------------|
| | (In yen, 000's omitted) | | | |
| January to August. | 75,841 | 81,868 | 6,027 | 7.3 |
| September. | 6,709 | 7,452 | 743 | 10.0 |
| October. | 7,527 | 8,882 | 1,355 | 15.0 |
| November. | 6,765 | 8,530 | 1,765 | 20.0 |
| December. | 7,366 | 10,536 | 3,190 | 30.0 |
| Total | 104,208 | 117,268 | 13,060 | 11.0 |

It will be noted from these tables that, already during the period January to August, and probably because of the general trade depression, there was a considerable decline in trade, which naturally has continued to make itself felt during the following months of 1931. On the other hand, the effect of the boycott is shown in the last column of the table, giving the rapidly increasing percentages of trade reduction. The table concerning imports from China also shows a decrease in trade, but, as might be expected, far less serious than with regard to exports. For the rest, the same remark applies here as in connection with the export table : the decline had set in already during the period January to August 1931, and undoubtedly the effect of the boycott is to be seen in the growing percentage of monthly decrease from September onwards.

In an earlier part of this memorandum, it has been mentioned that, for reasons which are not always easy to discern but which, on the one hand, are linked up with the varying political conditions in different parts of China, and which, on the other hand, are explained by the fact that China's principal trading centres are in the south and the centre, the effect of the boycott is not everywhere the same. The Japanese Assessor has published a table showing these differences and which, slightly modified for reasons of greater clarity, gives the following picture :

| <i>Regions</i> (excluding Manchuria and Kwantung Leased Territory) | <i>Exports</i> | | | <i>Imports</i> | | |
|--|----------------|---------|---|----------------|---------|--------------------|
| | Amount | Decline | Percentage decline (In yen, 000's omitted) | Amount | Decline | Percentage decline |
| North China : | | | | | | |
| 1930 | 78,667 | | | 52,158 | | |
| 1931 | 51,838 | 26,829 | 34.1 | 47,599 | 4,559 | 8.74 |
| Central China : | | | | | | |
| 1930 | 139,777 | | | 53,230 | | |
| 1931 | 88,471 | 51,306 | 36.7 | 48,247 | 4,983 | 9.36 |
| South China : | | | | | | |
| 1930 | 6,807 | | | 11,085 | | |
| 1931 | 3,685 | 3,122 | 45.8 | 7,804 | 3,281 | 29.5 |
| Hong-Kong : | | | | | | |
| 1930 | 55,646 | | | 986 | | |
| 1931 | 36,753 | 18,893 | 33.9 | 741 | 245 | 24.8 |
| Totals : | | | | | | |
| 1930 | 280,897 | | | 117,459 | | |
| 1931 | 180,747 | 100,150 | 35.6 | 104,391 | 13,068 | 11.1 |

The impression this table gives is that of a sliding scale of effect ; strongest in the south, weakest in the north.

Chinese statistics.

The *Report on the Foreign Trade of China, 1931*, written by the Statistical Secretary of the Chinese Maritime Customs, also contains some important material from which the decline in Japan's trade with China may be judged in comparison with that of a few other nations in the China market. These figures have been used already in Section V of this memorandum in another connection, but it may be useful to reproduce them once more this time, to show the decrease of trade. Converting the figures given for China's foreign imports and exports into gold dollars for the sake of avoiding the disturbing factor exercised by the sharp drop in the price of silver, the following picture is obtained :

COMPARISON OF CHINA'S FOREIGN TRADE.

| | <i>Imports.</i> | | | | | |
|--------------------------|--------------------------------------|------|---------------------|------|---------------------|-------------------------------|
| | 1929 | 1930 | Percentage decrease | 1931 | Percentage decrease | Percentage decrease from 1929 |
| | (In gold dollars, 000,000's omitted) | | | | | |
| Hong-Kong | 135 | 97 | 27.7 | 74 | 23.6 | 44.9 |
| United Kingdom | 76 | 49 | 35.1 | 41 | 16.3 | 46.5 |
| Japan | 204 | 148 | 27.3 | 99 | 33.3 | 51.6 |
| United States | 147 | 107 | 27.6 | 109 | 1.8 | 26.0 |
| Total (all countries) | 810 | 602 | 25.5 | 487 | 19.6 | 39.8 |

Exports.

| | 1929 | 1930 | Percentage decrease | 1931 | Percentage decrease | Percentage decrease from 1929 |
|--------------------------------|--------------------------------------|------|---------------------|------|---------------------|-------------------------------|
| | (In gold dollars, 000,000's omitted) | | | | | |
| Hong-Kong | 111 | 73 | 34.5 | 50 | 31.5 | 54.6 |
| United Kingdom | 48 | 29 | 39.4 | 22 | 24.1 | 53.9 |
| Japan | 164 | 100 | 39.3 | 90 | 10.0 | 45.1 |
| United States | 89 | 61 | 32.0 | 41 | 32.7 | 54.1 |
| Total (<i>all countries</i>) | 650 | 412 | 36.6 | 309 | 25.0 | 52.4 |

From this comparison, it will be seen that imports from Japan have, in the past two years, decreased more in proportion than those from other leading countries, while exports to Japan did not experience as great a proportion of decline, having become more stabilised in 1931.

To determine the effect of the present boycott, two tables have been composed, one from Chinese trade statistics and one from Japanese trade statistics, showing, for each country, the proportional share of trade enjoyed by its major outlets in 1929, 1930, 1931 and the first six months of 1932.

FOREIGN TRADE OF CHINA. ¹

| | Japan | United States | Hong-Kong |
|--------------------------------|---------------|---------------|-----------|
| | (Percentages) | | |
| 1929 | 25.1 | 16.1 | 16.1 |
| 1930 | 24.4 | 16.5 | 17.6 |
| 1931 | 23.7 | 18.8 | 15.5 |
| 1932 : | | | |
| January | 16.6 | 27.7 | 7.1 |
| February | 16.7 | 23.4 | 10.7 |
| March | 17.8 | 19.9 | 8.9 |
| April | 18.0 | 17.1 | 9.5 |
| May | 19.9 | 21.3 | 8.1 |
| June | 20.5 | 17.0 | 11.5 |
| Average (six months) | 18.0 | 21.0 | 9.3 |

This shows a gradual decline in the proportion of Japanese trade for the past three years, with a marked drop shown for January 1932 (probably following similarly lower percentages for the latter months of 1931, although detailed figures are not available), undoubtedly due to the effect of the boycott. This low percentage becomes gradually moderated until, in April and again in June, Japan's trade surpasses that of the United States and again assumes first place, although, for the first six months inclusive, trade with Japan is in second place. Figures are not available for later months which would show the effect of the apparent resumption of boycott activity.

EXPORT TRADE OF JAPAN. ²

| | United States | China | Kwantung Leased Territory | Hong-Kong |
|-------------------------------|---------------|-------|------------------------------|-----------|
| | (Percentages) | | | |
| 1929 | 42.5 | 16.1 | 5.7 | 2.8 |
| 1930 | 34.4 | 17.7 | 5.9 | 3.7 |
| 1931 | 37.0 | 13.5 | 5.7 | 3.2 |
| 1932 : | | | | |
| January | 44.2 | 6.6 | 8.2 | |
| February | 44.6 | 8.3 | 10.3 | |
| March | 30.4 | 11.5 | 10.9 | |
| April | 27.3 | 15.6 | 9.5 | |
| May | 25.0 | 14.5 | 7.5 | |
| June | 21.1 | 11.9 | 8.5 | |
| Average (six months). | 32.1 | 11.4 | 9.1 | |

An analysis of this table shows that exports to China, which rose 1.6 per cent in 1930, took a 4 per cent decrease in 1931, and show a decided drop in 1932 monthly figures, starting with January. (The same assumption applies here as in the previous table — that undoubtedly the latter months of 1931 showed similar low percentages. This is partially verified by available Japanese figures showing a decided drop in exports to China following September, although complete comparative figures are not available.)

It will be noted that exports to Kwantung Leased Territory, which remained almost constant during 1929, 1930 and 1931, show an unusual increase starting with January and continuing, the average for the six months almost equalling that of exports to China.

¹ Figures for 1929, 1930, 1931, based on Chinese Maritime Customs *Statistical Report* as shown on preceding pages. Figures for 1932 from *Monthly Trade Reports on China*, compiled by Foreign Commerce Service of United States Department of Commerce.

² Trade statistics supplied by Japanese Assessor.

This latter fact probably shows that Japanese goods are coming to China via the roundabout way of Kwantung Leased Territory (although this is the first instance in which this is apparent), as it is illogical to believe that, in the present unsettled state of affairs, the Kwantung market is thus being developed to replace the boycotted Chinese market.

Effects on various Japanese interests.

Apart from general figures and statistics, the effect of the present boycott can also be measured to a certain extent by considering the damage caused to individual branches of Japanese economic and financial activity in China. Aside from one quotation from the *Monthly Trade Report on China*, compiled by the Foreign Commerce Service of the United States Department of Commerce for June 1932, given herewith, which briefly touches upon the subject, it is unavoidable to use documentation almost exclusively of Japanese origin, because of the fact that no one else is in possession of such documentation. From the *Report on China*:

“The total loss of Japanese trade for the first four months of 1932 compared to the figures for the same months of 1931 was over 24,000,000 Hong-Kong dollars. The boycott continues to be in force, although the strength of it is believed to be weakening as the natural apathy of the public begins to reassert itself. Stocks of Japanese goods originally on hand have, for the most part, been exhausted, and reports of smuggling are now becoming more common. The boycott affects not only exporters and importers but seriously depresses Japanese shipping, as the shipping companies are finding it difficult to secure cargo and passengers.”

In summarised form, the Japanese Assessor's document “A”, Appendix 7, gives the following picture of the effect the boycott has had on various Japanese interests:

1. *Effect on Japanese Residents.* — In places so far apart as Tientsin, Shanghai, Hangchow, Soochow, Wuhu, Nanking, Kiukiang, Hankow, Ichang, Chungking, Shashih, Chengtu, Foochow, Wenchow and Yunnan, anti-Japanese feeling seems to have been, and still is, intense. In numerous cases, Chinese servants left Japanese by whom they were employed, Japanese were cut off from the supply of food and other daily necessities, and Japanese were subjected to various forms of abuse and threats. In many cases, Japanese had been compelled to flee for safety or to withdraw altogether to Japan. Many Japanese lost their employment.

2. *Effect on Trade.* — Japanese reports from a great number of places show that the imports most hit by the boycott were cotton textiles, cotton yarn, flour, sugar, marine products, hardware, rubber goods, while more indispensable and irreplaceable commodities — like coal, printing-paper, and wheat-bran (which, moreover, in many cases had been already paid for) — have, to a certain extent, continued to be imported. A Shanghai report gives as direct losses up to October 15th, 1931, the following list:

| | Yen |
|--|-----------|
| Cotton textiles, cotton yarn and artificial silk textiles | 3,520,000 |
| Sugar | 570,000 |
| Coal | 340,000 |
| Paper | 560,000 |
| Machinery and hardware | 290,000 |
| Lumber | 100,000 |
| Marine products | 50,000 |
| Others | 870,000 |
| Wheat-bran, cotton seeds, cottonseed cakes, rape seeds, sesame, raw cotton, articles manufactured by Japanese spinning-mills | 5,150,000 |
| Indian cotton | 950,000 |
| Wheat | 630,000 |
| Others | 370,000 |

As might be expected, independent merchants seem to have suffered more than large concerns dealing in miscellaneous goods, such as Mitsubishi, Okura, Iwai and Yoshida. Even these larger concerns have seen their turnovers go down seriously, but their financial reserves are naturally stronger than those of independent merchants, thereby permitting them to hold out for a longer period. It appears from these reports that the act which seems to have been the most severe blow to Japanese trade is the cancellation of contracts.

With regard to Chinese exports to Japan, it is mentioned that Japanese merchants, especially in the Yangtze region, had been suffering a great deal, partly because of the boycott and partly because of the floods — as, for instance, in Hankow, where conditions were far from normal. Much depended evidently upon the boycott rules concerning export drawn up by the local anti-Japanese societies and Chambers of Commerce. For instance, a Hankow report states that the export of raw cotton, which in normal times reached a total of ten thousand bales a month, had completely disappeared.

3. *Effect on Financing.* — The Japanese reports concerning the effect of the boycott on this branch of enterprise are far less precise than those concerning trade. They tend to show that Chinese banks and exchange shops suspended the sale or purchase of silver to or from

Japanese and refused to accept bills from Japanese, thus causing great dislocation of trade and movement of goods. The same report stresses the point that local Chinese moneylenders and brokers who had advanced money to merchants on the security of Japanese goods were heavily hit, and that many of them suspended business or went bankrupt. It is reported from Hankow that this happened to 80 per cent of the local moneylenders and brokers, causing panic in the money market and arousing much opposition to the boycott.

4. *Effect on Industrial Enterprises.* — The Japanese reports, which are particularly detailed regarding the situation in Shanghai — Japan's main industrial centre in China (the total Japanese investments in various industrial enterprises are said to amount to 512,000,000 Mexican dollars) — state that the Japanese spinning-mills, which possess between 43 and 60 per cent of the equipment and productive power respectively of the entire spinning industry in China, continued work until the incidents of January 28th, 1932, when their activities came to a stop. Local dealings in their products had entirely stopped. The Chinese workers, though participating in anti-Japanese movements in secret, worked harder than in normal times, for fear, says the Japanese document, that work would be stopped. In view of the difficulty of disposing of the accumulating stocks and in view of unfavourable rates of exchange, all the factories had begun to curtail work during the month of December. At the same time, it is said that an endeavour was made to eliminate undesirable elements among the Chinese workmen.

The conditions in other industries varied according to the nature of their product or activity. A sugar refinery and an ice factory had practically to suspend work ; while a silk-spinning factory and a hemp-cloth factory succeeded in carrying on ; a match factory found it difficult to dispose of its accumulated stock ; small factories engaged in printing business, manufacture of rubber goods, enamel wares, and so on generally were obliged to give up work and, by the end of October 1931, sixty of them had come to a stop.

5. *Effect on Shipping.* — According to the Japanese Assessor's document, the losses suffered by the shipping industry amount to something between four and five million yen each month, in consequence of the dislocation of service on the China Sea, in the Pacific, in the Indian Ocean and to Australia. At Tientsin and Shanghai, the carriage by Japanese vessels of Chinese goods destined for Chinese, Japanese, European or American ports was reduced by from 30 to 90 per cent. The coastal services of the principal Japanese companies, as far as the carriage of Chinese goods is concerned, was reduced to nothing, while that of Japanese and foreign goods had decreased by from 10 to 20 per cent on an average. On the Yangtze, the carriage on the upstream voyage was practically nil ; on the downstream voyage, there remained some transport of cereals and fertilisers. Various Japanese shipping companies had withdrawn a number of their vessels from service. Foreign merchants avoided consigning goods by Japanese vessels for fear of difficulties in their relations with the Chinese. Contracts for Japanese vessels engaged in the carriage of Chinese coal had been annulled. Great difficulties were also experienced by Japanese vessels in loading and unloading—for instance, at Canton, where the coolies' union had decided, under the influence of the Anti-Japanese Society to boycott Japanese ships.¹

6. *Effect on Communications.* — Japanese residents experienced great difficulty in the transmission of mail and in telephonic and telegraphic communications. Even the Japanese consular privileges with regard to freedom of communication were repeatedly trodden upon. Anti-Japanese slogans were inscribed on telegrams and letters addressed to Japanese residents, and the transport of Japanese newspapers was obstructed.

REPERCUSSIONS AMONG THE CHINESE.

It has been extremely difficult, and it may be said impossible, for the Commission to get any reliable information on the extent to which Chinese economic life has suffered from the boycott. The fact in itself is undeniable. Certain Chinese not only admit it but are even proud of it, and use the argument to show the extent of patriotic feeling which is behind the movement and which makes Chinese merchants, bankers and so on accept sacrifices for the sake of the country ; just to what extent the latter group actually shares this enthusiasm is a question. It has been exceedingly difficult to get reliable figures and facts on this subject. The documentation supplied by the Chinese Assessor does not contain any information and unofficial Chinese information has not come to hand. The information given on this point by the Japanese is evidently not first-hand, and the details they give should be taken with all necessary reserve. The Japanese Assessor's document quotes impressive figures — for instance, that, between November 11th, 1931, and the end of the month, the undisposed stock of Japanese goods in the possession of Chinese merchants at Shanghai amounted to from eighty to ninety million Mexican dollars. The value of goods registered with the anti-Japanese Society of Canton up to November 27th was put at over four million Mexican dollars, and the goods sealed by the anti-Japanese society at Swatow, within the city district only, were valued at about three million Mexican dollars. Chinese factories depending on Japanese coal have experienced

¹ During the enquiry made in Shanghai in July 1932 (see Section III) the Manager of the Nippon Yusen Kaisha told a representative of the Commission that Japanese boats have not carried a single Chinese steerage passenger out of Shanghai since the Shanghai affair, while his company used to have about one-third of this business, which has now chiefly passed on to American and Canadian lines. The head of a Japanese steamship company operating on the Yangtze declared that his vessels carried only one single first-class Chinese passenger since the Shanghai affair. This passenger was fined by some patriotic organisation for patronising the "enemy", and, since then, no Chinese passengers have been carried on the boats of this company.

great difficulty, so have newspapers depending upon Japanese paper. The director of a Chinese newspaper told a representative of the Commission that he had been obliged to make great sacrifices to get paper from another source. Thousands of Chinese workmen have been thrown out of employment for long periods and consequently have lost a considerable amount of pay. The way in which bankers and moneylenders were affected has been mentioned already.

It also goes without saying that the Chinese Maritime Customs revenue has decreased because of the boycott, although part of the loss was made good by increased imports of other foreign goods. Chinese exports to Japan have also suffered but to a far less degree than imports from Japan.

Thus the fact that the Chinese have themselves suffered serious losses because of the boycott is certain, but an estimate of these losses is even far more difficult to obtain than an estimate of the losses sustained by Japan.

On several occasions instances have been mentioned in this memorandum of Chinese trying to prevent losses from boycott or protesting against the anti-Japanese Association or the authorities when these losses became too serious. Again, it is extremely difficult, if not impossible, to estimate the influence which these preventive measures and these protests have actually exercised on the boycott movement. All that can be said with certainty is that they have not been able to exercise a serious influence on the application of the boycott rules, except at moments when, for other reasons, the movement showed already a tendency to relax.

Moral effect.

The moral effect which the boycott has had on Sino-Japanese relations (also impossible to express in figures and facts) is undoubtedly a very deep and profound one. Especially in a centre like Osaka, the boycott has done more than anything else to create a feeling of intense hatred against China and the Chinese, feelings which apparently are shared by the whole of the Japanese commercial and shipping communities, not to mention those Japanese industries which, to a more or less considerable extent, depend on the export trade with China. The impression that Japan is faced with a situation which cannot be met satisfactorily by material means of defence, that Japanese policy and aspirations are opposed by an invisible and intangible weapon, have irritated Japanese public opinion to the utmost. There is a tendency amongst Japanese merchants, which clearly appeared during the Commission's visit to Osaka, to exaggerate certain abuses of boycott methods, as racketeering and blackmailing, and to under-estimate or even to deny completely the close relationship between Japan's recent policy towards China and the Chinese conception that the boycott is employed as a defensive weapon against that policy. On the contrary, instead of looking upon the boycott as a defensive weapon, many Japanese merchants understand it, evidently in perfect honesty, to be an aggressive weapon which requires measures of retaliation from the Japanese. This state of mind has undoubtedly contributed to the Shanghai incidents of January 1932. A document which was handed to the Commission in March of this year during a conference with the Osaka Chamber of Commerce starts off by stating :

“The fundamental cause which has led to the present crises in Shanghai is the anti-Japanese economic campaign so vigorously and relentlessly carried on in China. This movement is apt to be understood in Europe and America as a simple boycott merely meaning non-buying of Japanese goods, but that is not at all the real nature of the movement. What China really means by this movement is a complete severance and cessation of economic relationship of whatever kind with Japan : a real economic warfare.”

Another quotation from the same document is also typical of the state of mind of certain Japanese :

“There is a belief amongst some people that the boycott movement is used by China as a measure of reprisal against some alleged wrong committed against China. In the present boycott also it is said that the Manchurian trouble was the cause. This line of argument is absolutely misleading and irrelevant. The Manchurian trouble was caused... by China not respecting the rights conferred upon Japan by treaty and by goading Japan to an act of self-defence of her rights. The real and fundamental cause of the Manchurian trouble lies absolutely with China herself, and to make this a pretext for further reprisal is absolutely irrelevant.”

The Japanese official attitude recognises the close relationship between certain political issues and various boycott movements ; but, on the other hand, the Japanese Government holds the point of view that “boycott is an unarmed act of hostility”, and the Japanese Assessor even states on page 73 of his document A, “The Present Condition of China”, that :

“When war is condemned as an instrument of national policy by the Pact of Renunciation of War, there is no reason why an act of hostility of this kind, having the same aim as war itself, should be permitted.”

M. Odagiri, in an article entitled “The Boycott in China”,¹ states :

“ . . . it would seem that the continued application of the boycott as an instrument to settle international disputes is not only highly provocative and unjust in

¹ “Problems of the Pacific, 1929”, proceedings of the third Conference of the Institute of Pacific Relations, Kyoto, 1929.

the light of accepted principles of international intercourse between friendly peoples, but, if war is to be condemned as an instrument of national policy, so also must the boycott be outlawed. Otherwise, perfect international peace can never be realised.”

There can be no doubt but that this view is shared by the whole of Japanese public opinion, and thus it clearly appears that the boycott is one of the most disturbing elements in Sino-Japanese relations, the importance of which cannot easily be overrated.

In fairness to Japan, it is only just to add that, although the boycott is essentially a defensive weapon, the Chinese have a tendency to use it at certain moments as an instrument to attain positive political aims. This tendency appears from the arguments which serve to convince the people of the necessity to “ overthrow Japanese Imperialism ” and of which the following is an example :¹

“ Japanese imperialism depends on financial penetration for its existence. Therefore, we must crush Japan's financial influence in China to overthrow her imperialism. This latter can easily be attained by securing the abrogation of all unequal treaties existing between China and Japan. We must strive to obtain Custom autonomy in order to foster the growth of our national products. It is likewise an absolute necessity that the severance of economic relations with Japan be enforced, and this must be carried out at all costs.”

Section VII.

FINAL CONSIDERATIONS.

The foregoing considerations clearly show the serious nature, materially and morally, of the boycott as used by the Chinese against the Japanese, and the considerable part this powerful weapon has played for more than twenty years in Sino-Japanese relations, and quite particularly during the dispute under investigation.

Psychology of Chinese boycott.

As has been explained, the Chinese, in manipulating a boycott, are greatly favoured by a certain special frame of mind and by a long training in certain special methods which are so characteristic of these movements, and which have originated in essentially old practices of the Chinese guilds and of the secret societies which have played, and still play, such an important part in the life of the Chinese.²

A frame of mind expressing itself in a remarkable gift for secret organisation, in an extraordinarily strong authority of organised collectivity over the individual members and in a faculty to act collectively and with tenacity for the defence of common interests and principles. Methods which imply the establishment of rules for the purposes of serving these common interests. The enforcement of these rules with the help of a system of control and investigation and, if necessary, by subjecting offenders to a self-established jurisdiction which has the unquestioned right to punish ; and, above all, by using the boycott as a means of imposing the collective will upon the individual.

This frame of mind, and the use of these methods adapted to modern circumstances and mobilised by a young, as yet unbalanced, and passionate nationalism of which the Kuomintang is the powerfully organised organ, constitutes the modern boycott movement as employed by China as a weapon of defence against Japan and other foreign countries with whom it happens to find itself occasionally in conflict in its struggle for emancipation from old-established conditions to modern conceptions and institutions.

Is the boycott spontaneous ?

Is the Chinese way of boycotting purely spontaneous, as the Chinese themselves claim it to be, or is it rather an organised movement imposed upon the people by the Kuomintang with the help of methods which at certain times are very much akin to terrorism, as the Japanese allege ? As far as this part of the issue is concerned, something is to be said in favour of, as well as against, both contentions. It appears impossible that a nation could be roused to the spirit of co-operation and sacrifice which increasing numbers of Chinese have shown during various boycotts if there were not at the bottom of the movement some kind of popular feeling set in motion by a complicated mass psychology in which a conviction of injustice suffered (rightly or wrongly considered as such), an inherited faith in cultural superiority over foreigners, and fervent modern nationalism, play a large part. Unfortunately for other nations who have dealings with the present generation of Chinese, this complexity of feelings is extremely sensitive and easily provoked, and, as in Sino-Japanese relations of the last decades, incidents have

¹ Manifesto of the National Anti-Japanese Conference of 1928, a translation quoted by John E. ORCHARD in “ Japan's Economic Position ”, from *North China Herald* of August 4th. 1928.

² The Kuomintang itself was at the outset a secret society.

been frequent — one anti-Japanese campaign and one anti-Japanese boycott has followed the other. The anti-American boycott of 1905 and the anti-British boycott of 1925 prove, on the other hand, that movements of this kind can just as well be directed against countries other than Japan.

Although a society for the regeneration of China (Hsing Chung Hui) which may be considered as the progenitor of the Kuomintang had been founded as far back as 1893, and although there cannot be the slightest doubt that the earlier boycotts prior to 1925 have been from the very first launched under the war cry of nationalism and anti-foreignism, no concrete evidence has come to hand to show that the original Nationalist Associations, and later the Kuomintang, have intervened *directly* in the organisation of these boycotts.

Inspired by Dr. Sun Yat-sen's new creed, Chambers of Commerce and Student Unions were fully capable of such a task, guided as they were by centuries-old guild experience and guild mentality. It has been pointed out that these older boycotts, like those of to-day, had their organisation, their rules, their discipline, and their punishment of "traitors", and that this means the contrary of spontaneity. Indeed, a spontaneity which, in order to make itself felt, requires a discipline of the stringency usual in Chinese guilds and boycott organisations, cannot altogether be considered as a spontaneous expression of the individual will. At the same time, the enforcement of disciplinary measures in the carrying out of a popular movement is not necessarily in contradiction with a certain impulsive power of public opinion and a strong sense of solidarity for purposes of defence against a common enemy.

The necessity of such a discipline rather proves that, as in any popular movement, the loyalty of all adherents to a common cause is not equally strong, and that some of them will have to be supervised and even have to be punished for not having played the game. The Kuomintang and to-day's Anti-Japanese Associations, Chambers of Commerce, labour and student unions, are not doing anything else, in principle at least, than the old guilds — using, in fact, the boycott machinery established by them. The conclusion is justified therefore that to-day's boycotts are popular movements which have originated in an impulsive feeling, but which are strongly organised, directed and disciplined by a great number of bodies of various kinds under the super-control of the Kuomintang. From the point of view of the dispute under investigation, however, there is a question far more important than that of the spontaneous character of the boycott — that is, the question of the methods used.

Methods employed and responsibility of the Government.

Whether the boycott methods, considered from the point of view of the modern State and of modern international relations, are regular or irregular, legal or illegal, is the crucial issue of the problem. From the evidence collected by the Commission, it is difficult to draw any other conclusion than that irregular and illegal methods have been used; that they are far from being an exception in the practice of the boycott; and that they have not been sufficiently suppressed by the authorities and the courts. The fact that all of these methods are essentially the same as those used in China of olden days may be an explanation of what is happening now, but it should not be accepted as an excuse. When in former days a guild elected to declare a boycott, searched the houses of suspected members, brought them before the guild court, punished them for a breach of rules, imposed fines and sold the goods seized, it acted in conformity with the customs of that time. Moreover, it was an internal affair of a Chinese community, and no foreigner had anything to say in the matter. To-day, things have changed. China has entered the family of nations, and is linked up with that larger community and with its individual members by ties of a legal nature and by common conceptions of what is right and wrong. China has accordingly given herself a code of modern laws, and wants to be considered by other nations as an equal among equals. When such is China's desire, the rest of the world should rejoice in it; but at the same time she should realise that modern legal principles are incompatible with traditional Chinese boycott methods. The memorandum with which the Chinese Assessor has tried to defend his country's point of view with regard to the boycott question contains indications that the Chinese Government *has* realised the contradiction just mentioned. The *leitmotiv* which runs through all his arguments is to the effect that "the boycott... is pursued, generally speaking, in a legitimate manner and under a form which does not involve any responsibility of the Chinese Government" (page 31 of the document on the boycott submitted by the Chinese Assessor. Unfortunately, the evidence at the disposal of the Commission tends to prove the contrary.

Irregular boycott activities against Japanese.

In this connection a distinction should be made between the irregular acts committed directly against foreign residents *in casu* Japanese and acts committed against Chinese with the avowed intention, however, of causing damage to Japanese interests. As far as irregular acts of the first category are concerned, it is difficult not to feel that they represent a violation of certain rights established by treaty, such as protection of lives and property, liberty of trade, liberty of residence and movement, right to employ Chinese, and so on. As a matter of fact, the Chinese do not contest this part of the Japanese allegation, and the boycott associations, as well as the authorities, have apparently tried, although they may not have been always successful, to prevent offences of this kind, which during the present boycott seem to have occurred less frequently than on previous occasions.

Irregular boycott activities against Chinese.

With regard to the second type of irregular activities, however, the Chinese Assessor has observed that "a foreign nation is not authorised to raise a question of internal law", claiming that, in the instances questioned, both offenders and sufferers are Chinese. This point of view might be admitted if the Chinese authorities had actually succeeded in preventing or suppressing this form of irregular boycott activities. However, the irregular practices against Chinese merchants who have broken or are suspected of breaking the rules of the boycott have taken place on such an extensive scale that the clearly established rights and interests of Japanese residents are constantly violated. Thus a situation has arisen where "acts . . . committed by Chinese nationals in prejudice to other Chinese nationals" virtually renders impossible, or at least seriously hampers, the normal application of Sino-Japanese commercial treaty obligations, and for such a situation the Chinese Government must be held responsible.

Direct assistance granted by the Government.

The responsibility of the Chinese Government is also involved because of certain instances of direct assistance granted to the boycott movement and which have been examined on the grounds of certain documentary evidence in the course of the present memorandum. It appears from this evidence that the Executive Yuan of the Chinese Government assisted the Kuomintang by bringing to the notice of its provincial and municipal authorities a programme of action, laid down by the Kuomintang for the purpose of organising an anti-Japanese campaign instructing these authorities to "act accordingly".

In another instance, the Ministry of Communications transmitted through its Harbour Commissioner at Tientsin to various shipping companies the resolution of a mass meeting held to voice a protest against Japanese aggression. In bringing this resolution to the notice of these shipping firms, the Ministry evidently desired to give it wider circulation and increase its effect.

Finally, instructions were issued by the Ministry of Railways to the administrations of various railway companies for the purpose of strengthening the boycott by inviting these companies to restrict the use of Japanese coal and to further the use of Chinese coal.

The fact that in all these instances the Government deemed it wise to act as much as possible in secrecy can have had only one reason — the fear of being made responsible for the boycott, with its attendant consequences, a responsibility which the Japanese Government, quite naturally from its point of view, constantly tried to place. The Chinese Government has denied this responsibility, and to a certain extent it was justified in doing so — at least, in so far as it cannot be held responsible for a movement which it had not launched itself, and as long as this movement remained within legal bounds. On the other hand, it is difficult to see how the Government can deny responsibility for the fact that certain irregular acts have been committed, for the suppression of which it is naturally responsible, as any other Government would be when acts of that nature had been committed in its territory — and so much the more if these acts have directly or indirectly prejudiced the rights and damaged the interests of foreigners who, on the ground of treaties, might expect to see their rights and interests protected and safeguarded. Nor can the Chinese Government claim to be free of responsibility for the direct assistance it has given to the boycott movement.

The constitutional position of the Chinese Government.

In view of the particular constitutional position of the Chinese Government, the question arises, however, whether, apart from legal considerations, it can be held *practically* responsible for the present boycott situation. An analysis of the Constitution clearly shows that "with respect to the National Government . . . the Kuomintang has, from the very beginning, assumed a position of direction and control", as is stated in a semi-official publication, *Two Years of Nationalist China* by M. T. Z. Tyau. The Central Political Council of the Party selects the members of the Government. The Council is itself directly responsible to the Central Executive Committee which, together with the Central Supervisory Committee, constitutes the highest authority of the party when the National Congress is not in session. It belongs to the duties of the first of these two committees to "carry out the resolutions of the National Congress", of which many are dealing with matters of the Government policy, while it enters into the competence of the second Committee to "supervise the conduct of the National Government and see if its policies and record conform to the policies of the party".

In view of these stipulations, it may be asked, What is the responsibility of a Government which is practically an organ of the controlling political party of the country? The real source of Government power is not the Government itself, but the party; and, if the Government would follow a policy contrary to, or different from, the one formulated by the party, there would be a clash between the two. In matters of boycott, this clearly means that, if the Government would try to counteract energetically certain irregular methods employed by the boycott associations under the inspiration of the Kuomintang, it would risk finding itself soon in conflict with the party. At the same time, it evidently cannot refuse to grant a certain amount of assistance to the Party on which it is dependent, and, being composed nearly entirely of Kuomintang members or sympathisers, it probably would not even desire to do so.

Thus the situation is as follows: The Government is formally responsible, but not virtually; the Kuomintang is virtually responsible but not formally.

To any foreign Government dealing with present-day China, and so much the more in the case of Japan, whose relations with China are so voluminous and manifold, this situation tends to become extremely embarrassing each time an issue is at stake, involving questions of Chinese national policy, and the state of mind of the Japanese Government and public opinion, which look upon the boycott as "an unarmed act of hostility" to be outlawed like any other act of war, is comprehensible. In this connection, attention may be drawn to the extraordinary opportunity Japan has lost by not bringing the boycott issue before the League of Nations, or any other international instance in which she might have put her confidence, such as, for example, the Powers signatory to the Nine-Power Treaties. If she had done so, her position before world opinion would have been certainly stronger than it is to-day, even in case the practical result of such a step had remained nil. Apart from this possibility, it is difficult to see what other policy could have usefully been followed by Japan other than to wait until China's internal evolution shall have reached a stage where more normal conditions can prevail and a stronger Government can be formed. In this respect, Japan may find some consolation in the knowledge that she is not the only foreign Power to suffer from this state of affairs. It may be noted, moreover, that the Chinese Constitution itself foresees that, after the present period of political tutelage or education, there should come a constitutional period with a Government responsible to a parliament elected by the people as a whole.

Doubt must be expressed, however, as to the wisdom of using, in the meantime, warlike measures to counteract the boycott, as experience seems to prove that the effect on the Chinese masses tends to be exactly the contrary of that desired. As a matter of fact, this aspect of the boycott question is closely linked up with the fundamentals of the Chinese problem as a whole, which has been examined more in detail elsewhere in this report.

The boycott as an act of retaliation.

It has been said that, "in reality, the anti-Japanese boycott was an act of retaliation replying to the serious breach of international engagements with regard to China of which Japan should be held guilty" (see Chinese Assessor's document on the boycott, page 32). Whether this point of view is admissible depends, first of all, on the question as to whether there has been a breach of international engagements on the part of Japan — a point, indeed, of essential importance which is one of the main objects under investigation. It should be observed, however, quite apart from the findings of the Commission as to this particular capital point, that the use by China of certain methods of retaliation which are contrary to her own laws is in no case justified. Considering the question from a general point of view, it seems difficult to contest that the boycott is a legitimate weapon of defence against military aggression by a stronger country, especially in cases when methods of arbitration have not previously been utilised, always subject, of course, to the condition that boycott methods employed do not infringe the laws of the land.

Material effect of the boycott.

Finally, there remains the question of whether the Chinese, in employing the boycott, have obtained the effect they hoped for. With regard to this point, the answer should be in the affirmative. As is shown by several facts and figures, considerable harm has been caused to Japan's economic and financial interests, and, therefore, China feels that, on several occasions in the past, the use of this weapon has served her as a useful means of exercising pressure in political issues. At the same time, the economic interests of the two countries, as well as the economic relations between them, have suffered from this state of affairs. A country like Japan, looking to increased industrialisation as one of the principal means of solving its most urgent social problem — that of a constantly rising over-population — cannot allow itself to live in constant strife with a neighbour like China, which, in 1930, took 17.7 per cent of its total exports; which, it may be hoped, will represent for the future an immense potential market; and which also supplied Japan in 1930 with 10.4 per cent of its imports, not to mention Japan's other interests in China.

China's dependence upon Japan.

On the other hand, China is a country which stands in the most urgent need of development in all fields of its economic life. She should therefore, in her own interest, try by all possible means to come to some agreement with the Island Empire which, notwithstanding the boycott, occupied, in 1931, the first place in her total foreign trade. That trade impediments reduce prosperity is a truth which gradually is beginning to dawn upon a post-war world which for years has been living in a nightmare of tariff walls. No country should be quicker in grasping this truth than China. Above everything else, China wants to be in a position to export her products in increasing quantities, in order to be able to pay for the many finished products she needs and in order to establish a sound basis of credit which will enable her to borrow the capital she requires so badly for further development. In 1930, 24.1 per cent of her exports went to Japan, while in the same year 24.9 per cent of her imports came from Japan. Only the United States of America and the United Kingdom come near to Japan from the point of view of

interest in Chinese trade, but neither of these two countries mean to China what Japan means to her. China should not forget, either, that, comparing the relative importance of the one country to the other, it appears from the figures quoted above that China's foreign trade with Japan represents a greater percentage of her total foreign trade than Japan's foreign trade with China represents of Japan's total foreign trade.

Japan is, moreover, the greatest foreign investor in China, and comes second to the United Kingdom in carrying Chinese goods under her flag. Japanese banks play a considerable part in the financing of Chinese trade. And China should keep in mind that it can profit from Japan's technical experience in many phases of human activity at a much lower cost than she will be able to get it from any other country.

It is clear, therefore, that China and Japan can supplement each other economically and financially in a way most useful to both, if only they can peacefully agree to a solution of the political issues standing between them.

STUDY No. 9.

KOREAN PROBLEMS IN MANCHURIA AS FACTORS IN THE SINO-JAPANESE DISPUTE: AN ANALYTICAL AND INTERPRETATIVE STUDY.

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INTRODUCTION — METHODS OF INVESTIGATION.

The author's investigation into these problems was both assisted and limited by the facilities at his disposal during the time of his association with the Commission of Enquiry, especially while the Commission was in Manchuria. It was early recognised that the Korean problem constituted one of the important phases of the Manchurian dispute, especially as the Japanese placed emphasis upon the alleged oppression of the large Korean population of Manchuria by the Chinese authorities and landlords. The Commission, therefore, recognised the necessity of enquiring into this subject carefully, although compelled by circumstances to give the major portion of its time to relatively more important interviews in Manchuria, and delegated to members of the Commission staff the responsibility for conducting an intensive enquiry into this entire question and for receiving the numerous delegations of Korean residents

who claimed to be representative of Korean communities in the environs of Mukden, Changchun, Kirin and Harbin. Careful records were taken of the latter's depositions, which were examined by the Commissioners. Dr. de Kat Angelino and the writer spent several days in Harbin, for example, receiving such delegations. We visited Japanese charitable institutions, which cared for in the neighbourhood of two thousand Korean refugees, most of whom had recently come from Korean agricultural communities along the eastern section of the Chinese Eastern Railway in consequence of continued fighting. We also visited the Korean village, Kuhsiatun, a few miles from Harbin, of which we made a brief but reasonably intensive survey. We examined and translated numerous Chinese certificates of naturalisation of Koreans, land rental contracts and tax receipts, of many of which we obtained photostatic copies. The writer prepared a detailed questionnaire of a more or less comprehensive character, which was widely distributed among both official and unofficial groups, very complete replies to which were received from the Japanese and Chinese Assessors' offices and other sources (see Annex I).

The author devoted a considerable portion of his entire time to this investigation, having numerous interviews with Japanese, Chinese, Koreans, Russians and others on phases of the problem. Assisted by information filed with the Commission by Japanese and Chinese Assessors' offices and by private material acquired outside Manchuria in Japan, Korea and in Peiping and Tientsin, the writer was able to obtain valuable information concerning particular groups of Korean opinion, including the advocates of the independence of Korea from Japanese rule, the Korean Communists and other political groups.

When the Commission itself returned to China from Japan, the writer proceeded independently from Tokyo to Korea for the purpose of making enquiries, especially into the background of the Korean immigration, into the special province of the so-called "Chientao District", adjoining the North-East border of Korea. For this purpose, he had conversations with officials of the Government-General of Chosen (Korea) in Keijo (Seoul). He then travelled through North-Eastern Korea to the "Chientao District" by way of Kwainai and Kamisampo to Lungchingtsun. He had lengthy conversations, especially with the Japanese Consul-General, also receiving a delegation of Koreans of the district. He then proceeded from Lungchingtsun, by way of Kirin, to Changchun by a special aeroplane placed at his disposal by the Japanese military authorities at Lungchingtsun. The South Manchuria Railway Research Office and the Library at Dairen furnished valuable materials, especially in the Japanese language.

The writer's interest in the subject of the Koreans in Manchuria ante-dated the Commission's enquiry. His resident studies in Manchuria on other subjects convinced him of the growing importance of these problems, especially during and after 1927, when the writer resides for several months in Manchuria. This prior interest in the Korean problem enabled him to view the entire question with a measure of perspective.

I. THE KOREAN POPULATION OF MANCHURIA.

The number of Koreans in Manchuria has been variously estimated as totalling between approximately 700,000 and 1,500,000. This extraordinary discrepancy is to be explained by numerous factors, among which is the fact that a thorough census of the Koreans in Manchuria has not been made, such an undertaking being impossible under present conditions. Again, it must be emphasised that most of the Japanese official figures are based upon those of their Consular Service in Manchuria. These figures tend to minimise the total Korean population, since they do not take account of thousands of Koreans, scattered or living in compact communities, in outlying regions of Manchuria, outside Japanese consular jurisdiction, and, in fact, included in no annual official census.

Moreover, even the figures for Koreans residing in areas within Japanese consular jurisdiction cannot be said to be entirely accurate, since prevailing conditions in Manchuria have been such that anything like a thorough registration of Koreans has been quite impossible. The writer, for example, has studied a Korean village a few miles from Harbin the inhabitants of which were admittedly not registered in the Japanese Consulate-General in Harbin before the arrival of the Commission of Enquiry in that city.

Numerous other factors complicate the situation, making it impossible to present a correct figure for the Korean population of Manchuria. It should be noted, for example, that there are Korean communities in Manchuria which have resided there for several generations, and, although they may be considered natural-born Chinese subjects, some of them being bilingual, they remain Korean in race and culture.

The factor of migration of Koreans across the national boundary lines, from Korea to Manchuria and from Manchuria to territories of the Union of Soviet Socialist Republics, there being a very consequential annual "back-flow", further complicates the problem. The relatively wild character of much of this frontier makes concealed and clandestine population movements very commonplace. As practically no Japanese official regulations requiring a careful registration of Korean migrants proceeding to Manchuria have existed, no passports being required at the border, even the Japanese frontier police figures are admittedly inaccurate to describe the exact volume of the migration and return. No careful registration of such numbers across the Sino-Russian frontiers has ever been kept.

Finally, there are numerous reasons why those of the Korean race in Manchuria should seek to conceal their nationality and identity, especially since they are subjects of a long-contested Sino-Japanese controversy over the question of dual nationality.

For these reasons, the author is of the opinion that the Korean population of Manchuria cannot be less than 800,000, is probably in the neighbourhood of 1,000,000, and may somewhat

exceed that figure, the figure of 1,500,000 being, in all probability, an exaggeration. Thus, it would seem that the mystic million — a figure so satisfying to oriental ears, hallowed by their linguistic traditions — emerges as a satisfactory and reasonably scientific estimate of the Korean population of Manchuria.

This conclusion is supported by the factors described above and the weight of authority of official and unofficial figures and studies made by Japanese, Chinese, Korean and other sources. Generally speaking, the Japanese estimates, especially the official ones, tend to minimise the number of Koreans in Manchuria, while both the Chinese and Korean figures no doubt exaggerate them.

The most recent Japanese official figures available place the number of Koreans in Manchuria as between 700,000 (Japanese Foreign Office) and 800,000 (South Manchuria Railway). Below are given such figures for different years :¹

| | | | |
|----------------|---------|----------------|----------------------|
| 1912 | 238,403 | 1922 | 515,865 |
| 1913 | 252,118 | 1923 | 528,027 |
| 1914 | 271,388 | 1924 | 531,857 |
| 1915 | 282,070 | 1925 | 513,973 |
| 1916 | 328,318 | 1926 | 542,185 |
| 1917 | 337,461 | 1927 | 558,280 |
| 1918 | 361,772 | 1928 | 577,052 |
| 1919 | 431,198 | 1929 | 597,677 |
| 1920 | 459,427 | 1930 | 607,119 |
| 1921 | 488,656 | 1931 | 629,000 ² |

That these figures minimise the number of Koreans in Manchuria very considerably, apparently for the reasons given above, has been stated to the author by the Bureau Chief of the Japanese Foreign Office most conversant with the subject, by the Chief of the Foreign Affairs Section of the Government-General of Chosen, and by Japanese Consular officials in Manchuria. The author is of the opinion that the most recent official Japanese statement on this subject, quoted below, is entirely reliable :

“ Besides these, a large number of Koreans are far in the interior where it is impossible for the Japanese authorities to conduct investigations concerning them, so that the total number of Koreans living in Manchuria and Mongolia is estimated at 1,000,000 at least.”

The South Manchuria Railway Company, according to an investigation made at the end of 1927, gives the total number of Koreans in Manchuria as 811,580, their distribution by provinces being given as follows : Liaoning 277,000, Kirin 519,780, Heilungkiang 14,800. More recent figures are now available from other Japanese official sources.

M. Shinobu Kuwabata (“ The Koreans in Manchuria and their Education ”) and M. M. Akatsuka (“ A Treatise on the Koreans in Manchuria ”), who have made especially valuable studies, tend to minimise the number of Koreans in Manchuria by confining their statistical studies almost exclusively to those Koreans within the jurisdiction of Japanese Consular districts in Manchuria. While accepting the Japanese Consular figure of 558,280 for 1927, M. Shinobu, nevertheless, states that :

“ More than 800,000 Koreans have settled in Manchuria in nineteen years, and the number makes a striking contrast to that of Japanese immigrants, these being less than 200,000 in twenty-five years, the immigration of whom is facilitated by more favourable circumstances.”

M. Akatsuka, similarly, has restricted his studies before 1930 to Japanese Consular figures and concluded that :

“ . . . 800,000 or thereabouts is held as an approximately rational estimate of the Korean settlers in Manchuria.”³

This estimate does not take account of Koreans widely distributed along the eastern and northern frontiers of Manchuria adjoining territories of the Union of Soviet Socialist Republics.

Turning to the Chinese estimates of the Korean population in Manchuria, it must be said that their official figures are even less reliable than the Japanese figures, since it is known that their statistical services are inadequate. In fact, many of the figures given in Chinese official publications do little more than reproduce the figures obtained from other sources. It is stated, however, that according to the Department of People's Affairs of the North-East, as quoted by Chen Tso-liang in his book “ The Korean Problem in the Eastern Provinces ”, the figure for the Koreans in the two provinces of Liaoning and Kirin alone is given at approximately 700,000. There are, however, many Koreans in Heilungkiang Province who here are not accounted for.

¹ Japanese Assessor's document “ B ”.

² Japanese Foreign Office figure, given to the writer.

³ M. AKATSUKA, formerly of the South Manchuria Railway Co., General Affairs Department, “ Korean Settlers in Manchuria ” in the *Manchuria Daily News*, January 20th, 1930, and following numbers.

Elsewhere in this same study, M. Chen states that the figure of approximately 800,000 no doubt minimises the number of Koreans in Manchuria, giving the distribution as follows :

| | |
|---------------------------------|------------------|
| Liaoning Province | 455,125 |
| Kirin Province | 566,320 |
| Heilungkiang Province | 363,240 |
| Inner Mongolia | 2,500 |
| Total | <u>1,377,185</u> |

In the opinion of the author, the figure given for Heilungkiang Province may be an exaggeration. There is a general tendency on the part of Chinese writers to quote extraordinarily high totals, probably for the reason that by doing so it will focus attention on their claim that the Koreans in Manchuria are a “vanguard of Japanese penetration and absorption”.

Independent estimates have also been made by certain Korean political and economic organisations and private individuals. Although such estimates as are available from Korean associations which are still organised for the purpose of maintaining the so-called independence movement are open to criticism, they do contain very suggestive information as to the distribution of Koreans not otherwise available. For example, it is generally supposed that there are perhaps only two or three thousand Koreans in Jehol Province, but, in the author’s judgment, the information which he has obtained from Korean sources would tend to justify the assertion that there are at least 10,000 Koreans in Jehol. There are no doubt Korean communities in northern Kirin Province and especially in the lower Sungari valley region whose numbers can only be estimated after a careful scrutiny of population figures in the possession of these Korean “partisan” organisations. M. Hoon K. Lee, of Union Christian College, Heijo (Pyengyang), Korea, in his recently published valuable article on Korean migrants in Manchuria in the *Geographical Review*, New York, April 1932, concludes that :

“The disparity in the estimates of the Chinese in Manchuria is exceeded by the fact that a number of Koreans in Manchuria are political exiles who are not willing to report their existence to any of the Japanese agencies in Manchuria, and large numbers of Koreans are naturalised as Chinese citizens. On a bold venture, we may place the minimum number of the Korean population at not less than 800,000. This is less than 3 per cent of the total population of Manchuria ; nevertheless, the Koreans come next to the Chinese in numerical strength.”

M. Lee, however, while concluding that 800,000 is a minimum figure, seems to have confined his studies more or less to Kirin Province and the “Chientao (Kando) District”. From several private Korean sources in Harbin, the author elicited the judgment that the Korean population of Manchuria is approximately 1,000,000. M. Kim San-min, a Korean in the employ of the South Manchuria Railway Company, Dairen, author of a book entitled “The Wretched Condition of Koreans in Manchuria and its Solution” (in Japanese), estimates the total number of Koreans as between 1,300,000 and 2,000,000, emphasising that there are a great many Koreans living in the interior who are unknown to the Japanese Consular authorities. Considering the history of Korean migration to Manchuria, the author believes it is impossible to accept these figures.

II. DISTRIBUTION OF KOREANS IN MANCHURIA.

Korean settlers are widely distributed throughout Manchuria, especially east of a line drawn from Dairen following the South Manchuria Railway north towards Harbin and continued to the Amur river. They are concentrated in the largest numbers in the regions adjoining the Yalu and Tumen rivers, which form the boundaries between Chosen (Korea) and Manchuria. According to the Japanese Consulate-General at Lungchingsun, the Korean population of the so-called “Chientao District”, including Hunchun, was 395,847 in 1931, the Koreans outnumbering the Chinese in this district over three to one. This district has for decades attracted most of the Korean emigrants and, in turn, is the region from which Korean migrants have radiated into adjoining regions. Kirin Province therefore contains probably between five and six hundred thousand Koreans, including those north of Chientao in the Mutan river valley, especially around Ninguta, those around Tunhua, Kirin City, Changchun, Wuchang, large Korean populations along the eastern section of the Chinese Eastern Railway between Harbin and Pogranitchnaya, and those east and north of Sanhsing, between the Ussuri river and the lower Sungari.

In Heilungkiang Province, the Koreans are concentrated especially in the lower Sungari valley, spreading north-west to Taheiho, in the Rulan river valley, north of Harbin and in the region where the Taonan-Tsitsihar railway system intersects the eastern section of the Chinese Eastern Railway. There are Korean communities distributed on the Manchurian, as well as the Siberian, side of the Amur river, throughout its entire course as the boundary of northern Manchuria, their numbers having increased materially in recent years due to the “backflow” of Koreans from the Union of Soviet Socialist Republics. The Koreans have, in fact, for many decades migrated east and north from eastern Kirin Province to the adjacent Russian territories beyond the Ussuri and Amur rivers. There are tens of thousands of Koreans in the Maritime Province of the Union of Soviet Socialist Republics, and in the region north of the lower

reaches of the Amur. The occasional traveller over the Amur route of the Trans-Siberian Railway around northern Manchuria would hardly realise that a very large part of the peasantry who greet the incoming trains at the way stations between Blagovestchensk and Habarovsk are Koreans. In 1929, the writer talked with many of these Koreans, assuming them to be Chinese, since they wore Chinese clothing, but found them to be bilingual or trilingual Koreans. One cannot fail to notice the large numbers of Koreans in Vladivostok.

III. OCCUPATIONS OF KOREANS IN MANCHURIA.

The great majority of the Koreans in Manchuria are engaged in agriculture, and of these by far the largest number cultivate rice-fields. Most authorities assert that over 90 per cent of the Koreans in Manchuria are farmers. This is but natural, since the population of Korea is primarily rural, and especially so since the Japanese, by their political influence in the peninsula, have stimulated the production of rice, and a very large part of the migrants from Korea are familiar with paddy-field cultivation. Of the Koreans living outside of the cities and towns in Manchuria, probably over 95 per cent are engaged in agriculture, mostly rice cultivation. As to the occupation of other Koreans in Manchuria, it may be interesting to quote M. M. Akatsuka who, among Japanese students of the Koreans in Manchuria, is perhaps the best informed :

“ Of Koreans in Manchuria, about half of the inhabitants, other than farmers, are without regular employment, or, more exactly, are secretly engaged in unlawful occupations. This is acknowledged by Japanese, Chinese and even by Koreans themselves. These unlawful trades include professional insubordination, smuggling of contraband drugs and other articles, evasion of taxes, and illegal brokerage. Most of the smugglers live in cities in the Chinese Eastern Railway area, notably in Harbin In Antung (on the Yalu river), they smuggle salt from Chosen and smuggle rice to Chosen. ”¹

M. Kim San-min, of the South Manchuria Railway, describes the occupational distribution of the Koreans as follows :

“ The occupations of Koreans in Manchuria may be divided into two classes according to their geographic distribution : agriculture, associated with rural villages, and commerce and trades in towns. Generally speaking, no opportunities are open for the Koreans, except in agriculture. This is especially the case with Koreans of the educated classes. In no other part of the world perhaps is there a phenomenon so remarkable as this condition of the Koreans in Manchuria. Of educated Koreans in Manchuria living in the interior, some 30 per cent are paid by anti-Japanese organisations ; a little less than 10 per cent are merchants or engaged in other professions ; the rest are all educated idlers. In the South Manchuria Railway areas, in places directly under the jurisdiction of the Japanese consulates, some 30 per cent of the Koreans are traders in contraband, 10 per cent are merchants and another 10 per cent are engaged in various trades . . .

“ What is noteworthy is that the Chinese do not like to see the Koreans in the railway areas trade in contraband, and the Koreans do not like to see their fellow nationals engage in immoral or unlawful occupations, just as the Japanese do not like to see the intelligent Koreans in the interior have connections with anti-Japanese organisations. These three classes of people are characteristic of certain special districts of Manchuria. The anti-Japanese organisations exist in the interior, or places beyond the control of Japan and the Japanese, under the sympathy or patronage of the Chinese, while, unfortunately, the unlawful and immoral traders live and thrive in the South Manchuria Railway areas and in towns and cities with the sympathy or connivance of the Japanese authorities. ”²

The political and economic problems associated with the Koreans in Manchuria, therefore, are primarily agrarian problems, those involving settlement on the land, the opportunity to purchase, lease or otherwise acquire land, tenancy relations, taxation and protection. It is unfortunately true that, while the vast majority of the Koreans in Manchuria have little or no interest in politics, except that they retain a strong race consciousness, there are minority groups, especially in the cities and towns along the South Manchuria Railway and the Chinese Eastern Railway, which, mainly for want of other opportunities to make a livelihood, are engaged in illicit trafficking or dispensing of narcotic drugs. The number of Koreans engaged in the drug traffic in Harbin is extraordinary. A lively trade in contraband articles has long existed across the Korean frontier, notably at Antung, instances of which are on record with the Chinese Maritime Customs. These conditions have created international problems which have embittered Sino-Japanese relations in Manchuria.

Finally, Manchuria, especially the “ Chientao District ” and the towns along the eastern section of the Chinese Eastern Railway, including Harbin, is a base of operations for groups of Korean partisans which include the “ Independence Group ”, who still advocate a policy

¹ M. AKATSUKA, “ A Treatise on Koreans in Manchuria ” (in Japanese).

² The above is a translation from M. KIM's book, “ The Wretched Condition of Koreans in Manchuria ”, etc., as furnished by the Japanese Assessor's office (in Japanese).

of "Korea for the Koreans", the Korean communist group, who in recent years have become relatively more important than the former, and numerous smaller groups whose unity has been created around the focal point of their anti-Japanese activities. Kirin City has long been a centre of the Korean independence advocates and more recently of communist organisations. In the frontier areas of the lower Sungari valley and in eastern Kirin, south of the Chinese Eastern Railway, guerilla bands of Koreans have for years levied blackmail upon Korean farming communities under the guise of offering them protection. In these circumstances, one is led to be very sceptical when confronted with surprisingly exact figures showing the occupational distribution of Koreans in Manchuria. There are, of course, of the Koreans not engaged in agriculture, many who compete as best they may in legitimate professions and trades, including among them well-educated Koreans, ex-officials, teachers and professional men who have migrated from Korea since 1905, and it is to be noted that a very considerable part of these Koreans are Christians, especially of the Protestant faith.

IV. RICE CULTIVATION IN MANCHURIA.

Returning to the rural section of the Koreans, it may be said that they, and not the Chinese farmers, have been responsible for the development of rice culture in Manchuria. To be sure, the cultivation of dry rice-fields was practised by the Chinese in southern Fengtien Province, especially around Tashihchiao, long before the mass migration of Koreans since 1900. Many Chinese farmers in Kirin and Heilungkiang Province have learned from the Koreans their methods of cultivating paddy-fields, but their numbers are comparatively insignificant. It is the Koreans who are largely responsible for the remarkable increase in rice production in Manchuria during the last few years. According to the South Manchuria Railway Research Office, production of rice increased from approximately 7,000,000 bushels in 1915 to 17,000,000 bushels (paddy rice 8,225,929 bushels and upland rice 9,224,216 bushels) in 1930. Before the Russo-Japanese war, little if any rice was grown in northern Manchuria — *i.e.*, north of Changchun. Paddy and upland rice cultivation was introduced in the region between Mukden and Harbin by Korean farmers who supplied Russian troops with agricultural produce during the Russo-Japanese war. By 1915, paddy-fields were to be found along the eastern section of the Chinese Eastern Railway and, since then, rice has been increasingly cultivated in the lower reaches of the Sungari, Amur and Ussuri rivers, as far north as the fifty-second parallel of latitude.

It is interesting that nowhere else in the world is rice grown in large quantities so far north and that, according to a Russian agronomist of Harbin who is a specialist in rice culture, the production per unit of cultivated area is much larger, contrary to a very prevalent view, in Manchuria generally than in tropical regions such as Java and the Philippine Islands.¹ It is also interesting that there is a much larger acreage of upland rice than of paddy-fields cultivated by the Korean farmers in Manchuria. In this connection, a statement of M. H. K. Lee, a Korean economist, may be quoted :

"The basis of Korean colonisation in Manchuria is especially rice cultivation. Paddy-fields (151,238 acres) make up about 26 per cent, dry fields (492,541 acres) about 74 per cent of the area under Korean utilisation. The longer the pioneer work, the larger proportion of dry fields over paddy-fields. In the counties located along the Korean border, the acreage of dry field is far greater than that of paddy-field. This simply means that the Koreans mainly settle in a new place in connection with the possibility of rice cultivation ; later, as lands suitable for paddy-fields become fewer, they also utilise the dry fields."

In view of the fact that in northern Kirin and Heilungkiang Provinces there still exist large areas of arable but unoccupied land fit for paddy cultivation, in regions where seasonal temperatures, rainfall, and soil conditions are suitable for rice culture, it is to be expected that rice production in Manchuria will increase progressively year by year. As the standard of living of the Chinese and Koreans in Manchuria tends to rise, however, the present percentage of the rice production which is consumed locally (about 50 per cent) will also tend to increase, thus reducing the potential export to Japan.

V. EARLY KOREAN SETTLEMENTS IN MANCHURIA.

The Koreans, or their racial antecedents, are reputed by many authorities to have first appeared as a distinct racial group in Manchuria around the city of Fuyu, where the Nonni river joins the Sungari in present Liaoning Province north-east of Changchun. Centuries later the Kingdoms of Kao-li and Po-hai arose in Manchuria ; the latter, after vicissitudes of conquest and subjugations, eventually, during the thirteenth century, pushed south across the Yalu river into the Korean peninsula. There the Kingdom of Kao-li (of which "Korea" is a latinised

¹ Compare, however, the opinion of M. N. MURAKOSHI in *The Geographical Review*, July 1930, page 492.

form) or Chaohsien ("Land of the Morning Calm", pronounced "Chosen" in Japanese) maintained intimate relations with China, usually as an admittedly vassal or suzerain State, until the closing years of the nineteenth century.

These historical associations have a certain contemporary political significance. They suggest why there is insistence among Japanese writers that to the Koreans belongs the prior right of possession of the land in Manchuria. They explain also why there is among the Koreans a sentiment interest in Manchuria, especially in those districts which their tradition depicts as their rightful patrimony. The Liaotung peninsula was once under the sway of the Kingdom of Kao-li, though Chinese settlement in this same region is very ancient. Koreans say that there is an old prophecy to the effect that, when they settle again in the neighbourhood of Ninguta, they will become a rejuvenated and powerful nation. Ninguta, situated in the Nutan valley north of Chientao, which district still has traces of an ancient Korean civilisation, is to-day a centre of a very important Korean community which, in recent decades, has sprung from migrants who have gone north from the "Chientao District".

The so-called "Chientao District" ("Kando" in Korean, or "Kanto" in Japanese), since before the Manchus established their dynasty in China, has had a very considerable Korean population. Although the Ch'ing (Manchu) dynasty strictly forbade both Korean and Chinese migration to Manchuria, the Koreans, like the Chinese, continued to filter into Manchuria, especially Kando, until, finally, after 1881, the Province of Kirin was opened to Korean immigration. Especially since 1869, however, stimulated by a disastrous famine in Korea, thousands have migrated across the Yalu and Tumen rivers. It is impossible to say how large the Korean population of Manchuria was before 1900.

VI. VOLUME OF KOREAN IMMIGRATION TO MANCHURIA.

Hitherto, very little has been published of a reliable character giving figures of the volume of Korean immigration to Manchuria. There has naturally been a far greater interest, both in eastern Asia and abroad, in the Chinese migration to Manchuria, which has been more spectacular because more numerous and fraught with potentially greater political importance for China. Other factors have tended to conceal the facts concerning the penetration of Korean migrants and settlers into Manchuria. In recent years, the position of the Koreans in Manchuria has not been an enviable one. They retain a strong racial consciousness and harbour feelings of deep resentment, in the main, against the Japanese, who, in 1910, annexed Korea to Japan. On the other hand, especially since 1927, the Koreans in Manchuria have suffered extreme hardships and inconsiderate and oppressive treatment from the Chinese authorities, who have come to regard this Korean infiltration and settlement on the land as a dangerous vanguard of Japanese political and economic penetration. No doubt there had long been a clandestine seepage of Koreans from their homeland into Manchuria, especially of those who are political partisans opposed to Japanese rule in Chosen.

It may be interesting to draw attention to certain of the distorted conceptions of the volume of this Korean migration. A Chinese newspaper (*Shun Pao*, April 2nd, 1931) states that no less than 3,700,000 Koreans were driven or constrained to migrate to Manchuria from 1920 to 1930, and that plans were being considered to "smuggle" 400,000 others from Chosen. A Japanese writer, M. Shinobu Kuwabata,¹ concludes an interesting account of late nineteenth-century migration of Koreans to Manchuria by stating:

"More than 800 000 Koreans have settled in Manchuria in nineteen years and the number makes a striking contrast to that of Japanese immigrants, there being less than 200,000 Japanese in Manchuria after twenty-five years, although the immigration of the Japanese is facilitated by more favourable circumstances."

The opinion of M. H. K. Lee, the Korean scholar quoted above, who concludes that the net total of Korean migrants remaining in Manchuria, over and above those who returned, during the period from 1910 to 1926, is something over 200,000, appears to be justified:

"It is no less difficult to determine the trend of the Korean migration to Manchuria. The Chinese authorities tend to exaggerate the number, Japanese authorities to minimise it. The period 1917 to 1920 certainly witnessed a conspicuous increase of Korean emigrants, explained by the fact that, in that time, the Korean independence movement was at its height. During the seventeen-year period 1910 to 1926, the total number of emigrants probably did not exceed 300,000; while, from 1912 to 1926, the total number of returning migrants was about 90,000."

From the most recent figures made available, especially by the Foreign Affairs Section of the Government-General of Chosen and by the Japanese Consular Service in Manchuria — the only figures so compiled as to make scientific analysis of them possible — the author concludes that the net total of Korean emigrants to Manchuria, over and above those returning to Chosen, between the years 1910 and 1931 inclusive, is at least 200,000. The volume of Korean emigrants to Manchuria from 1910 to 1931 totalled, according to the Government-General of Chosen, 296,359, while the returning migrants to Korea totalled 134,983, leaving a net

¹ "Koreans in Manchuria and the Question of their Education".

balance of Korean settlers in Manchuria of 161,376.¹ Japanese authorities, however, admit that these figures actually minimise the annual totals for those leaving Korea, since they do not take account of unregistered Koreans who secretly cross the northern frontier, especially during the winter months when the Yalu and Tumen rivers are frozen.

Again, when these figures are studied in comparison with those which purport to give the number of Koreans who have migrated to Manchuria from particular provinces of origin for this same period, it will be seen that the total emigration for the years 1910 to 1931 cannot have been less than 300,000 and more probably is about 350,000. This second group of Chosen Government figures, showing the places of origin in Korea of the migrants into Manchuria, gives those migrating from north Korea (North Heian, South Heian, North Kankyo and South Kankyo Provinces) as 256,029, from central Korea (Kokai, Kogen, Keiki, North Chusei and South Chusei Provinces) as 59,009, and from southern Korea (North Zenra, South Zenra, North Keisho, and South Keisho Provinces) as 62,769. This gives a total of 377,807 Koreans who declared their intention to the Japanese police authorities in the various provinces of Korea to migrate to Manchuria.² No doubt, many of those who migrated from the southern provinces remained permanently, or for a time, for example, in the northern provinces, a fact which would tend to indicate that the actual number migrating to Manchuria is not larger but smaller than the total given. However, when due allowance is made for the fact that, especially from the northern provinces, those which actually border on Manchuria, there is admittedly a very large clandestine migration across the border, no account of which is taken in the Japanese figures, it is more than probable that the figure of 350,000 for those migrating from Korea between 1910 and 1931 is approximately correct. By far the largest number, approximately 70 per cent, of Korean emigrants to Manchuria come from northern Korea; and, from North Kankyo Province alone, the official figure, giving the Korean emigrants to Manchuria for this period, shows that over one-third of all the Koreans migrating to Manchuria come from this province. A glance at the map will show, considering the mountainous character of the frontier between this province and Manchuria, how readily possible it is for Koreans to migrate into Manchuria without the official knowledge of the Japanese frontier police.

The estimate that the net volume of Koreans remaining in Manchuria for the period from 1910 to 1931 cannot be less than 200,000 is also supported by the figures which show the increase of Korean population in the so-called "Chientao District". According to official figures obtained from the Japanese Consulate-General at Lungchingtsun, the Korean population in 1911 was approximately 90,000, in 1916 approximately 200,000, in 1921 approximately 300,000, in 1926 approximately 350,000 and in 1931 nearly 400,000 (395,847). In other words, the Korean population of Chientao between 1910 and 1931 has increased, according to these figures, by about 300,000.³ Making due allowance for the natural increase by births over deaths of those Koreans residing in the "Chientao District", it is evident that the increase of population there, directly accounted for by immigration from Korea, at least justifies the estimate that over 200,000 Koreans migrated (net) to Manchuria during this period. If these population figures are correct, it would rather seem, considering the known migration of Koreans to other parts of Manchuria — for example, by way of the Antung-Mukden Railway, or across the Yalu river outside the "Chientao District" — that the total number of Koreans migrating to Manchuria in this twenty-year period would be somewhere between 200,000 and 300,000.⁴

In this connection, it is interesting to record that there are no passport regulations for Koreans crossing the border to Manchuria. The Chinese authorities have not required Koreans to possess such passports. The only migration figures available at the border, therefore, are those which are kept by the police in order to enforce the Chosen Government police regulations and Sino-Japanese agreements relating to contraband and the possession of arms.

For decades, Koreans, travelling in small groups, have crossed the mountain passes in north-eastern Korea into Manchuria, this movement, in so far as it is of a secretive character, taking place especially in the winter months, when official surveillance is at a minimum. How large this type of migration has been in recent years is impossible to say, but it is known that, especially during 1919 to 1921, during the independence rising in Korea, this phenomenon occurred, as the following quotation from a foreign resident of Manchuria suggests:

"The untold afflictions of the Korean immigrants coming into Manchuria will doubtless never be fully realised, even by those actually witnessing their distress. In the still closeness of a forty-below-zero climate in the dead of winter, the silent stream of white-clad figures creeps over the icy mountain passes, in groups of tens, twenties and fifties, seeking a new world of subsistence, willing to take a chance of life and death in a hand-to-hand struggle with the stubborn soil of Manchuria's wooded and stony hillsides. Here, by indefatigable efforts, they seek to extract a living by applying the grub-axe and hand-hoe to the barren mountain sides above the Chinese fields, planting and reaping by hand between the roots the sparse yield that is often insufficient to sustain life.

"Many have died from insufficient food. Not only women and children, but young men have been frozen to death. Sickness also claims its toll under these new conditions of exposure. Koreans have been seen standing barefooted on the broken ice of a riverside fording-place, rolling up their baggy trousers before wading through the broad stream,

¹ See Annex I, "The Volume of Emigration of Koreans to Manchuria".

² See Annex II, "Places of Origin in Korea of Koreans migrating to Manchuria".

³ See Annex III, "Population Figures of Chientao".

⁴ See also Annex IV, "Comparative Table of Number of Korean Immigrants abroad since Annexation of Korea to Japan".

two feet deep, of ice-cold water, then standing on the opposite side while they hastily readjust their clothing and shoes. . . .

“ Thus it is by households they come, old and young, weak and strong, big and little. . . . Babies have been born in wayside inns.

“ In this way, over 75,000 Koreans have entered during the past year, until the number of Koreans now living in both the north and western portions of Manchuria totals nearly half a million.”

VII. ROUTES OF MIGRATION AND RE-MIGRATION.

The Koreans who have migrated to Manchuria during the last two decades have travelled over four principal routes. The first and by far the largest group has entered Manchuria from North Kankyo Province in the extreme north-eastern corner of Korea. Here the boundary from Paitoushan (“ white Summit Mountain ”) is an ill-defined mountain range continued by the Tumen river to the Japan Sea. Probably only a very small part of the migrants travel by the light railway line beyond Kwainai to Kamisampo and into the “ Chientao District ”. During the winter months, the greater part seeps across the snowclad mountains and the frozen river, dispersing widely into this part of Kirin Province. A second, and less important group, has migrated from north-eastern Korea across the lower reaches of the Tumen, or by the sea route to the Maritime Province of the Union of Soviet Socialist Republics, then dispersed north of Nikolsk on the right bank of the Ussuri river and around Lake Hanka, from there penetrating far north into Siberia. A third group, proceeding north from the Kankyo and Heian Provinces, has filtered across the entire course of the Yalu river, settling, in the first instance, in what is commonly called “ Tung Pien Tao ” — viz., the south-eastern part of Liaoning Province. The fourth group, since the construction of the Antung-Mukden Railway by the Japanese military in the Russo-Japanese war, has followed the rail route from Antung toward Mukden and Changchun.

Partly because of the tendency of the Korean pioneer to reclaim first such lands as are most likely to produce large crops, especially of rice, and, when productivity diminishes, to move on to virgin areas, and more especially because of the various influences of recent years which have tended to cause a re-migration of the Koreans from the “ Chientao District ”, southern Kirin and south-eastern Fengtien, there has been, especially since 1926, a constant penetration of Koreans into Northern Manchuria. This tendency to migrate to the north is by no means exclusively a contemporary phenomenon. From the “ Chientao District ” for many decades, the Koreans, travelling down the course of the Hurca river (Mutan), have established settlements from Ninguta to Sanhsing (Ilan) on the Sungari river. In this region, there are a number of communities established three or four generations ago. From the “ Chientao District ” also, the Koreans have proceeded north-west toward Tunhua, from which the Kirin-Tunhua railway has facilitated their re-migration to Kirin, Changchun, Harbin and adjoining regions. In recent years, there has been a noticeable “ backflow ” of Koreans from the Maritime Province of the Soviet Union. Thus, these four streams of Korean migration have fused, in consequence of re-migration from places of original settlement in Manchuria, in the region bisected by the eastern section of the Chinese Eastern Railway.

This situation has been described by a foreign missionary who, for many years, has worked among Chinese and Koreans in North Manchuria :

“ There are, to my knowledge, settlements of Koreans east of Harbin at Wuchimiho, Hailin, Mulin, Machiaoho, and Pogranitchnaya on the eastern section of the Chinese Eastern Railway ; also at Ninguta, Tungninghsien, Lishuchen and Mishan. Those at Tungninghsien (south of Pogranitchnaya on the Sino-Russian border) settled early, I am sure, the first coming some seventy years ago, as they claim, even before Chinese agricultural colonisation penetrated beyond Niguta. Those along the Chinese Eastern Railway entered later. Those in the Mishan region, in the Ilan District, north of Lake Hanka, probably settled there even more recently.”

VIII. SINO-JAPANESE PROBLEMS RELATING TO THE KOREANS IN MANCHURIA.

The presence of a million Koreans in Manchuria, who, when not naturalised as Chinese subjects, possess Japanese nationality under the Japanese law, served to accentuate the clash of policies of China and of Japan. Out of this situation, there arose specific controversies, in consequence of which the Koreans themselves were victimised, being subjected to suffering and revolting brutalities.

Out of this general situation, there arose the question whether the Koreans were, as the Chinese alleged, “ a vanguard of Japanese penetration and absorption of Manchuria ”. Chinese opposition to Korean acquisition, by purchase or lease, of land in Manchuria, was resented by the Japanese, who claimed that, as Japanese subjects, the Koreans were entitled to the privileges of land leasing acquired by Japan in the Treaty and Notes of 1915. The problem of dual nationality supervened, since the Japanese pursued a policy of refusing to recognise naturalisation of Koreans as Chinese. The use of Japanese consular police to invigilate and

protect the Koreans was resented by the Chinese as an encroachment upon their jurisdictional rights, resulting in innumerable clashes between Chinese and Japanese police. Special problems arose in the "Chientao District", just north of the Korean border, where the 400,000 Korean residents outnumber the Chinese over three to one. By 1927, these issues precipitated a Chinese policy of restricting the free residence of Koreans in Manchuria, which the Japanese characterise as unjustifiable oppression.

IX. THE CAUSES OF KOREAN MIGRATION TO MANCHURIA.

By 1927, the Chinese authorities in Manchuria generally came to believe that the Korean population in these provinces, however unsolicited and undesired on their own part, had become in fact "a vanguard of Japanese penetration and absorption" of Manchuria. In this view, so long as the Japanese refused to recognise the naturalisation of Koreans as Chinese subjects, and especially since the Japanese consular police constantly exercised surveillance over Koreans, coming into conflict with Chinese police regulations, the acquisition of land by Koreans, whether by purchase or lease, was an economic and political danger "which threatened the very existence of the Chinese people in Manchuria".

The view became prevalent among the Chinese that the Koreans were being compelled to migrate from their homeland in consequence of a studied policy of the Japanese Government to displace Koreans in Chosen with Japanese immigrants from Japan, or to make life so miserable for the Koreans, politically and economically, especially by forcing them to dispose of their land holdings, that emigration to Manchuria would naturally follow, thus making the Koreans an unwilling vanguard of Japanese penetration into Manchuria. Being "an oppressed race" in Korea, ruled by an alien Government in which the Japanese monopolised all the important official posts and policed the peninsula with ubiquitous gendarmes, the Koreans, according to this Chinese view, migrated to Manchuria to seek political freedom and an economic livelihood. Such a migration was welcomed as an economic asset and favoured out of a natural sympathy for "an oppressed race", dispossessed of their patrimony, long-suffering, destitute and worthy of humanitarian sympathy. This was so much more the case as 90 per cent of the Koreans are farmers, the majority of whom are cultivators of rice-fields, an industry in which they do not compete with the Chinese farmers who do not cultivate paddy-fields in Manchuria. In the Chinese view, but for the Japanese refusal to permit their expatriation, and the Japanese policy of pursuing the Koreans into Manchuria, under the pretext of offering them necessary police protection, this Korean colonisation in Manchuria would have created no major political and economic problem. The Chinese refuse to admit that the efforts admittedly taken by their officials in Manchuria, especially after 1927, to restrict the free settlement of Koreans on the land in Manchuria, except as mere tenants or labourers, are properly to be regarded as instances of "oppression" of Koreans, their contention being that these restrictive measures were justifiable acts, within their competence on Chinese territory, and necessary in self-defence to counteract the policies of Japan.

Admitting that the Chinese "suspicion that the Koreans are the vanguards of Japanese encroachment on Manchuria and Mongolia" was the principal cause of Chinese "oppression" of the Koreans, the Japanese vigorously deny the allegation that they pursued any definite policy of encouraging Korean migration to Manchuria, stating that "Japan having neither encouraged nor restricted it, the Korean emigration to Manchuria must be regarded as the outcome of a natural tendency", a phenomenon uninfluenced by any political or diplomatic motives. They therefore declare that "the fear on the part of China that Japan is plotting the absorption of the two regions by making use of Korean immigrants is entirely groundless".

In this connection, a particularly appropriate quotation from the Korean scholar, M. H. K. Lee, deserves citation :

"In fact, Koreans can hardly be considered a vanguard of Japanese advance into the zones of colonisation in Manchuria. The few pro-Japanese among them restrict their residence to the railway zones and other localities where Japanese influence is already pronounced. The pioneers proper, on the contrary, are more naturally inclined to be anti-Japanese. To the Korean immigrant, the future looks dark — 'unless Japan owns Manchuria permanently or else takes her hands off it,' as one of the number expressed it . . ."

"It has often been said that Japan seeks to drive Koreans from Korea to make room for her own people drawn from the overcrowded rice-fields and cities in face of an annual population increase of about 800,000. But there are to-day 21,000,000 persons in Korea living on 85,000 square miles, and the annual population increase is over 200,000! It is already an overpopulated country. In the last twenty years, less than 50,000 Japanese have been settled on the land in Korea. The advance of the Korean migrants to Manchuria is therefore not a political, but primarily an economic phenomenon. However, once settled in Manchuria, they form one of the elements in the political situation, and it is still a question whether the migration is a benefit or a hindrance to Japan."

An interesting view of a Japanese writer, M. M. Amano, in a work in the Japanese language entitled, "The Problem of Koreans in Chientao", is similarly suggestive :

"The real cause (of Korean migration to Manchuria) is no other than the development of capitalism in Chosen and the non-adaptability of the Koreans to capitalism. The

enforcement of the law of ownership of land, the registration of uncultivated State lands, and similar arrangements, have deprived Korean farmers of the right and practice of joint tillage, pasturage, and of gathering fallen leaves and grass. The purchase of land and the sending of Japanese agricultural settlers by the Oriental Development Company, the Fuji Industrial Development Company and other organisations, together with Japanese capitalists, prompted the ruin of the Korean landlords and farmers, and produced a rise in the price of land and of farm rentals. As far as the plan and arrangements for increasing the yields of rice are concerned, capital was more readily furnished to large landlords than to medium and small landlords. Even the irrigation schemes and enterprises, which by themselves are showing admirable results, are, as a matter of fact, proving a cause of ruin and of exodus of Korean farmers. Farmers who have been accustomed to submission for ages could not adapt themselves to these changes on modern lines. They leave behind them their motherland and wander into an unknown world beyond the frontiers. The industrial revolution had its influence, not only upon agriculture, but upon commerce and industry. One household of Japanese settlers pushes out of the land five households of Koreans, as pointed out by Korean intellectuals. In short, the Korean migration in recent years is not due so much to political dissatisfaction and failures in agriculture as it is due to the industrial revolution in Korea, a child of modern capitalism."

M. C. L. Chen, in his recent book in the Chinese language, "The Korean Problem in the Eastern Provinces," gives what, as a matter of fact, is a prevalent attitude of the Chinese, officials and public alike, toward Korean migration to Manchuria :

"By a policy of oppression, the Japanese force the Koreans to move over the Chinese border, and, when they are in Chinese territory, drive them on as precursors of Japanese aggression. The Koreans themselves are not unaware of Japanese designs, but, under the oppressive drive of the Japanese, they cannot have done otherwise. China would have been very glad to welcome with open arms these 'prisoners of starvation,' who could have been naturalised and become good Chinese citizens, had it not been for the fact that the Japanese made use of them for aggression on China, as, for example, Japanese using nationalised Koreans to buy lands for the Japanese. Furthermore, the Japanese deny the Koreans' expatriability and make them 'men without a country'. The Chinese authorities have found it impossible to assimilate them and have been forced to adopt a policy of exclusion which is tantamount to the policy of resisting Japanese aggression. The procedure for the naturalisation of Koreans has been made very strict, and their treatment has been made harsh out of fear for Japanese designs."

The view has been widely prevalent, even among foreigners, that the fundamental cause of Korean exodus from their homeland is rather more political than economic, and has come about in consequence of a more or less definite Japanese colonial policy devised to encourage the migration either by making life unbearable for the Koreans in their homeland or by definite encouragement to Koreans to migrate. Mr. G. L. Shaw, a British merchant long resident of Antung, in an article published in the *Japan Chronicle*, April 2nd, 1929, expressed the opinion that the Japanese Government has encouraged Korean emigration as a means of extending Japanese influence in Manchuria. The late Mr. Lennox-Simpson (Putnam Weale), in an article entitled "Forces behind Japanese Imperialism," *Current History*, January 1920, described what he calls Japanese infiltration tactics and expressed the view that Koreans are actually encouraged to migrate to Manchuria, and, once having settled there, the disturbances which may be expected to follow give Japan a pretext for extending the influence of her police and military forces.

Another British student of Manchurian affairs, Mr. Lancelot Lawton ("*Empires of the Far East*", Vol. II), writing immediately after the Japanese annexation of Korea, expressed the view that "it would seem as though their policy was deliberately directed towards elbowing the Koreans out of their own land". A foreign missionary, who for many years has been working among the Koreans, both in Chosen and Manchuria, recently gave the author his opinion as follows :

"The Japanese authorities were at first more or less indifferent toward the Korean migration to Manchuria. Later, however, they manifested a growing interest in the phenomenon as they began to perceive the advantages to the Japanese of this peaceful penetration of Manchuria."

Japanese writers, however, who have made more thorough studies of the real causes for Korean emigration, while perhaps tending to under-estimate the numbers of political malcontents who have left Korea since annexation by Japan in 1910, do draw attention to fundamental economic causes in Korea for this migration.

Whether it is possible to conclude that this Korean migration to Manchuria since 1910 has been due to a preconceived and continuous official policy of Japan ; whether it may be the indirect result of a definite Japanese policy of dispossessing the Koreans of their land in Korea, and incidentally making room for Japanese immigration there ; or whether this Korean movement to Manchuria is the inevitable result of a combination of factors, not necessarily intentionally created by the Japanese to encourage this migration, factors which are both political and economic, are questions deserving of the most careful study.

X. JAPANESE OFFICIAL POLICY TOWARD KOREAN EMIGRATION.

The Japanese official attitude toward Korean emigration to Manchuria since 1910 seems to have been an admixture of indifference, vacillation, varying from periodic support to restriction of the movement, and recognition of the natural consequences of such a migration, without necessarily encouraging or assisting it. The attitude of the Colonial Ministry and the Chosen Government toward Korean migration to Manchuria does not seem to have been more decisive or more unchanging than the general colonial policy of Japan in Korea, and it is obvious that that policy has undergone significant changes. The early stern administration of General Terauchi and of General Hasegawa was materially modified when Viscount Saito became Governor-General after the "Mansei" riots and the independence outbursts of 1919. Similarly, however much the Japanese may have failed to meet the increasingly serious land problems of the peninsula, there is no doubt that the early efforts to induce Japanese settlers to come to Korea have been given up, and in recent years the Chosen Government has attempted to devise more effective means of meeting the land tenancy problem which, if successful, would no doubt act as a deterrent to the Korean migration. Whatever may have been the results of Japanese colonial policy with respect to Korea itself, which operated indirectly to compel Korean emigration, it would seem that, considering the entire period from annexation to the present, the Japanese Government has not continuously pursued a policy, conceived during the period of annexation, of encouraging or assisting Korean migration to Manchuria.

There have been, as a matter of fact, some evidences of hesitancy on the part of the Japanese authorities to encourage Korean migration, especially of political partisans who, by migrating beyond effective Japanese jurisdiction, might find in Manchuria a more fruitful field for their anti-Japanese activities. This was particularly true during the years from 1919 to 1921, when the Japanese apprehension that there might be an outburst of the independence movement was justified by the "Mansei" riots, in consequence of which the exodus of Koreans, including many malcontents, was materially increased. Moreover, it is reasonable to assume that, since there was a marked difference between the so-called "friendship policy" of Baron Shidehara and the "positive policy" of the late General Baron Tanaka, with respect to Manchuria, which, in their actual application, gave evidence of different attitudes toward the Koreans actually resident of Manchuria, so these more or less rival policies differed also with respect to the question of Korean emigration from Korea. The Korean migration to Manchuria during the last quarter of a century was the indirect result rather of political and economic conditions in Korea, and, in so far as it was directly encouraged by solicitation to the Koreans, that encouragement came from their own organisations, their friends and relatives in Manchuria, stimulated especially by the tales of the Manchurian rice "Eldorado" told by the returned migrants.

Certainly, there is very little evidence, except for precautions taken with respect to the Korean political partisans, of any Japanese official effort to restrict this migration. The Japanese have never imposed rigid passport and inspection regulations at the frontier upon Koreans migrating to Manchuria. No such passports or emigration permits are required, all that is required being registration of change of domicile, and minor requirements concerning contraband and firearms. Again, with respect to those Koreans in Manchuria, even those who, for one reason or another, have become more or less destitute, and, in certain cases, have solicited the aid of the Japanese consulates in their behalf, it may be said that the Japanese authorities have generally refrained from facilitating their return to Korea.

In spite of the reputed "oppression" of Koreans in Manchuria after 1927, there are indications that the Japanese Government, nevertheless has given encouragement to this migration quite recently. There has been encouragement, for example, of the migration of Koreans from the southern provinces to the north, especially to the Kankyo Provinces which, while capable of further agricultural development, are the very provinces from which by far the largest number of Koreans have migrated to Manchuria in the last twenty years. Proposals of an official character for encouraging the migration to Manchuria by establishing emigrant training schools, by distributing economic information concerning Manchuria, especially Chientao, and by offering financial facilities through government subsidised or semi-government land development companies, have been considered by the Government-General of Chosen in recent years.

XI. POLITICAL CAUSES OF KOREAN MIGRATION TO MANCHURIA.

Recognising, of course, the impossibility of differentiating sharply between political and economic causes of Korean emigration, it does seem possible for purposes of convenience to describe first those influences which may be termed political. Generally speaking, Chinese critics of contemporary Korean migration to Manchuria tend to exaggerate the numbers who have migrated from purely political motives. The Japanese, on the other hand, tend to minimise these factors. Without presuming to pass judgment upon the character of the Japanese administration of Chosen since annexation, and without any intention to present an account adequate to temper the criticisms of Japanese colonial policy there, it would seem to be necessary at this juncture to draw attention to a train of circumstances which, taken in their totality, have no doubt contributed much to cause Koreans to leave the country. It may be said, moreover, that the beneficial results of the Japanese administration of Chosen are widely known abroad, these achievements being particularly evident in the development of an effective and orderly administrative system, agricultural reforms, irrigation, mining, communications, especial

railways, public health and sanitation, education, tax administration, currency reform, and municipal administration. It is not with the intention to minimise the many remarkable achievements in these directions that the author, for the purpose of enquiring into the background of Korean migration to Manchuria, is impelled to draw attention to those circumstances, some of which are purely psychological, which raise a very serious doubt whether, in spite of the obvious material achievements of Japanese administration, Japanese colonial policy has achieved the goal of incurring the sincere gratitude of the Korean people themselves. In this connection, it is to the point to quote the opinion of Bishop Herbert Welch (*Christian Advocate*, August 7th, 1919), whose intimate knowledge of these circumstances lends authority to his conclusions. After reviewing in detail the many really remarkable achievements of the Japanese in the fields of administration noted above, he expresses this opinion :

“ It is perfectly clear that the Japanese administration has failed in its colonial policy in two or three matters so fundamental and so far-reaching in their effects as to be almost fatal. ”

What is important here is to raise the question whether the Koreans have migrated to Manchuria because of discontent with the conduct of Japanese political administration of the peninsula. Probably many Koreans would have been discontented under Japanese rule even if they had been given a Utopia — are there not deep-rooted antipathies between these peoples which ante-date the period of annexation ? Is it not probable that the opinion of Bishop Welch, describing the Korean attitude, may still be valid to-day :

“ It is true that the Koreans feel that these improvements in the country are dictated by no unselfish motive on the part of the Japanese ; that they are seeking to make the peninsula better for their own occupation and benefit, rather than for the advantage of the Koreans themselves. ”

Lord Curzon, the British statesman student of Eastern Asia, after a visit to Korea in the early nineties, wrote :

“ The race hatred between Koreans and Japanese is the most striking phenomenon of contemporary Chosen. ”

The Koreans have a very strong race and culture consciousness. Theirs is a very ancient civilisation, developed even until to-day on Confucian lines ; whatever may have been the shortcomings of the native dynasty which ruled Korea until the transitional period from 1905 to 1910 — and it is well known that few rulers have abused their authority more — the Koreans, which is to say at least the great majority, who are farmers and extremely conservative, have had deep respect for the dynastic tradition itself. Much that is new in the Chosen of to-day and many circumstances which surrounded the closing years of the Korean dynasty violated these traditions and characteristics of the Koreans.

The involvement of Viscount Miura, the Japanese Minister, in the murder of the Queen in 1895, left an impression upon the Koreans which will not soon be effaced. Among the Koreans, the rigorous means used by the Japanese to suppress the “ Righteous Army ” of some 5,000 Korean guerilla patriots, in 1907-8, when some 14,000 Koreans, most of them peasants, are said to have been killed, fired the flames of hatred. The stern military regime of the first Governor-General of Chosen, General Count Terauchi, and that of his successor, General Hasegawa, which were described in the Japanese Diet as “ military despotism ”, contributed much to the so-called independence “ rising ” in 1919. Influenced, no doubt, by President Woodrow Wilson’s strictures about self-determination, but emboldened by the increasing rigours of life under the surveillance of ubiquitous Japanese gendarmes, nation-wide demonstrations occurred, known as the “ Mansei ” rising, on the eve of the State funeral of the old Korean Emperor, whose dynasty had ceased to rule in 1910. Although the so-called independence movement seems to have progressively become less important since that date, the stern measures taken by the Japanese authorities to repress the rising of 1919, and to stamp out independence advocacy since then, have very probably not served to instil into the minds of the Koreans a feeling of gratitude for the material achievements of Japanese administration in Chosen.

Probably with considerable lack of appreciation of the extraordinarily difficult problems confronted by Japan in the peninsula — the extreme conservative tendencies of the people, the backward ways of the rural population, their superstitions, their obstructive familism and communalism and opposition to change, bred of centuries of subjugation to their own rulers — the Koreans, especially the more vocative intelligentsia, and more especially those residing abroad, claim that their people under the Japanese regime have become “ hewers of wood and drawers of water ” for their overlords. They point to instances of dispossession of lands by the Japanese ; increasing taxation in consequence of material development from which the Koreans profit less than the Japanese ; the paucity of Koreans in administrative posts under the Government-General, either in the central Government, provincial or district administrations, asserting that practically all of the larger posts and 80 per cent of even the lower ranking offices are filled by Japanese. They brand the educational system as discriminatory in favour of Japanese and resent the attempts to indoctrinate the youth with ideas born of the Japanese tradition. Even those noteworthy achievements in forestry, fishery and mining, which the Japanese have produced, are described by these Korean patriots as instances of monopolistic endeavours in which the Koreans profit but little. Taken in their totality, these circumstances, in the view no doubt of many Koreans, have contributed to a sullen dissatisfaction with Japanese administration, and have caused many to leave the country.

Above all, there can be no question but that the outstanding feature of the Japanese administration in Chosen which has contributed most to dissatisfaction among the Koreans is the ever-present surveillance of the Japanese gendarmerie and police. In these circumstances, it is not surprising that many Koreans, especially of the educated classes and those who hold official positions under the old regime, should have left the country. No doubt the enlightened administration of Viscount Saito, which recognised the advisability of lessening the existing discriminations in favour of Japanese, did much to meet this admittedly serious problem for Japan. The task of convincing the Koreans that Japanese rule of Chosen is in the interest of the Koreans themselves still remains unaccomplished. This is admitted by enlightened Japanese officials of the present Government-General of Chosen.

During 1910 to 1913, immediately after the annexation by Japan, approximately 60,000 Koreans are stated in the official figures to have migrated to Manchuria. In these years, a comparatively small number returned, while, in 1917, about 12,000 are stated to have migrated to Manchuria, of which number about half returned the same year. In the following year, over 32,000 emigrated, and, in 1919, over 37,000. These two years saw the discontent of the Koreans burst into the "Mansei" rising of 1919. The occurrence of the Hunchun incident in Chientao in 1920, which was a reaction to the situation in Korea itself, is indicative of the disturbed condition of this part of Manchuria which operated to diminish the immigration from Korea, those returning in 1920 suddenly increasing from about 4,000 to over 10,000. Except for the period before 1920, and especially because since that time it is obvious that economic causes of the Korean exodus have become more and more important, it is not possible to appraise what proportion of the volume of migration to Manchuria has been due to "political" causes. At all events, during the period from 1926 to 1928, Korean emigration increased very considerably, assuming proportions almost as large as during the period from 1918 to 1920, for reasons which are not easily analysed, especially since the year 1927 is given as the beginning of "the great oppression" by the Chinese in Manchuria. After 1928, however, Korean migration to Manchuria, according to the official figures, had decreased, while, from and including 1928, the number of those returning to Korea was much in excess of those who left. For recent years, therefore, it is correct to say that, whatever may have been the ends of Japanese policy with respect to Korean emigration, in view of the excessive backflow of Koreans from Manchuria, these objectives, if such they are, were not achieved.

XII. ECONOMIC CAUSES: GENERAL ACCOUNT.

As in the case of Chinese emigration from Shantung to Manchuria, these three provinces of China have what might be termed an economic magnetism which draws Koreans thither. Were they fully informed of the realities, however, before leaving Korea, they would perhaps be less eager to migrate—Manchuria is not overflowing with milk and honey. The political causes are relatively less important than the economic factors which influence the Koreans to leave their homeland. In a phrase, the most potent cause of the migration is the difficulty, under the changing economic conditions, of securing a livelihood in the peninsula.

Primarily, the problem in Korea is agrarian: land problems; a certain displacement of Korean farmers by Japanese immigrants, especially during the early post-annexation years; the acquisition of agricultural lands by Japanese land companies, especially the Oriental Development Company; Government acquisition and administration of the former royal lands (*yoktun*); the cadastral registration of agricultural lands, which operated in given cases to raise the question of titles; the mounting indebtedness of Korean landowners and tenants, in spite of a rising income; the consequent mortgaging of agricultural lands to loan associations; and the increasingly serious problem of tenancy, accompanied by a general population problem, have combined to furnish a major category of causes motivating the Korean farmers to migrate. Strange to say, it is possible that the emphasis which has been placed upon the importance of increasing the production of lowland rice in the peninsula, during the period of Japanese control, may also have operated in this direction, since a much lesser emphasis has been placed upon the possibility of cultivating upland rice in the mountainous and hilly districts, in which Korea abounds, while the possibility of cultivating numerous other crops congenial to Korean conditions has been even more neglected.

In addition to these land problems, the last twenty years has seen in Korea a general rise in commodity prices which has not necessarily benefited the farmers. The very increase in land values in certain cases has been accompanied by heavy charges upon the land, indebtedness and taxation. Taxation itself, for example, increased about threefold between 1917 and 1927, a situation which apparently has not been counterbalanced by the increased average yield per unit of cultivated land, net profits from farming enterprises, or offset by savings, however much the indices for the latter date seem to show prosperity.

The Japanese have done much to develop irrigation projects on a remarkable scale in Korea, but, however great the contribution thus made to introduce modern methods, it is at least an open question whether these irrigation projects, while commendable in themselves, may not have operated indirectly to stimulate an exodus of adversely affected Korean farmers. Laudable and successful efforts have been made by the Japanese to span the peninsula with railways and highways. These have no doubt contributed much to raise the standard of living of the Korean masses, but, as with such development elsewhere in the world where the requirements of modern communications naturally may operate to affect adversely the private interests of landowners, so also in Korea have there been instances where these modern methods have not benefited those most immediately affected. Dr. Yoshino, professor of the Imperial University of Tokio, after making a special study of highway construction and administration

in Chosen, severely criticised the expropriation of Korean land and the forced system of labour required from the Korean farmers to construct these roads without much consideration for the farmers' own requirements of seasonal labour in their own fields. Finally, it should be remembered that the Korean peninsula is largely mountainous or rugged and that many of its rivers are subject to seasonal floods. Among the economic causes for the Korean migration to Manchuria, therefore, the periodic floods, droughts, crop failures, and even famines have, from year to year, contributed their share.

XIII. JAPANESE IMMIGRATION TO KOREA AND LAND ACQUISITION : THE TENANCY PROBLEM.

It has often been asserted that Japanese immigrants have come to Korea in such large numbers as to displace the Koreans from the land, or that by acquisition of enormous tracts of land, said to comprise a very large part of all the arable land of the peninsula, the Japanese, operating especially through semi-government or government subsidised land development companies, have forced the Koreans to migrate elsewhere. One such statement recently received from a Korean living abroad is to the effect that " of all the arable or cultivated land in Korea, 73 per cent is in Japanese possession ". This account castigates the Oriental Development Company, Ltd., and the Bank of Chosen for pursuing a policy " of making loans to the now almost universally poverty-stricken farmers and thereby depriving them of their lands " under the guise " of giving relief to Korean farmers ". This Korean statement alleges that " Japan has been systematically carrying out this scheme of dispossessing Koreans of their lands and other property by financial pressure " through the medium of financial credit organisations, aided by the Government, which acquires mortgages on land in consequence of land loans at exorbitant rates of interest, resulting in foreclosures or confiscation, so " that the victim usually goes to Manchuria "; by means of irrigation companies, which force Korean farmers to use their water supply willy-nilly and which work innumerable hardships upon them, especially resulting from increased taxation ; the operations of private moneylenders which victimise the illiterate Korean farmers ; and by facilitating Korean migration to Manchuria with reduced railway fares. This account concludes that, " under the auspices of the Oriental Development Company, hordes of Japanese immigrants are brought into Korea from Japan, while the Korean peasants, farmers and workers are being driven out into Manchuria ".

This account is patently an exaggeration, even a falsification. From 1910 to 1927, Japan settled fewer than 10,000 of her farm families in Korea, and, in 1927, there were fewer Japanese farmers in Korea than in 1919. In 1930, according to figures obtained by the author from the Government-General of Chosen in 1932, there were approximately 10,000 Japanese farm families in Manchuria as against over 2,800,000 Korean farm families, which shows that the number of Japanese settlers on the land in Korea has not increased in recent years and that the allegation that Japanese farmer immigrants are displacing the Koreans is entirely unsupported by the facts. The total population of Korea at the end of 1930 was slightly over 20,000,000, of whom about 500,000 were Japanese, or 2.5 per cent of the total. Although the Japanese population has increased from 171,000 in 1910 to 347,000 in 1920, to 424,000 in 1925 and to 501,000 in 1930, this increase does not mean that the Japanese have been settling on the land. Over three-fifths of the Japanese residents of Korea in 1930 were engaged in public service and the professions, and in commerce and transportation. Only 54,000 were engaged in the industries of agriculture, forestry, stock-breeding and fisheries combined. These figures tend to justify the conclusion that the Japanese are not settling on the land in Korea so as to displace the native population. There is no doubt but that the Oriental Development Company, which was organised before the annexation of Korea for land-development purposes, did make concerted efforts in the early years to encourage and facilitate the settlement of Japanese farmers in the peninsula, but these efforts were only partly successful, and there has been no indication in recent years that Japanese farmers will come to Korea and compete effectively with the Koreans themselves. In fact, many more Koreans have gone to Japan as labourers in the last few years than Japanese to Korea. All the State lands (*yoiktun*) hitherto in the possession of the Korean royal family were turned over to the Oriental Development Company after annexation as the Government-General's capital interest in the company. Whether the exploitation of these lands has operated more to displace the Koreans who hitherto cultivated parts of them or, on the other hand, to offer them new opportunities for farming enterprises must remain an open question.

As to acquisition of land by Japanese interests, it seems that, even before annexation, unnecessarily large tracts were practically confiscated " for military purposes ". The notorious " Nagamori scheme ", which contemplated the granting of a concession of all the waste lands, including mineral rights, to a single Japanese subject and, as alleged, would have placed well over half of all the arable land of the peninsula in his possession, met with so much opposition that it was abandoned. Prince Katsura, who shortly afterwards again became Prime Minister, after returning from Korea, declared that " there was ample room for an increase in Korea's population by 30 per cent, and no apparent reason existed why the greater part of this increment should not consist of Japanese subjects ". Prince Katsura was a chief promoter of the Oriental Development Company, which was organised for the declared purpose of land development, including encouragement of Japanese agricultural settlement in Korea. This company was severely criticised in the early years of its operations for its arbitrariness in dealing with Korean farmers. Whatever may have been the situation in the past, information recently received by the writer from the Oriental Development

Company in Keijo (Seoul) shows that, up to 1932, the company had actually settled only 3,900 Japanese households on farm lands in the peninsula, these including the immigrants brought from Japan. The total land area actually cultivated by these Japanese settlers amounted in 1932 to only 7,200 *cho* (1 *cho* being 2.45 acres) — the total arable land area of Korea being given as 4,600,000 *cho*. Even in these cases of Japanese farm settlement, there are many instances of sublease to Koreans, and, in the main, it is Korean labour which actually cultivates these paddy-fields. The total arable land owned and managed by the Oriental Development Company in 1932 is given as 52,652 *cho*, in addition to the lands cultivated by the 3,900 Japanese households mentioned above, these being leased to Koreans or tilled by them. The present distribution of lands in the possession of the Oriental Development Company for 1932 is given as follows :

| Province | Cho |
|------------------------|---------------|
| South Keisho | 5,400 |
| North Keisho | 5,400 |
| South Zenra | 9,000 |
| North Zenra | 8,000 |
| South Chusei | 4,500 |
| North Chusei | 12,800 |
| Keiki | 6,000 |
| Kogen | 380 |
| South Kankyo | 2,100 |
| North Kankyo | 135 |
| Kokai | 9,200 |
| South Heian | 2,350 |
| North Heian | 780 |
| Total | <u>66,045</u> |

The officials of the Oriental Development Company deny that the company has made a practice of acquiring land in Korea through the medium of foreclosed mortgages.

It is extremely difficult to give entirely conclusive figures as to the total amount of land owned by Japanese in comparison with Koreans in Korea. The subject is complicated by the fact that all lands possessed by companies operating under a Korean charter are registered as Korean. On the other hand, there are Korean financial interests in companies registered in Japan. Nor do the figures ordinarily give any indication of virtual transfer of possession, if not of title, in consequence of liens acquired in land as a result of mortgages. It may be said that the amount of government land actually under rice cultivation is not large (about 90,000 *cho*) when compared with the rice land in private hands (about 4,500,000 *cho*).

Government statistics show that less than 10 per cent of the agricultural and residential lands of Korea are owned by Japanese. In the opinion of several competent and well-informed private investigators, however, between 10 and 20 per cent of the land is in Japanese ownership. Dr. Edmund Brunner of Columbia University, who in 1927 made a very thorough study of rural conditions in Korea, is authority for the statement that, in some counties in the south, Japanese ownership, based on tax records, is said to extend over half of the land. He asserts that the greater part of Japanese-owned land is in the south, and that probably one-fourth of the land there has passed out of Korean ownership. The Japanese authorities, however, have declared to the writer that this estimate is too high.

We are concerned here, however, with the possible effect of Japanese acquisition of Korean lands upon emigration. It does not necessarily follow that the mere possession of land by the Japanese operates to force the Koreans who formerly tilled that land to migrate to Manchuria. In most cases, on the contrary, the land remains actually under the tillage of the Koreans. It is reasonable to suppose, moreover, that much of the reclamation work accomplished by the Japanese, as evidenced by the increased area of land actually cultivated, has given employment to Korean farmers. Finally, if it is true that Japanese acquisition of agricultural land is most apparent in the south, it is difficult to conclude that any appreciable amount of Korean migration to Manchuria has been caused thereby : by far the greater part of the Korean emigrants have gone to Manchuria from the northern provinces — for example, North Kankyo Province — and the number of those migrating from the southern provinces is but a small part of the total exodus from the north.

One single situation, one which is giving great concern to the Government-General of Chosen, which is more responsible than any other economic factor for the exodus of Koreans to Manchuria, is the tenancy situation. This grave tenancy problem goes a long way to explain the difficulties of Korean farmers to make a livelihood in their homeland. From 1920 up to and including 1930, there has not been a single year when the number of tenant farmers among the Koreans did not increase. Their numbers have increased by 250,000 ; while the number of part-owner and part-cultivator farmers has steadily decreased — viz., by over 125,000 — and the number of owner-cultivators has decreased by 25,000.¹ These figures, recently received from the Government-General of Chosen, show how serious is the agrarian problem. The Japanese authorities are deeply concerned and in recent years have made strenuous efforts to increase the number of owner-cultivators and meet the increasingly serious tenancy problem, but the results so far, in spite of praiseworthy achievements in isolated districts and cases, have been partial. The population of Korea has increased over one million in the last five years,

¹ See Annex V, " Statistics showing Ownership and Tenancy of Land in Korea ".

and in spite of the absorption of a part of this increment in industry, as evidenced by a country-to-city movement, the increase of the rural population, accompanied by maladjustments caused by new farming methods, points to a serious situation for the future. The total volume of the Korean migration to Manchuria from 1910 to 1930 is probably not very much more than the population increase on the peninsula in one year. Migration to Manchuria has so far contributed very little to a solution of the agrarian problem. The Korean farmer has yet to adjust himself to the great changes brought about by Japanese capitalistic penetration of the peninsula. Their traditional conservatism, widespread illiteracy and inclination to improvidence, lack of resourcefulness, and the readiness with which they saddle themselves with backbreaking debts furnish problems for the Government which remain to be solved.

XIV. THE KOREAN PROBLEM IN RELATION TO THE “CHIENTAO DISTRICT”.¹

Because of the Sino-Japanese Agreement of September 4th, 1909, concerning the so-called “Chientao District”, and in consequence of historical and geographical considerations, and the fact that this district is populated by 400,000 Koreans, who outnumber the Chinese there three to one, the Korean problems and the resulting Sino-Japanese relations over the Chientao District have attained a peculiarly complicated and serious character. Chientao (called “Kanto” in Japanese and “Kando” in Korean) comprises the three districts of Yenchi, Holung and Wangching in Liaoning (Fengtien) Province, and, in practice, as evidenced by the attitude of the Japanese Government, includes also the district of Hunchun, which four districts adjoin the north-east corner of Korea just across the Tumen River. Hunchun, however, is not a part of the “Chientao District” as described in the map annexed to the Chientao Agreement of 1909. Because of historical, geographical, ethnic, economic and political factors, however, Hunchun is as much an object of Korean irredentism as the region circumscribed by the Chientao Agreement.

The Japanese, describing the traditional attitude of the Koreans towards the Chientao area, have been disinclined to admit that the Chientao Agreement of 1909 closed once and for all the issue whether this territory should belong to China or to Korea, the idea being that, since the district is predominantly Korean, over half of the arable land being cultivated by them, “they have so firmly established themselves in the locality that it may practically be regarded as a Korean sphere”. In Chientao, more than elsewhere in Manchuria, the Japanese Government has been insistent on exercising jurisdiction and surveillance over the Koreans, over 400 Japanese consular police having been maintained there for years. The Japanese consular service, in co-operation with Japanese functionaries assigned by the Government-General of Chosen, exercise broad powers of an administrative character in the region, their functions including maintenance of Japanese schools, hospitals and Government-subsidised financing media for the Koreans. The area is regarded as a natural outlet for Korean emigrants who cultivate rice-fields, while politically it has special importance, since Chientao has long been a bailiwick of Korean independence advocates, communist groups, and other disaffected anti-Japanese partisans, a region where, as evidenced by the Hunchun rising of Koreans against the Japanese in 1920, after the independence outbreak in Korea, the Japanese have had serious political problems intimately associated with their general problem of governance of Korea. The strategic military importance of this region is obvious from the fact that the lower reaches of the Tumen river form the boundary between Japanese, Chinese and Soviet Russian territory.

In spite of the Chientao Agreement, the Japanese Government declares that, “above all, Japan claimed that the right of jurisdiction over the Koreans in Chientao should belong to the Japanese authorities”. That agreement provided that “the residence of Korean subjects, as heretofore, on agricultural lands lying north of the River Tumen” should be permitted by China; that Korean subjects residing on such lands should henceforth “be amenable to the jurisdiction of the Chinese local officials”; that they should be given equal treatment with the Chinese; and that, although all civil and criminal cases involving such Koreans should be “heard and decided by the Chinese authorities”, a Japanese consular official should be permitted to attend the court, especially in capital cases, with the right to “apply to the Chinese authorities for a new trial” under special Chinese judicial procedure.¹

The Japanese, however, have taken the position that the Sino-Japanese Treaty and Notes of 1915 supervene the Chientao Agreement in so far as jurisdictional questions are concerned, contending that, since 1915, Koreans, as Japanese subjects, are entitled to all the rights and privileges of extra-territorial status under the Japanese treaties with China. This contention has never been admitted by the Chinese Government, the Chinese insisting that the Chientao Agreement, if applicable in so far as the right granted to Koreans to reside on agricultural lands is concerned, is also applicable in those articles where it is provided that the Koreans should submit to Chinese jurisdiction. The Japanese have interpreted the article permitting Korean residence on agricultural lands to mean the right to purchase and lease such lands in Chientao; the Chinese, contesting this interpretation, take the position that the article must be interpreted literally and that only Koreans who have become naturalised as Chinese subjects are entitled to purchase land there.

The actual situation is, therefore, anomalous, since, as a matter of fact, there are non-

¹ See MACMURRAY, “Treaties and Agreements”, Vol. I, page 796.

naturalised Koreans in Chientao who have acquired lands in freehold title with the connivance of the local Chinese officials, although, as a general rule, the Koreans themselves recognise the acquisition of Chinese nationality as a necessary condition of obtaining the right to purchase land in Chientao. A common practice in the district is for Koreans who remain Japanese subjects to obtain land by one of several means, as through the use of Koreans who have been naturalised as Chinese subjects as go-betweens or dummy owners. Japanese official figures represent over half of the arable land of Chientao (including Hunchun) as "owned" by Koreans, their figures admitting that over 15 per cent of the Koreans there have become naturalised as Chinese subjects. Whether it is these naturalised Koreans who "own" these lands is impossible to say, although it would seem that non-naturalised Koreans have rarely been able to obtain freehold titles directly from the Chinese.

According to the most recent figures obtained from the Japanese Foreign Office, the total arable land of the "Chientao District" is 440,000 *cho* (1 *cho* equals 2.45 acres), of which 242,000 are at present under cultivation. Of the area actually under cultivation, 141,500 *cho* is given as owned by Koreans 100,500 being owned by Chinese. These figures create the impression that there is no agricultural land in Chientao possessed in freehold title directly by Japanese, a circumstance which may be doubted in view of the known existence of cases of concealed ownership through the use of "dummy" titleholders, and, more particularly, because of the practice of Japanese loan associations, and especially the Oriental Development Company, of obtaining liens in land in Chientao and elsewhere in Manchuria through the media of land mortgages.

The Oriental Development Company some years ago extended its sphere of operations to Manchuria and Eastern Inner Mongolia. A branch office was established at Lungchingsun in the "Chientao District", where it has been stated that — though this assertion cannot be verified — of the over 200,000 *cho* of cultivated land, something over 50,000 had been acquired by Japanese by 1928, especially through the operations of the Oriental Development Company.

XV. KOREAN PROBLEMS IN MANCHURIA: QUESTIONS OF STATUS AND JURISDICTION: THE LAND LEASE QUESTION.

The status and rights of Koreans in Manchuria are determined largely in three Sino-Japanese agreements — viz., the agreement relating to the "Chientao District", September 4th, 1909,¹ the Treaty and Notes of May 25th, 1915,² concerning South Manchuria and Eastern Inner Mongolia, and the so-called "Mitsuya Agreement" of July 8th, 1925,³ the latter being signed by the Japanese Police Commissioner of the Government-General of Chosen (Korea) with the Chinese Police Commissioner of Fengtien Province. The national status of the Koreans in Manchuria can only be ascertained by comparing the nationality laws⁴ and the practice of China and Japan, since the delicate question of dual nationality of the Koreans has never been regularised by Sino-Japanese agreement.

Since 1915, there has been continual controversy between Japan and China as to whether the Chientao Agreement of 1909 or the Sino-Japanese Treaty and Notes of 1915 were applicable to Koreans outside the "Chientao District". Whether Koreans, not naturalised as Chinese, were entitled to reside and to lease land outside Chientao — *i.e.*, "in the interior" of Manchuria, or of "South Manchuria" — and whether the Japanese consular authorities or the Chinese local officials had jurisdiction over them for purposes of police protection and taxation has been a subject of continual controversy. Particularly, the indecisiveness of the agreements and the conflict of policies of China and Japan concerning police jurisdiction, which led to numerous clashes between the Japanese consular police and the local Chinese police or gendarmerie, has been a constant cause of irritation between the two Governments. The Koreans were in consequence caught, as it were, in a vice; they were victimised by the irreconcilable attitudes and policies of China and Japan.

There exist no Sino-Japanese agreements which specifically grant or deny the right of Koreans to travel, reside, conduct occupations outside the Treaty Ports, or to lease or otherwise acquire land in Manchuria, except in the so-called "Chientao District". The fact is, however, that probably over 600,000 Koreans do live in Manchuria outside Chientao, widely distributed, especially in the eastern half of Manchuria, being concentrated in the regions lying north of Korea, in Kirin Province, and penetrating in large numbers into the region of the eastern section of the Chinese Eastern Railway and the lower Sungari valley. Moreover, partly because a very considerable group of Koreans are natives of Manchuria, their ancestors having immigrated generations ago, and partly because others have renounced their allegiance to Japan and have become naturalised as Chinese subjects, a great many Koreans to-day actually possess agricultural lands in Manchuria, outside of Chientao, both by virtue of freehold title and leasehold. The vast majority, however, cultivate rice-fields simply as tenant farmers under rental contracts, on a crop division basis with the Chinese landlords, these contracts usually being limited to periods from one to three years, renewable at the discretion of the landlord.⁵

¹ MacMURRAY, "Treaties and Agreements", Vol. I, page 796.

² *Ibid.*, Vol. II, page 1220.

³ Translation furnished by the Chinese Assessor's Office.

⁴ *Vide*: Revised Chinese nationality law of February 5th, 1929; revised Japanese nationality law of 1924.

⁵ The author has examined numerous such Korean lease, rental and tenancy contracts, especially in Kirin Province, and has found that, in the majority of these cases, the contracts are usually either simple rental or tenancy agreements, rarely for more than three years and usually on an annual basis, renewable at the discretion of the Chinese landlord. This is important in relation to the allegation that Koreans have been unjustly ejected from agricultural lands after one or a few years of cultivating them.

The Chinese deny that the Koreans have the right to purchase or lease agricultural lands in Manchuria outside the " Chientao District ", since the only Sino-Japanese agreement on the point is the Chientao Agreement of 1909, which is restricted in its application to that area. Only Koreans who are Chinese subjects are, therefore, entitled to purchase land, or, for that matter, to reside and lease land in the interior of Manchuria. In denying the claim of right of the Koreans to lease land freely in Manchuria, the Chinese Government has contended that the Chientao Agreement of 1909, which granted Koreans the right of residence with special landholding privileges in the " Chientao District " alone, and specified that the Koreans were to be subject to Chinese jurisdiction, is, in itself, a self-contained instrument, " purporting to settle by mutual concessions local issues then pending between China and Japan in that area ". The Chientao Agreement contained a *quid pro quo*, Japan waiving the claim of jurisdiction over the Koreans, China granting them the special privilege of possessing agricultural lands.

Both countries continued to observe the agreement after the annexation of Korea by Japan in 1910, China contending that the Treaty and Notes of 1915 could not alter the stipulations of the Chientao Agreement, especially as the new treaty contained a clause specifying that " all existing treaties between China and Japan, relating to Manchuria, shall except as otherwise provided for by this treaty, remain in force ". No exception was made for the Chientao Agreement. The Chinese Government further contends that the Treaty and Notes of 1915 do not apply to the " Chientao District ", since the latter is geographically not a part of " South Manchuria " — a term which must be defined in a geographical sense, since it has no agreed political definition.

This Chinese contention has been contested by the Japanese since 1915, their position being that, inasmuch as the Koreans became Japanese subjects by virtue of the annexation of Korea in 1910, the provisions of the Sino-Japanese Treaty and Notes of 1915 concerning South Manchuria and Eastern Inner Mongolia, granting Japanese subjects the right to reside and lease lands in South Manchuria and to participate in joint agricultural enterprises in Eastern Inner Mongolia, apply to the Koreans. The Japanese Government has contended that the Chientao Agreement was superseded by those provisions of the 1915 Agreements in conflict therewith, that the Chinese contention that the Chientao Agreement is a self-contained instrument is untenable, since the right secured by the Koreans in Chientao was actually in consequence of Japan's agreement to recognise that region as a part of Chinese territory, and that it would be discriminatory on their part to refrain from seeking for the Koreans in Manchuria rights and privileges granted to other Japanese subjects.

The Japanese attitude which favours the acquisition of land by Koreans in Manchuria is partly due to their desire to obtain rice for export to Japan, a desire which, so far, has been but partially satisfied, since probably half of the rice production is consumed locally, and export of the balance has been restricted. The Japanese assert that the Korean tenants, after having reclaimed waste lands and made them profitable for the Chinese owners, have been unjustly ejected.

The Chinese, on the other hand, while equally desirous of having the cultivable lowlands produce rice, have generally employed the Koreans as tenants or labourers to prevent the land itself from falling into Japanese hands. Many Koreans, therefore, have become naturalised as Chinese subjects in order to possess land, some of them, however, after having acquired such titles, transferred them to Japanese land mortgage associations. This situation suggests one reason why there has been a difference of opinion among the Japanese themselves as to whether naturalisation of Koreans as Chinese subjects should be recognised by the Japanese Government.

Complications over the question of the right of the Koreans to lease land furnished a principal cause of the so-called " oppression " of Koreans in Manchuria, especially since 1927. This subject will be examined subsequently, but it may be said here that the Koreans, except those who were naturalised as Chinese, rarely obtained land leases at all, since they were usually employed merely as tenants or labourers on Chinese estates. It is known, however, that, the naturalised Koreans, who have acquired land in freehold, have transferred the same to Japanese individuals, loan associations or land development companies, either by maintaining the fiction of ownership by the Korean " dummy " titleholder, or by virtually losing possession through the effect of indebtedness of the Korean landowner to the Japanese interests, a Japanese lien in the land being acquired through mortgage, or by actual foreclosure procedure approved by the Japanese consular courts. No doubt, in certain of these cases, the Korean landowners, when hard pressed by financial difficulties with the Chinese, willingly solicited the financial assistance of the Japanese moneylenders and officials, although, generally speaking, it seems that Koreans once naturalised as Chinese subjects refrain thereafter from placing themselves willingly under obligations to the Japanese or seeking their protection. In these circumstances, it is impossible to give any figure as to the total area of land either owned, leased or tenanted by Koreans, whether naturalised as Chinese subjects or not, in Manchuria or in " South Manchuria ".

Koreans, except when naturalised as Chinese, have no right to own or lease land outside of " Chientao " and " South Manchuria "; and it is at least open to some question, in view of the rival positions of the Chinese and Japanese Governments in interpreting the Chientao Agreement and the Sino-Japanese Treaty and Notes of 1915 concerning South Manchuria and Eastern Inner Mongolia, whether Koreans, not naturalised as Chinese, have the right to lease land even in " South Manchuria ". This legal situation is important as a basic factor underlying the allegation of unjustifiable oppression of the Koreans by the Chinese authorities and landowners in Manchuria, especially in " North Manchuria ", where neither Japanese nor Koreans under Japanese jurisdiction have the right to lease or purchase land.

XVI. THE PROBLEM OF DUAL NATIONALITY.

The principal reason, therefore, why the Chinese opposed the acquisition of lands by Koreans in Manchuria was the Japanese Government's insistence on the claim of right to exercise jurisdiction over them, refusing to recognise their right to become naturalised as Chinese subjects. Here arose the delicate question of dual nationality. Under a Chinese nationality law of December 30th, 1914, only aliens who under the law of their own country were permitted to become naturalised in another were capable of being naturalised as Chinese subjects.

The Japanese Government, contending that Koreans, under their own nationality laws before Japanese annexation, had not been entitled to acquire another nationality, took the position that no Korean could be recognised under Japanese law as having become a Chinese subject, but would remain under Japanese jurisdiction whether naturalised as a Chinese or not. An exchange of notes on the subject took place in 1916 between the Chinese and Japanese Governments, the Japanese contending that Koreans in the so-called "Chientao District" could not be recognised as having become Chinese subjects through naturalisation. The Chinese Government has argued that it was discriminatory against the Koreans and against China that Japan should permit Koreans to become naturalised as Russian subjects, or subjects of the Union of Soviet Socialist Republics and deny the same privilege *vis-à-vis* China.

The Chinese revised nationality law of February 5th, 1929,¹ however, contained no provision by which an alien was required to lose his original nationality in order to acquire Chinese nationality. Koreans were, therefore, naturalised as Chinese regardless of the Japanese insistence that, under Japanese law, such naturalisation could not be countenanced. The Japanese nationality laws have never permitted the Koreans to lose their Japanese nationality, and although a revised nationality law of July 1924, effective from December 1st, contained an article to the effect that "a person who acquires foreign nationality voluntarily loses Japanese nationality", this general law has never been made applicable to the Koreans by special Imperial Ordinance.

The difficulty of giving accurate figures to show the percentage of the Korean population of Manchuria who have become naturalised as Chinese is evident from the inadequacy of both the Japanese and Chinese official figures on the subject: the former tend to minimise, the latter to exaggerate, them. Japanese consular sources admit that over 15 per cent of the Koreans in Chientao have become naturalised subjects of China. The farther the Koreans reside away from the Japanese consular offices, the greater the tendency to become naturalised as Chinese. This is particularly evident in Kirin Province in the Mutan River region, especially around Ninguta, where there are several old Korean villages whose inhabitants long ago became Chinese citizens, either by birth or by naturalisation. Many wear Chinese clothing and, without losing their race and culture consciousness, have adjusted themselves to Chinese social life in a manner which shows that, except for such political questions as have been intruded because of the irreconcilable policies of China and Japan concerning the Koreans, they can and do live on terms of friendly intercourse with the Chinese. A foreign resident of Harbin, whose profession for many years has been largely concerned with the Koreans, expressed his opinion to the writer in the summer of 1932 that probably half of all the Koreans in North Manchuria had "taken out Chinese citizenship papers". Another foreign resident of Harbin, who, similarly, has long had intimate knowledge of the condition of Korean communities in North Manchuria, expressed to the writer the following views :

"My impression is that fully 80 per cent of the Koreans in the areas along the eastern section of the Chinese Eastern Railway, including Mishan and Tungninghsien in eastern Kirin Province, away from the railway, have become naturalised. At one village I visited, out from Lishuchen, Kirin, the people said they had all taken out Chinese citizenship and all, except some of the older people, were wearing Chinese dress. There has been no special reason why they should retain Japanese citizenship, since there are no Japanese there and no protection is given them, nor have they needed any. They never expect to return to Korea unless the country becomes independent of foreign rule. An exception to the rule is that class of Koreans in the Harbin area who are engaged in the sale of morphine and opiates, these enjoying the protection of the Japanese consulate."

In the writer's opinion, these views tend to exaggerate the percentage of the Koreans who have become Chinese citizens. Nor is it at all correct to conclude that the only Koreans who seek the protection of the Japanese consulates are those engaged in illicit contraband traffic.

Naturalisation of Koreans as Chinese has not necessarily meant that they were much better off after the process, although, in general, this appears to have been true. In remote regions, as in the lower Sungari valley, it is known that Korean communities, containing many naturalised Koreans, have had to endure the same insecurity as their Chinese neighbours, forcing them to rely largely on such extraordinary measures as self-protection by local corps (*Pao An Tui*) of village vigilantes, or a system of bandit insurance, whereby they acquired some measure of protection through buying off the guerillas, or financing the precarious device of pitting one bandit group against another. The chances that a Korean, regardless

¹ For the English text of the Chinese revised nationality law of February 5th, 1929, see FLOURNOY and HUDSON, "Nationality Laws", pages 175 to 178; for the Japanese revised nationality law of July-December 1924, see the same, pages 382 to 388.

of his claim of nationality, could receive impartial justice in a Chinese court in Manchuria have been certainly no better than those of a Chinese litigant, and more likely have been much worse. Had the Koreans been assured of reasonable treatment in the Chinese courts in Manchuria, the great majority would probably have been quite willing to divest themselves completely of any dependence upon the Japanese consular authorities. In fact, it seems that, in spite of ill-treatment at the hands of the Chinese authorities, the majority of them preferred to throw in their lot with the Chinese.

The problem of dual nationality of the Koreans influenced the National Government of China and the provincial authorities in Manchuria generally to look with disfavour upon indiscriminate naturalisation of Koreans, fearing that, by acquiring Chinese nationality temporarily, they might become potential instruments of a Japanese policy of acquiring agricultural lands. In regulations issued by the Kirin Provincial Government, September 1930, governing the purchase and sale of land throughout the province, it was provided that "when a naturalised Korean purchases land, investigation must be made in order to discover whether he wants to purchase it as a means of residing as a permanently naturalised citizen, or on behalf of some Japanese".

Among the Koreans naturalised as Chinese are the independence advocates, the communists (excluding those who are subjects of the Union of Soviet Socialist Republics), and those who, either because of the remoteness of their residence from Japanese consular surveillance or protection or because of their desire to identify themselves as much as possible with Chinese life, especially in order to purchase and lease land freely, prefer to divest themselves of Japanese nationality. No doubt, however, many Koreans have been forced by the Chinese authorities to become naturalised as Chinese in order to compel them to forego recourse to Japanese consular and police protection, as well as to obtain the revenues from the naturalisation fees. Even when the central authorities of the Three Eastern Provinces issued instructions discountenancing or intending to restrict such naturalisation, the local Chinese authorities, in numerous cases which have come to the author's attention, have continued to naturalise Koreans through the means of "temporary naturalisation certificates", unapproved by the central authorities.

Among Chinese officialdom in the Three Eastern Provinces, there has been a decided difference of opinion as to whether the Koreans should be allowed, as a matter of Chinese policy, to become naturalised. There probably would have been practical unanimity in favour of naturalisation had the Japanese Government countenanced it and refrained from claiming the right to exercise consular jurisdiction over them. As long as Japan refused expatriation to Koreans, the Chinese generally feared that the Koreans would eventually, however unwillingly, become "the vanguard of Japanese penetration". The experience of Chientao served to strengthen this conviction.

Although the position of the Japanese Government has always been one of refusing to recognise the naturalisation of Koreans as Chinese, there have been rival views, from time to time, in the various Ministries and in the Government-General of Chosen, the latter apparently opposing alteration. There seems to have been some difference of view on the point between the Ministry for Foreign Affairs and the Ministry for Overseas Affairs. It was reported in the Press in August 1930, that, as a result of a tour of investigation of the Vice-Minister for Foreign Affairs in Chosen and Manchuria, the Government was seriously considering whether it would not be the part of wisdom to permit expatriation of Koreans, especially because Koreans in Chosen felt that to deprive the *émigrés* of the right of naturalisation as Chinese was but a means of making use of the Koreans to precipitate difficulties with the Chinese in Manchuria.

Writing with special reference to the "Chientao District", M. K. Shiomi, of the South Manchuria Railway, after stating that the Japanese Colonial Ministry in 1930 favoured permitting Koreans to be expatriated in order that they might acquire the right to own and lease land anywhere in Manchuria, asserted that a veritable storm of discussion was precipitated among the Koreans in Chientao when the Ministry's proposals were announced. He concludes that "if the majority of the Korean residents in Chientao would get naturalised, the only alternative left would be for the Japanese influence, together with that of the pro-Japanese Koreans, to clear out of Chientao altogether".¹

It is interesting that, at the "All-Manchuria Koreans' Convention" held in Mukden in January 1928, the congress adopted a resolution favouring the adoption of legislation by Japan enabling Korean naturalisation as Chinese subjects to be recognised under Japanese law. An interesting Korean view is that of M. Kim San-min, employed by the South Manchuria Railway Company (Dairen), as follows :

"Many innocent Korean farmers find themselves in Manchuria between the devil and the sea, very much to their discomfiture. . . . In fact, the Koreans in Manchuria receive no benefits of Japan's protection, but are, on the contrary, trammelled by the dual registration laws, Japan's policy to make use of the Koreans, and Japan's interference and control. We believe that the expatriation of the Koreans ought to be permitted, in principle, by Japan. . . . The naturalisation question is one of the chief causes for rousing the hatred of the Korean intelligentsia against the Japanese Government, and should be nullified without further delay. . . . The Japanese police authorities keep an intelligence service for watching and capturing the undesirable Koreans in Manchuria, besides employing a good number of secret agents. . . . This espionage policy will only serve as a stimulant to make the activities of some thought leaders all the more subtle. What could be the use of collecting such information at so heavy an outlay? We should think that any such money might be used to far greater advantage

¹ *Manchuria Daily News*, Monthly Supplement, November 1st, 1930.

towards mitigating the distress of the poor Koreans, of whom there is a host in Manchuria. . . . The espionage policy should be discarded. So ought to be the principle of creating more pro-Japanese Koreans by compulsion".¹

The Japanese claim of right to maintain consular police in Manchuria as a corollary of extra-territoriality became a source of constant conflict of a peculiarly grave character where the Koreans were involved. Whether the Koreans desired such Japanese interference, ostensibly in their behalf, or not, the Japanese consular police, especially in the "Chientao District", undertook, not only protective functions, but freely assumed the right to conduct searches and seizures of Korean premises, especially where the Koreans were suspected of being involved in the independence movement, or in communistic or anti-Japanese activities. The Chinese police and gendarmerie, on their part, frequently clashed with the Japanese police in their efforts to enforce Chinese laws, preserve the peace, or suppress the activities of "undesirable" Koreans. Although the Chinese and Japanese police did co-operate on many occasions, as provided for in the so-called "Mitsuya Agreement" of 1925, in which it was agreed that, in Eastern Fengtien Province, the Chinese would suppress "the Korean societies" and turn over "Koreans of bad character" to the Japanese on the latter's request, the actual practice was really one of "catch-as-catch-can". Such a situation was bound to cause constant trouble.

XVII. CHINESE OPPRESSION OF KOREANS IN MANCHURIA BEFORE SEPTEMBER 1931.

Oppression of the Koreans.

The Japanese assert that, about the end of 1927, a movement for persecuting Korean immigrants in Manchuria was launched, under Chinese official instigation, as an aftermath of a general anti-Japanese agitation, and state that this oppression was intensified after the Manchurian provinces declared their allegiance to the National Government at Nanking in 1928. Numerous translations of orders issuing from the central and local Chinese authorities in Manchuria have been submitted as evidence of a definite Chinese policy of oppressing the Koreans by forcing them to become naturalised as Chinese, driving them from their rice-fields, compelling them to re-migrate, subjecting them to arbitrary levies and exorbitant taxation, preventing them from entering into contracts of lease or rental for houses and lands, and inflicting upon them brutalities and indecencies of a most cruel and revolting character.

The Japanese state this campaign of cruelty was particularly directed against the "pro-Japanese" Koreans, that Korean Residents' Associations, which are subsidised by the Japanese Government, were the objects of persecution, that non-Chinese schools maintained by or for the Koreans were closed, that "undesirable Koreans" were permitted to levy blackmail and perpetrate atrocities upon innocent Korean farmers, and that Koreans were compelled to wear Chinese clothing and renounce any claim of reliance upon Japanese protection or assistance in their miserable plight.

The fact that the Manchurian authorities did issue orders discriminatory against non-naturalised Koreans has not been denied by the Chinese, the number and character of these orders and instructions, especially since 1927, establishing beyond a doubt that the Chinese authorities in Manchuria generally regarded the Korean infiltration, in so far as it was accompanied by Japanese surveillance over them, as a menace which deserved to be opposed.

While in Manchuria, numerous delegations, who represented themselves as spokesmen of Korean communities, were received on behalf of the Commission of Enquiry, depositions of their testimony and their petitions to the Commission having been given careful consideration. The author was privileged to associate himself with others of the Commission Staff in receiving these delegations and considering their testimony. Since all the Korean delegations formally received in the Three Eastern Provinces on behalf of the Commission were presented by the Japanese Assessor or Japanese consular authorities, it was found necessary, in the interest of fairness, to endeavour to widen the investigation to other Korean sources not officially represented in these delegations. These official delegations, received upon the introduction of the Japanese, usually stressed the following points: that the Koreans had been oppressed and discriminated against by the "war lords" of Manchuria, by the late Marshal Chang Tso-lin, and even more severely by the regime of his son, Marshal Chang Hsueh-liang; that the Koreans had been subjected to inhuman treatment, including brutalities, indecencies and torture; that they had suffered extortion from local Chinese officialdom through unlawful levies and discriminatory taxation; that they had been ejected from their paddy-fields when, after years of toil, they had recovered them from waste lands and made them profitable for cultivation; and that, in their misery, they constantly looked to the Japanese for protection and assistance. The author examined several Korean peasants — men, women and children — who had suffered brutalities and torture, photographs of them being presented to the Commission of Enquiry, these instances being too commonplace to be ignored, and the obvious suffering endured by these Koreans being of such a character that their plight could not but have invited sincere humanitarian sympathy. The difficulty of passing any fair judgment on the individual cases, months or even years afterwards, and especially in view of the developments in Manchuria since September 18th, 1931, naturally raised serious questions as to the value of their testimony. Nevertheless, it is patently evident that the plight of the Koreans was deplorable, and, in the great majority of cases, for reasons for which they were not themselves responsible.

¹ *Manchuria Daily News*, Monthly Supplement, October 1st, 1930.

Examination of scores of laws, regulations and instructions issued by the Chinese authorities in Manchuria between 1927 and 1931, which have been submitted by the Japanese as evidence of "oppression" of Koreans, serves to support the statement that, generally speaking, the Chinese authorities came more and more to regard the Koreans' infiltration as dangerously competitive with Chinese immigration from south of the Wall, and a source of future friction with the Japanese. They do not, however, give evidence of a policy of excluding the Koreans entirely from Manchuria, their tenor being rather to encourage more care on the part of the local authorities in granting Koreans naturalisation certificates, and to restrict their activities in conformity with the Chinese interpretation of the Sino-Japanese treaties and agreements. The right of Koreans to purchase or lease land in "North Manchuria", for example, except where they have become naturalised does not exist, and it is at least open to question whether non-naturalised Koreans had the right to lease land in "South Manchuria".

A "secret instruction" of the Bureau of Public Safety of the Hunchun District, issued May 1931, aimed to limit the number of schools for Koreans supported by Japanese funds, endeavouring at the same time to restrict the activities of "pro-Japanese" Koreans. Instructions of the Kirin Provincial Government, issued June 1931, were directed to acquiring information from local authorities concerning Japan's emigration policy in relation to "pro-Japanese" Koreans. Contained therein is the following :

"The bulk of the immigrants into the Province under your jurisdiction are Koreans mostly engaged in farming, and they are law-abiding and peaceably striving to develop our territory, but they are doing so in accordance with the plan that, always acting as vanguards of the economic invasion on the part of the Japanese Government, they will eventually occupy the North-Eastern Provinces through such wicked means as the fraudulent purchase of land."

"Secret instructions" of the Kirin Provincial Government to local authorities, issued July 15th, 1931, recognised that the Koreans were deserving of humanitarian sympathy, but that, since their infiltration made them "vanguards of Japan's encroachment on Manchuria", it was necessary to insist on their naturalisation. "As is indicated in the above instruction of the National Government, we are confident that the naturalisation of the whole of the Korean farmers in Manchuria will bring about the fundamental solution of the various complicated problems pending between China and Japan". A probationary period for newly naturalised Koreans was required as a condition of their acquiring the right to lease land.

After the Wanpaoshan affair, the Liaoning Police Affairs Department issued instructions, dated July 11th, 1931, to the local authorities, stating that most of the difficulties with Koreans were caused by the "wire-pulling of the Japanese". These instructions stated, therefore, that it was necessary "to drive out Koreans from our territory", by means of discontinuing arrangements for joint cultivation of rice-fields with the Koreans at the end of the year 1931. In August 1931, the Liaoning Provincial Government issued instructions prohibiting the entrance of non-naturalised Koreans into Chinese middle schools, the object being to rid the schools of "pro-Japanese and anti-Chinese" elements.

One class of case cited as descriptive of Chinese "oppression" of Koreans in Manchuria has to do with the advocates of independence of Korea from Japanese rule and those Koreans who are communists. It should be remembered that the so-called "Chientao District" was the scene of a widespread rising of Koreans, independence advocates infused with communists, in 1920, following the "Mansei Rising" in Chosen in 1919, and that this rising in South-Eastern Manchuria was not suppressed by the Japanese military and police until after many months, with heavy loss of life, especially among the Koreans. Chientao ever since has been a base of operations for these Korean independence advocates, although, in recent years, their headquarters in Manchuria seem to have been transferred to Kirin. Apparently because of the growing feeling of futility among the adherents of this group, their activities seem to have become progressively less important.

The strength of the communist group among the Koreans in Manchuria seems, on the other hand, to have progressively increased in recent years, being reinforced by the return of Koreans who have been indoctrinated in territories of the Union of Soviet Socialist Republics. Although the Chinese authorities may have been somewhat sympathetic towards the independence advocates, occasionally giving evidence of discountenancing the activities of the more radical members of this group, the Manchurian authorities were generally strongly opposed to communists, whether Koreans or otherwise. Marshal Chang Tso-lin's opposition to communism is well known, and it is noteworthy that this attitude contributed much to the outbreak of the Sino-Soviet conflict over the Chinese Eastern Railway in 1929. In these circumstances, it is not surprising that the Chinese and Japanese authorities in Manchuria should have recognised the desirability of providing for some form of co-operation to deal with what to them seemed to be a common problem.

In these circumstances, the Chinese assert that much of what has been termed Chinese "oppression" of the Koreans should not properly be called such, since certain measures taken against Korean "undesirables", including the communists, were actually either approved or connived at by the Japanese authorities themselves. In this connection, it is important to draw attention to the so-called "Mitsuya Agreement" of June-July 1925. This agreement was negotiated by the Japanese Police Commissioner of the Government-General of Chosen (or by a Japanese consular official) with the Chinese Police Commissioner of Fengtien Province. It provided that the Chinese and Japanese police should co-operate in suppressing "Korean societies" (presumably of an anti-Japanese character) in eastern Fengtien Province (Tung-Pien-Tao), stipulating that "the Chinese authorities shall immediately arrest and extradite

those leaders of the Korean societies whose names had been designated by the authorities of Chosen"; and that Koreans of "bad character" should be arrested by the Chinese police and turned over to the Japanese for trial and punishment. The Chinese assert, therefore, that "it is largely for the purpose of giving effect to this agreement that certain restrictive measures have been put into force governing the treatment of Koreans", and state that "if they are taken as evidence proving the oppression of Koreans by Chinese authorities, then such measures of oppression, if indeed they are, have been resorted to principally in the interest of Japan".

This "Mitsuya Agreement", called such after the Japanese Police Commissioner whose signature it bears, has been little known outside of certain official circles. In certain respects it went counter to the position and policy taken by each Government on long-contested questions: the Japanese recognised the right of the Chinese police to make arrests of certain Koreans — in fact, encouraged them to do so — whether they were naturalised as Chinese or not; the Chinese recognised that such arrested Koreans should be turned over to the Japanese authorities for trial and punishment. The *Manchuria Daily News* (a Japanese organ) once characterised the "Mitsuya Agreement" as "a glaring blunder" of Japanese diplomacy.¹

The mere existence of this agreement, however, cannot be said to have justified or condoned the excesses committed by the Chinese local authorities, police and soldiers, in their alleged efforts to stamp out communism among the Koreans. Whole Korean communities, especially in the interior, were on many occasions subjected to unreasonable persecution or expelled under the pretext that there were communists among them. If items which appeared in the Japanese Press in Manchuria between 1927 and 1930 may be taken as indicative of the Japanese official attitude, moreover, it would seem that these activities of the Chinese authorities under the guise of stamping out Korean communism were not invariably condemned. The result was that thousands of innocent Koreans, who knew nothing of communist ideology and wanted nothing but to be left alone to eke out a livelihood from the soil of Manchuria, were the innocent victims. For one Korean communist imprisoned, tortured or killed by the Chinese authorities, a hundred innocent Koreans — men, women and children — suffered similar fates. No doubt many of them were victimised as well, in consequence of the political activities of their less submissive countrymen.

Such is the irony of the efforts taken by the Koreans in recent years to champion the cause of their countrymen in Manchuria. Despair prevails among them. They are a minority race in an alien land. While retaining their race and culture consciousness, they are willing to adjust themselves to the social life about them, which is Chinese, caring little whether they are considered under the law as Chinese, Japanese or citizens of "Manchukuo". They hope for security and the opportunity to settle on the land and till their paddy-fields in peace. They are, and probably will continue to be, a minority group in Manchuria well deserving of the interest and sympathetic assistance of fair-minded individuals or agencies who have "no axe to grind".

ANNEX I.

THE VOLUME OF EMIGRATION OF KOREANS TO MANCHURIA² (Annual Statistics.)

| Year | Migrants to Manchuria | Migrants returning to Korea | Increases and decreases |
|---------------------|-----------------------|-----------------------------|-------------------------|
| 1910-1912 | 43,418 | — | + 43,418 |
| 1913 | 16,514 | 2,428 | + 14,086 |
| 1914 | 8,380 | 1,800 | + 6,580 |
| 1915 | 11,100 | 3,956 | + 7,144 |
| 1916 | 9,208 | 8,064 | + 144 |
| 1917 | 12,713 | 6,169 | + 6,544 |
| 1918 | 32,438 | 5,936 | + 26,502 |
| 1919 | 37,135 | 4,141 | + 32,994 |
| 1920 | 15,568 | 10,285 | + 5,283 |
| 1921 | 7,481 | 8,108 | — 627 |
| 1922 | 6,706 | 1,630 | + 5,076 |
| 1923 | 5,904 | 6,824 | — 920 |
| 1924 | 7,995 | 6,765 | + 1,230 |
| 1925 | 6,691 | 7,277 | + 586 |
| 1926 | 15,974 | 9,027 | + 6,947 |
| 1927 | 23,640 | 10,516 | + 13,124 |
| 1928 | 14,725 | 15,146 | — 421 |
| 1929 | 9,889 | 10,958 | — 1,069 |
| 1930 | 6,745 | 12,354 | — 5,609 |
| 1931 | 4,135 | 13,699 | — 4,135 |
| | <u>296,359</u> | <u>134,983</u> | |

¹ *Manchuria Daily News*, January 10th, 1928.

² Note. — These figures are from Japanese official sources (Government-General of Chosen) obtained by Dr. C. Walter Young from M. Hozumi, Chief of the Foreign Affairs Section, July 18th, 1932. These figures are based upon those compiled by the Japanese Frontier Police of the Government-General of Chosen, and are represented as minimising the actual numbers who migrated to Manchuria, since there existed, no doubt, a certain clandestine exodus across the border.

| 1910-1931 | |
|---|----------------|
| Migrants to Manchuria | 296,359 |
| Migrants returning to Korea. | 134,983 |
| Migrants remaining in Manchuria | <u>161,376</u> |

ANNEX II.

PLACES OF ORIGIN IN KOREA OF KOREANS MIGRATING TO MANCHURIA ¹

(Total figures for the period 1910 to 1931 inclusive.)

| | |
|-------------------------|----------------|
| <i>North Korea :</i> | |
| North Heian | 60,784 |
| South Heian | 21,988 |
| North Kankyo | 140,642 |
| South Kankyo | 32,615 |
| | <u>256,029</u> |
| <i>Central Korea :</i> | |
| Kokai | 15,574 |
| Kogen | 26,370 |
| Keiki | 11,979 |
| North Chusei | 3,506 |
| South Chusei | 1,580 |
| | <u>59,009</u> |
| <i>Southern Korea :</i> | |
| North Zenra | 789 |
| South Zenra | 2,962 |
| North Keisho | 41,630 |
| South Keisho | 17,388 |
| | <u>62,769</u> |
| Total | <u>377,807</u> |

ANNEX III.

POPULATION FIGURES OF CHIENTAO ²

(Showing population by nationalities and the annual increases from 1909 to 1931, inclusive.)

| Year | Japanese | Koreans | Chinese | Others | Total |
|----------------|----------|---------|---------|--------|---------|
| 1909 | 110 | | | | |
| 1910 | 120 | 53,000 | | | |
| 1911 | 280 | 91,000 | | | |
| 1912 | 330 | | | | |
| 1913 | 320 | | | | |
| 1914 | 290 | 127,500 | | | |
| 1915 | 320 | 163,000 | 49,000 | | |
| 1916 | 660 | 203,426 | 60,896 | | |
| 1917 | 660 | | | | |
| 1918 | | 253,961 | 72,602 | | |
| 1919 | 1,048 | 279,150 | | | |
| 1920 | 1,074 | | | | |
| 1921 | | 307,806 | 73,748 | | |
| 1922 | 1,320 | 323,806 | 70,698 | | |
| 1923 | 1,942 | 323,011 | 77,709 | 356 | 403,018 |
| 1924 | 1,956 | 329,391 | 82,730 | 262 | 414,339 |
| 1925 | 1,978 | 346,194 | 82,472 | 143 | 430,787 |
| 1926 | 1,950 | 353,016 | 86,307 | 105(?) | |
| 1927 | 1,963 | 368,827 | 94,960 | 96 | 465,846 |
| 1928 | 2,115 | 382,930 | 100,165 | 75 | 485,285 |
| 1929 | 2,083 | | 116,666 | 88 | 500,298 |
| 1930 | 2,256 | 388,566 | 117,902 | 89 | 508,813 |
| 1931 | 2,436 | 395,847 | 120,394 | 75 | 518,752 |

¹ Note. — The above figures were given to Dr. Young by M. Hozumi, Chief of the Foreign Affairs Section of the Government-General of Choen, July 1932, the figures being those of the Japanese police as obtained in the several provinces of Korea. The figures are based upon statements of Koreans who declared their intention to migrate to Manchuria, but it is probable that many of these, although leaving their own provinces, did not migrate to Manchuria, at least directly. It is known that many Koreans have migrated from the southern provinces into North Korea and remained for a time before going on into Manchuria.

² Note. — Japanese consular figures, including Yenchi, Holung, Wangching and Hunchun districts.

ANNEX IV.

COMPARATIVE TABLE OF NUMBER OF KOREAN IMMIGRANTS

| Year | | Keiki | North Chusei | South Chusei | North Zenra | South Zenra | North Keisho | South Keisho |
|------------------------------------|-----------|--------|--------------|--------------|-------------|-------------|--------------|--------------|
| September 1910- December 1912 . | Chientao | 91 | 7 | 18 | — | 4 | — | 259 |
| | Manchuria | 165 | 22 | — | — | — | 5,116 | 2,691 |
| | Other | 39 | 56 | — | 1 | 1 | 59 | 15 |
| | Total | 295 | 85 | 18 | 1 | 5 | 5,175 | 2,965 |
| 1913 | Chientao | 54 | — | — | — | — | 132 | 35 |
| | Manchuria | 44 | 284 | 6 | — | — | 3,125 | 1,604 |
| | Other | 13 | — | 3 | — | — | 32 | 28 |
| | Total | 111 | 284 | 9 | — | — | 3,289 | 1,667 |
| 1914 | Chientao | 8 | — | 2 | — | 4 | 51 | 3 |
| | Manchuria | 21 | — | — | — | — | 254 | 11 |
| | Other | 38 | — | — | — | — | 28 | 20 |
| | Total | 67 | — | 2 | — | 4 | 333 | 34 |
| 1915 | Chientao | 2 | — | — | — | 1 | 15 | — |
| | Manchuria | 7 | — | — | — | 1 | 112 | 32 |
| | Other | 29 | — | — | — | — | 3 | 78 |
| | Total | 38 | — | — | — | 2 | 130 | 110 |
| 1916 | Chientao | 6 | 23 | — | 2 | — | 11 | 1 |
| | Manchuria | 16 | 1 | — | — | — | 102 | 190 |
| | Other | 73 | 9 | 10 | 3 | 30 | 21 | — |
| | Total | 90 | 33 | 10 | 5 | 30 | 134 | 191 |
| 1917 | Chientao | 3 | 1 | — | — | — | 11 | — |
| | Manchuria | 19 | 99 | — | — | — | 149 | 526 |
| | Other | 142 | 3 | 24 | — | 25 | 120 | 263 |
| | Total | 164 | 103 | 24 | — | 25 | 280 | 787 |
| 1918 | Chientao | 69 | 123 | — | 15 | 16 | 470 | 28 |
| | Manchuria | 91 | 37 | 13 | 4 | 14 | 4,854 | 1,283 |
| | Other | 118 | 9 | 1 | 6 | 171 | 34 | 93 |
| | Total | 278 | 169 | 14 | 25 | 201 | 5,358 | 1,404 |
| 1919 | Chientao | 208 | 140 | 27 | 4 | 20 | 1,022 | 156 |
| | Manchuria | 19 | 78 | — | 9 | — | 9,778 | 3,408 |
| | Other | 163 | 34 | 11 | 34 | 51 | 98 | 348 |
| | Total | 390 | 252 | 38 | 47 | 71 | 10,898 | 3,912 |
| 1920 | Chientao | 112 | 57 | 7 | 30 | 28 | 256 | 128 |
| | Manchuria | 15 | 26 | 1 | — | — | 917 | 511 |
| | Other | 175 | 30 | 33 | 20 | 42 | 117 | 150 |
| | Total | 302 | 113 | 41 | 50 | 70 | 1,290 | 789 |
| 1921 | Chientao | 244 | 2 | 18 | 4 | 22 | 124 | 63 |
| | Manchuria | 12 | — | 2 | 1 | 24 | 346 | 305 |
| | Other | 242 | 6 | 43 | 24 | 139 | 62 | 117 |
| | Total | 498 | 8 | 63 | 29 | 185 | 532 | 485 |
| 1922 | Chientao | 300 | 12 | 1 | 3 | 3 | 121 | 11 |
| | Manchuria | 14 | 1 | — | — | — | 760 | 208 |
| | Other | 332 | 31 | 83 | 15 | 56 | 131 | 151 |
| | Total | 646 | 44 | 84 | 18 | 59 | 1,012 | 370 |
| 1923 | Chientao | 353 | 56 | 1 | — | 12 | 77 | 8 |
| | Manchuria | 32 | 2 | — | — | — | 320 | 225 |
| | Other | 232 | 15 | 36 | 15 | 64 | 44 | 77 |
| | Total | 617 | 73 | 37 | 15 | 76 | 441 | 310 |
| 1924 | Chientao | 399 | 531 | 19 | — | 71 | 68 | 11 |
| | Manchuria | 21 | 5 | — | 28 | — | 295 | 215 |
| | Other | 182 | 68 | 67 | 10 | 33 | 121 | 123 |
| | Total | 602 | 604 | 86 | 38 | 104 | 484 | 349 |
| 1925 | Chientao | 400 | 31 | — | — | 2 | 52 | 28 |
| | Manchuria | 23 | 6 | — | — | — | 356 | 169 |
| | Other | 227 | 48 | 85 | 30 | 34 | 63 | 69 |
| | Total | 650 | 55 | 85 | 30 | 36 | 471 | 266 |
| 1926 | Chientao | 1,989 | 107 | 72 | 3 | 18 | 524 | 49 |
| | Manchuria | 18 | 20 | — | — | 1 | 1,256 | 498 |
| | Other | 182 | 61 | 127 | 263 | 32 | 282 | 124 |
| | Total | 2,189 | 188 | 199 | 266 | 214 | 2,062 | 671 |
| 1927 | Chientao | 2,353 | 613 | 138 | 50 | 646 | 1,233 | 194 |
| | Manchuria | 43 | 30 | — | 1 | 37 | 1,842 | 724 |
| | Other | 212 | 108 | 17 | 74 | 72 | 267 | 220 |
| | Total | 2,608 | 751 | 155 | 125 | 755 | 3,342 | 1,138 |
| 1928 | Chientao | 645 | 313 | 40 | 44 | 751 | 636 | 84 |
| | Manchuria | 37 | 16 | 5 | — | 10 | 1,136 | 519 |
| | Other | 167 | 73 | 42 | 31 | 61 | 198 | 177 |
| | Total | 849 | 402 | 87 | 75 | 822 | 1,970 | 780 |
| 1929 | Chientao | 399 | 25 | 47 | 1 | 88 | 507 | 44 |
| | Manchuria | 25 | 6 | 5 | — | — | 1,260 | 285 |
| | Other | 131 | 63 | 128 | 11 | 36 | 336 | 164 |
| | Total | 555 | 94 | 180 | 12 | 124 | 2,003 | 493 |
| 1930 | Chientao | 166 | 55 | 66 | 1 | 14 | 172 | 51 |
| | Manchuria | 3 | 23 | 4 | — | 1 | 1,207 | 293 |
| | Other | 134 | 88 | 137 | 32 | 27 | 282 | 152 |
| | Total | 303 | 166 | 207 | 33 | 42 | 1,661 | 496 |
| 1931 | Chientao | 328 | 45 | 144 | — | 20 | 114 | 44 |
| | Manchuria | 24 | 8 | 14 | — | — | 469 | 63 |
| | Other | 170 | 29 | 83 | 23 | 17 | 182 | 181 |
| | Total | 522 | 82 | 241 | 23 | 37 | 765 | 288 |
| Grand Total . . . | Chientao | 8,329 | 2,111 | 600 | 157 | 1,883 | 5,597 | 1,197 |
| | Manchuria | 649 | 664 | 50 | 43 | 88 | 33,654 | 13,758 |
| | Other | 3,001 | 731 | 930 | 589 | 991 | 2,379 | 2,550 |
| | Total | 11,979 | 3,536 | 1,580 | 789 | 2,962 | 41,630 | 17,388 |

*Note. — In the above table, the word "Manchuria" does not include Chientao and the word "Other" means other foreign

| Year | 1919 | 1920 | 1921 | 1922 | 1923 | 1924 |
|---------------------------------------|-------|--------|-------|-------|-------|-------|
| Number of Koreans returned home . . . | 4,141 | 10,285 | 8,108 | 1,630 | 6,824 | 6,765 |

ABROAD SINCE ANNEXATION OF KOREA TO JAPAN.*

| Kokai | South Helan | North Heian | Kogen | South Kankyo | North Kankyo | Total | | Year |
|------------------------------------|-----------------------------------|-------------------------------------|------------------------------------|-------------------------------------|---------------------------------------|---|---|----------------------------------|
| 34 36 2 72 | 90 270 18 378 | 80 2,283 453 2,816 | 116 1,312 5 1,432 | 939 410 976 2,325 | 22,635 6,841 4,729 34,205 | 24,273 19,145 6,354 49,772 | Chientao Manchuria Other Total | September 1910- December 1912 |
| 204 152 13 368 | 147 310 29 489 | 80 2,187 230 2,497 | 375 645 — 1,021 | 1,297 266 543 2,106 | 4,877 690 1,192 6,759 | 7,202 9,312 2,083 18,597 | Chientao Manchuria Other Total | 1913 |
| 2 67 1 70 | 16 40 27 83 | 1,193 463 143 1,799 | 69 181 13 263 | 575 267 793 1,635 | 4,519 634 1,188 6,341 | 6,442 1,938 2,251 10,631 | Chientao Manchuria Other Total | 1914 |
| 60 48 29 137 | 43 207 34 284 | 123 5,359 3 5,485 | 30 43 17 90 | 419 159 814 1,392 | 4,350 89 1,174 5,613 | 5,043 6,057 2,181 13,281 | Chientao Manchuria Other Total | 1915 |
| 57 54 66 177 | 112 127 212 451 | 55 3,433 898 4,386 | 31 19 127 177 | 161 83 797 1,141 | 3,749 883 2,039 6,671 | 4,208 5,000 4,285 13,493 | Chientao Manchuria Other Total | 1916 |
| 65 54 79 198 | 200 152 322 674 | 162 2,532 2,797 5,491 | 87 7 51 149 | 6,760 947 1,552 9,259 | 429 5,512 819 1,760 | 7,718 4,995 6,198 18,911 | Chientao Manchuria Other Total | 1917 |
| 452 172 62 686 | 784 883 126 1,793 | 420 8,680 79 9,179 | 492 1,888 66 2,446 | 9,705 1,020 1,870 12,595 | 1,269 656 554 2,479 | 13,843 19,595 2,189 36,627 | Chientao Manchuria Other Total | 1918 |
| 1,221 431 336 1,888 | 2,274 1,449 1,264 4,987 | 420 7,998 1,695 10,113 | 1,062 719 84 1,865 | 4,707 1,349 2,225 8,281 | 502 134 966 1,602 | 11,763 25,372 7,209 44,344 | Chientao Manchuria Other Total | 1919 |
| 1,477 337 438 2,252 | 1,144 843 584 2,571 | 863 3,512 1,738 6,113 | 2,055 267 104 2,426 | 1,714 486 2,702 4,902 | 462 320 509 1,291 | 8,333 7,235 6,642 22,210 | Chientao Manchuria Other Total | 1920 |
| 249 32 165 466 | 728 620 672 2,020 | 119 640 839 1,598 | 1,034 92 272 1,398 | 174 31 1,400 1,605 | 2,277 318 1,691 4,286 | 5,058 2,423 5,672 13,153 | Chientao Manchuria Other Total | 1921 |
| 248 33 137 418 | 369 203 357 929 | 14 68 119 201 | 897 45 163 1,105 | 249 93 817 1,159 | 2,868 285 861 4,014 | 5,096 1,610 3,253 9,959 | Chientao Manchuria Other Total | 1922 |
| 254 47 153 454 | 244 181 152 577 | 5 157 140 302 | 351 28 113 492 | 456 168 257 881 | 2,633 294 343 3,270 | 4,450 1,454 1,641 7,545 | Chientao Manchuria Other Total | 1923 |
| 283 45 165 493 | 200 94 129 423 | 71 477 427 975 | 793 25 81 899 | 803 195 375 1,373 | 2,811 535 188 3,534 | 6,060 1,935 1,969 9,964 | Chientao Manchuria Other Total | 1924 |
| 242 41 318 601 | 199 88 261 548 | 22 150 573 745 | 234 8 84 326 | 521 130 499 1,150 | 3,389 600 765 4,754 | 5,120 1,571 3,056 9,737 | Chientao Manchuria Other Total | 1925 |
| 1,287 241 339 1,867 | 841 427 472 1,740 | 76 384 645 1,105 | 2,202 61 136 2,399 | 1,655 327 942 2,924 | 3,378 377 1,458 5,213 | 12,364 3,610 5,063 21,037 | Chientao Manchuria Other Total | 1926 |
| 2,592 187 476 3,255 | 909 288 410 1,607 | 148 883 1,749 2,780 | 5,737 224 192 6,153 | 1,475 144 1,100 2,719 | 2,803 346 1,460 4,609 | 18,891 4,749 6,357 29,997 | Chientao Manchuria Other Total | 1927 |
| 715 93 322 1,130 | 553 136 312 1,001 | 136 787 1,228 2,151 | 2,410 101 275 2,786 | 1,271 59 748 2,078 | 3,802 426 1,187 5,415 | 11,500 3,325 4,821 19,546 | Chientao Manchuria Other Total | 1928 |
| 324 38 208 570 | 230 60 350 640 | 16 477 930 1,423 | 336 44 200 580 | 908 176 600 1,684 | 4,006 582 669 5,257 | 6,931 2,958 3,726 13,615 | Chientao Manchuria Other Total | 1929 |
| 168 27 126 321 | 170 76 211 457 | 15 201 769 985 | 136 29 990 255 | 454 114 197 765 | 2,843 456 268 3,567 | 4,311 2,434 2,513 9,258 | Chientao Manchuria Other Total | 1930 |
| 86 15 70 171 | 78 39 222 339 | 68 152 420 640 | 57 6 49 112 | 273 75 198 546 | 1,654 359 83 3,096 | 2,911 1,224 1,727 5,862 | Chientao Manchuria Other Total | 1931 |
| 10,020 2,149 3,405 15,574 | 9,331 6,493 6,164 21,988 | 4,086 40,823 15,875 60,784 | 18,505 5,743 2,122 26,370 | 14,292 4,419 13,904 32,615 | 95,480 17,517 27,645 140,642 | 171,588 126,050 90,286 377,924 | Chientao Manchuria Other Total | ... Grand Total |

countries except Chientao and Manchuria.

| 1925 | 1926 | 1927 | 1928 | 1929 | 1930 | 1931 | Total | Grand Total since 1912 |
|-------|-------|--------|--------|--------|--------|--------|---------|------------------------|
| 7,277 | 9,027 | 10,516 | 15,146 | 10,958 | 12,354 | 13,699 | 122,732 | 143,511 |

ANNEX V.

STATISTICS SHOWING OWNERSHIP AND TENANCY OF LAND IN KOREA.¹
(Annual Figures.)

| | | Land'ords | Owner cultivator | Part-owner Part-cultivator | Full tenancy | " Fire-field " cultivators | Total |
|---------------------|------|-----------|------------------|----------------------------|--------------|----------------------------|-----------|
| 1920 . . | A. | 15,565 | 529,177 | 1,017,780 | 1,082,842 | | 2,720,729 |
| | B. | 75,365 | | | | | |
| 1921 . . | A. | 17,002 | 533,188 | 994,976 | 1,091,680 | | 2,716,949 |
| | B. | 80,103 | | | | | |
| 1922 . . | A. | 17,115 | 534,907 | 971,877 | 1,106,598 | | 2,712,465 |
| | B. | 81,906 | | | | | |
| 1923 . . | A. | 17,904 | 527,494 | 951,667 | 1,123,275 | | 2,702,838 |
| | B. | 82,498 | | | | | |
| 1924 . . | A. | 18,663 | 525,689 | 934,208 | 1,142,192 | | 2,704,272 |
| | B. | 83,520 | | | | | |
| 1925 . . | A. | 19,735 | 544,536 | 910,178 | 1,184,422 | | 2,742,703 |
| | B. | 83,832 | | | | | |
| 1926 . . | A. | 20,571 | 525,474 | 895,721 | 1,193,099 | 34,316 | 2,753,497 |
| | B. | 84,013 | | | | | |
| 1927 . . | A. | 20,737 | 519,389 | 909,843 | 1,217,889 | 29,131 | 2,781,348 |
| | B. | 84,359 | | | | | |
| 1928 . . | A. | 20,777 | 510,983 | 894,381 | 1,255,954 | 33,269 | 2,799,188 |
| | B. | 83,824 | | | | | |
| 1929 . . | A. | 21,326 | 507,384 | 885,594 | 1,283,471 | 34,332 | 2,815,277 |
| | B. | 83,170 | | | | | |
| 1930 . . | A. | 21,400 | 504,009 | 890,291 | 1,334,139 | 37,514 | 2,869,957 |
| | B. | 82,604 | | | | | |
| 1913 ² . | A. | 15,563 | 586,471 | 833,771 | 1,072,194 | | 2,573,044 |
| | B. | 75,365 | | | | | |
| 1915 ² . | A. } | | 570,380 | 1,073,838 | 945,398 | | 2,629,021 |
| | B. } | | | | | | |

NATIONALITY OF OWNERS AND TENANTS.

| | Japanese | Koreans | Chinese | Others | Total householders |
|----------|----------|-----------|---------|--------|--------------------|
| 1930 . . | 10,505 | 2,856,101 | 3,331 | 20 | 2,869,957 |

ANNEX VI.

(1)

AGREEMENT BETWEEN THE CHINESE AND JAPANESE POLICE AUTHORITIES EMBODYING THE PRINCIPLES TO REGULATE THE RESIDENCE OF KOREANS IN CHINESE TERRITORY.

[A translation.]

Article 1. — For Koreans residing in Chinese territory, the Chinese authorities shall regulate their residence in accordance with the Regulations for Bandit Suppression, by which a census of the Koreans shall strictly be taken ; Koreans shall, after a register has been kept for each family, give mutual guarantee for good conduct ; and they shall be held responsible for each other's misconduct.

Article 2. — The Chinese authorities shall issue a circular order to the various counties (*hsien*) within their respective jurisdiction strictly forbidding the Koreans residing therein to enter the territory of Korea with arms. Any Korean who violates the provisions of this article shall be immediately arrested and handed over to the authorities in Korea to deal with.

Article 3. — The Chinese authorities shall immediately dissolve the Korean societies, cause their arms to be handed over, and conduct a search and confiscate all arms and munitions found in their possession.

Article 4. — The various local authorities shall from time to time conduct a thorough search for, and cause to be confiscated, such arms and munitions as are found in possession of Koreans, with the exception of shotguns used by farmers for scaring away birds.

Article 5. — The Chinese authorities shall immediately arrest and extradite those leaders of the Korean societies whose names had been designated by the authorities in Korea.

¹ *Note.* — These figures were supplied to Dr. Young by the Government-General of Chosen in July 1932. The figures show number of householders (not individuals). In the column titled "Landlords", the letter "A" designates the number of householders owning land but not tilling it, while the letter "B" designates landlords by householders owning land and tilling part of it. The expression " Fire-field " cultivators refers to Koreans who cut wood in the mountains and on hill-sides, thus making clearings where they till the soil along with their occupation of wood-cutting.

² *Note.* — Unofficial figures.

Article 6. — The Chinese and Japanese authorities shall notify each other of the actual facts about the suppression of the Korean societies.

Article 7. — The Chinese and Japanese police shall not trespass into each other's territory. In case of emergency, one party may request the other to take any necessary action and *vice versa*.

Article 8. — With reference to all cases hitherto unsettled, the two parties shall sincerely come to a settlement within a definite time.

June 11th, 1925, at the Office of the Commissioner for Foreign Affairs of Fengtien Province.

(Signed) YU CHENG,
Police Commissioner of Fengtien Province.

(Signed) MITSUYA MIYAMATSU,
Police Commissioner of Korean Vice-Royalty.

(2)

DETAILED REGULATIONS GOVERNING THE SUPERVISION OF KOREANS AS
AGREED UPON BETWEEN THE CHINESE AND JAPANESE POLICE AUTHORITIES.

[A translation.]

Article 1. — For those Koreans residing within the jurisdiction of Tung-Pien-Tao (Eastern Intendancy of Circuits), in the Province of Fengtien, the Chinese authorities shall, in accordance with the Regulations for Bandit Suppression, issue to each one of them a Residence Certificate after being satisfied that he or she is a person of good character. In addition, a record is to be kept for each family, and a mutual guarantee is to be given by each Korean, with a view to facilitating supervision. The form of the Residence Certificate is to be decided upon separately.

Article 2. — For those Koreans residing within the jurisdiction of Tung-Pien-Tao (Eastern Intendancy of Circuits), in the Province of Fengtien, after the first census has been completed, annual general investigation is to be conducted once in spring and another in autumn (not exceeding twice a year), except in the case of monthly investigations which are necessary when changes are made in the records and guarantees.

Article 3. — A Korean residing within the jurisdiction of Tung-Pien-Tao (Eastern Intendancy of Circuits), in the Province of Fengtien, shall, in the case of removal out of the said jurisdiction, return his or her Residence Certificate to, and apply for a Removal Certificate from, the local police station five days prior to his or her removal, so as to facilitate future investigations. The form of the Removal Certificate is to be decided upon separately.

Article 4. — All matters relating to the application for the arrest and extradition of Koreans, as well as their arrest and extradition as provided in the Agreement of June 11th, 1925, shall be carried out by the police authorities under the direction of the higher local authorities in a manner as speedy and as simple as possible.

Article 5. — If a Korean of bad character is found in a county (*hsien*) along the river on the eastern border of the Province of Fengtien, carrying arms and with intent to invade into the territory of Korea across the river, he or she shall, after his or her guilt is established upon arrest and hearing by the Chinese local authorities, be extradited according to the Agreement of June 11th, 1925, and handed over to the Japanese authorities in Korea across the river. For this purpose, the Korean may be handed over to the nearest Japanese police station across the river.

A Korean of bad character found in a county (*hsien*) in the interior of the Province of Fengtien shall, after his or her guilt is established upon arrest and hearing by the Chinese local authorities, be handed over to the nearest Commissioner of Foreign Affairs for extradition to the Japanese Consul.

Article 6. — In order to prevent disastrous consequences and for the purpose of facilitating supervision, all meetings or societies held or organised or to be held or organised by Koreans residing in the Province of Fengtien in whatever name or under whatever pretext shall be strictly suppressed or dissolved, if the existence of such meetings or societies is prejudicial to the local peace and order of China or Japan, or if their purpose is otherwise improper. Those who openly organise themselves and parade with arms shall be strongly suppressed and, upon their arrest, extradited in accordance with the provisions of Article 5.

Article 7. — If a group of Koreans of bad character whose arrest was applied for by the authorities in Korea are arrested by the Chinese authorities, they shall, upon hearing, be extradited in accordance with the provisions of Article 5. But in case there be no such person or persons as designated, the authorities in Korea shall, in order to avoid misunderstanding, be informed with a written notification.

Article 8. — After receiving the request from one party as provided in Article 7 of the Agreement of June 11th, 1925, the other party shall at once take all necessary measures to meet the situation and inform the former of the results of the action the latter has taken.

Article 9. — If an oral request is to be made by one party in the case of emergency, for the purpose of the preceding article, it shall be communicated to the other by sending at most two armed persons across the river with an " advice note " (the form of the " advice note " to be decided upon separately). A written request shall be communicated between the Chief of a Chinese police station and the Chief of a Japanese police station as officers of the lowest rank.

Article 10. — With a view to the realisation of the spirit of the Agreement of June 11th, 1925, and the strict enforcement of the same, the two parties shall direct their respective officers and their subordinate police authorities mutually to supply information and co-operate with frankness, so that each party may be constantly kept acquainted with the views of the other party.

Article 11. — All outstanding cases between the two parties which occurred in the eastern districts of the Province of Fengtien shall be settled in a mutual spirit of sincerity and fairness by the local authorities of both parties within five months from the date of signature of the present Regulations. In case any dispute arises in the future, it shall likewise be settled by the local authorities of both parties in a fair manner.

Article 12. — The present Regulations shall be promulgated and enforced by the two parties respectively on and from the day when the exchange of the same takes place.

July 8th, 1925, at the Office of the Police Commissioner of Fengtien Province.

(Signed) YU CHENG,
Police Commissioner of Fengtien Province.

(Signed) N. KUNIMOTO,
for
MITSUYA MIYAMATSU,
Police Commissioner of Korean Vice-Royalty.

[Communicated to the Council
and the Members of the League.]

Official No.: **C. 775. M. 366.** 1932. VII.

Geneva, November 19th, 1932.

LEAGUE OF NATIONS

APPEAL BY THE CHINESE GOVERNMENT

OBSERVATIONS
OF THE JAPANESE GOVERNMENT

ON THE

REPORT OF THE COMMISSION OF ENQUIRY

Note by the Secretary-General:

The Secretary-General has the honour to circulate to the Council and Members of the League the observations of the Japanese Government on the Report of the Commission of Enquiry, which was distributed on October 1st as document C.663.M.320.1932.VII.

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VII. POLITICAL ✓
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**LETTER FROM THE REPRESENTATIVE OF JAPAN
TO THE PRESIDENT OF THE COUNCIL**

Geneva, November 18th, 1932.

Referring to my letter of September 14th last¹ addressed to His Excellency M. Matos, Acting President of the Council, I have the honour to forward herewith the Japanese Government's observations on the Report of the Commission of Enquiry constituted under the Council's resolution of December 10th, 1931. I should be much obliged if you would be good enough to circulate these observations to the Members of the Council and of the League.

(Signed) H. NAGAOKA,
Japanese Representative on the Council.

¹ See document C.648.1932.VII.

INTRODUCTION

The Japanese Government have studied with all the care demanded by the importance of the document the report presented by the Commission of Enquiry appointed by the League of Nations.

It has been the constant object of the Japanese Government to do everything in their power to afford information to the Commission and to facilitate their investigations. They sincerely appreciate the work done by the members of the Commission to make themselves acquainted with the details of a very delicate and complex situation, which presents many unfamiliar and novel features.

In view of the exacting nature of the task and of the very short time which could be devoted to it, it is not, however, surprising that the report should in various passages be marked by omissions, inconsistencies and misapprehensions. To obtain a thorough knowledge of the situation, a year would not have been too long. A six weeks' visit to Manchuria and some weeks spent in the atmosphere of Peiping and Nanking could not impart full understanding, dependent as the Commission necessarily were on the information furnished them, and the views entertained, by authorities more familiar than they with the Chinese language and conditions. Had they had more time and visited other parts of the country, especially South China, the optimism which they express regarding the Chinese situation would, it is felt, have been considerably modified.

It is by no means the intention of the Japanese Government to indicate all the points in which they feel that the report lies open to exception. Nor do they intend to enter into any meticulous criticism of details in the report, which, taken as a whole, and especially in its descriptive portions, furnishes a valuable compendium of events. For the moment, and of course without prejudice to the presentation of their further opinion, they will limit themselves to the formulation of certain observations on matters of capital importance, with the sole object of establishing the true facts.

In offering these observations, the Japanese Government have, needless to say, not the remotest intention of casting any reflection on the conscientious way in which the Commission have drawn up their report. But they are impressed by the feeling that items of information drawn from unimpeachable sources—*e.g.*, those presented by the representatives of the Japanese Government—have been passed over or disregarded, whilst undue credit has been accorded to information coming from obscure or even unknown quarters.

The Japanese Government cannot ignore the fact—apparent on the face of the report—that, in addition to the documents duly exchanged between the parties, the Commission have based their findings on newspaper articles, on letters received from casual correspondents, and on the private conversations of members of the Commission and their expert advisers with individuals invested with no special qualifications. It is a fact worthy of remark that this kind of evidence emanating from indefinite and uncertain sources is used to corroborate Chinese contentions as against those of Japan. The Japanese Government had no means of ascertaining in each case the source of such information and refuting it, and must necessarily reserve the right of making further enquiries to elucidate the degree of credit which is to be attached to such material.

**Japanese
Government
anxious to
assist
Commission.**

**Shortness
of visit.**

**Only salient
features here
dealt with.**

**Evidence not
adequately
sifted.**

**Especially
as regards
Incident of
September
18th and new
State.**

The reception of this kind of evidence is particularly noticeable in the sections dealing with the Incident of September 18th and with the establishment of the independent State of Manchukuo. In the former case, it leads to a complete misconstruction of the motives which actuated the Japanese armed forces, and in the latter case to the presentation of suggestions for the future government of Manchuria, which are consistent neither with the tenor of the remainder of the report nor with the realities of the situation.

**Whole
situation to be
considered.**

In its future deliberations directed to securing the peace of the Far East, the Council of the League of Nations cannot, in fact, avoid taking into account the whole of the existing circumstances in this part of the world—in China as well as in Manchuria—including the events which have transpired subsequently to the preparation of the report. It is with a view to afford what assistance they can to this endeavour that the present observations have been drawn up, so that Members of the Council may have a clear comprehension of the real situation in all its bearings.

**Japan not
hostile to
Chinese people.**

When, in the course of these observations, reflections are unavoidably cast on the conduct of the Chinese, it may be well to disclaim the idea, sometimes latent in the report, that Japan entertains feelings of bitterness or hostility towards the Chinese people. The Japanese Government believe that the Chinese people have been much misled, much terrorised and much misrepresented, and that their main desire is to enjoy in peace and quiet the results of their industry. Japan, maintaining her old friendly attitude, looks forward to ages of prosperous and neighbourly co-operation between the two nations.

Chapter I.

CHINA

A. GENERAL SURVEY

The report very properly endeavours, before dealing with the situation in Manchuria, to give in Chapter I a general view of China and to furnish some account of the internal conditions there prevailing.

Unfortunately, it reveals that the investigations conducted by the Commission have been not only incomplete, but inadequate. It contains, indeed, many just conclusions flowing for the most part from observed facts. But all these observations and conclusions are enveloped in a mist of optimism the glamour of which is certain to be misleading to anyone who does not know the true facts.

The Commission appear to be surprised at such statements as that "China is not an organised State" (page 17) and that "China is in a condition of complete chaos and incredible anarchy" (page 17). They call attention to "an altogether different attitude that was taken at the time of the Washington Conference by all the participating Powers", when in fact there were two completely separate Governments in China—one at Peking and another at Canton—when banditry was rife, frequently interfering with the communications in the interior, and when preparations were being made for a civil war which a few months afterwards overthrew the "Central Government" and set up a third independent Government in Manchuria; when, in short, "there existed no fewer than three Governments professing to be independent, not to mention the virtually autonomous status of a number of provinces or parts of provinces" (page 17).

At that time, conditions were certainly not ideal. But there were then only three main rivals in the field. Now there is a whole kaleidoscope. Outer Mongolia and Tibet have been almost entirely lost, while the National Government at Nanking not only secure no obedience from various local leaders, especially the Southern faction at Canton, but are actually threatened by the tremendous communist aggregation which has its centre in the provinces of Hupei, Fukien and Kiangsi. That most of the factions aim at the ideal of a united China, of which each seeks to be the master, is possible enough, but that does not make China united, as the report seems inclined to assert.

At the time of the Washington Conference, it was possible to hope for an early restoration of unity and peace to China, but events have belied that hope. The disunion and anarchy of China have gone from bad to worse. The struggles of rival militarists have been woven into the very fabric and structure of Chinese politics, Communism has deeply entrenched itself in the heart of the country. The habit of civil strife has become ingrained and endemic; and it is only unreasoning optimism, or a failure to acquaint oneself with the conditions on the spot, which can prompt an observer to detect progress since 1922.

**China not
organised
State.**

**Events have
belied
assumptions
at
Washington.**

Examples.

The Japanese Government recognise the justice and force of many of the conclusions of the report in so far as it deals in Chapter I with the present conditions prevailing in China.

“Political upheavals, civil wars, social and economic unrest, with the resulting weakness of the Central Government, have been the characteristics of China since the revolution of 1911. Those conditions have adversely affected all the nations with which China has been brought into contact and, until remedied, will continue a menace to world peace and a contributory cause of world economic depression” (page 13).

At page 14, dealing with the problems of assimilation and transformation which confronted both Japan and China, the report emphasises the special conditions of China “owing to the vastness of her territory, the lack of national unity of her people, and her traditional financial system, under which the whole of the revenue collected did not reach the central Treasury”. It remarks that “the reluctance of China to receive foreigners and her attitude towards those who were in the country was bound to have serious consequences,” and that “it concentrated the attention of her rulers on resistance to and restriction of foreign influence”, and it adds that, “as a result, the constructive reform necessary to enable the country to cope with the new conditions was almost completely neglected”.

At page 16, the report recalls the facts that, from 1914 to 1928, “China was ravaged by warring factions; and the ever-present bandits grew into veritable armies by the enlistment of ruined farmers, desperate inhabitants of famine-stricken districts, or unpaid soldiers. Even the constitutionalists, who were fighting in the South, were repeatedly exposed to the danger of militarist feuds arising in their midst.”

At pages 16 and 17, it notes that, upon the establishment of a government at Nanking in 1927, “the party was now ready to put into operation its schemes of political and economic reconstruction, but was prevented from doing so by internal dissensions, the periodical revolt of various Generals with personal armies, and the menace of Communism. In fact, the Central Government had repeatedly to fight for its very existence.”

Finally, on page 17, it remarks that “for a time unity was maintained on the surface. But not even the semblance of unity could be preserved when powerful war-lords concluded alliances amongst themselves and marched their armies against Nanking. Though they never succeeded in their object, they remained, even after defeat, potential forces to be reckoned with. Moreover, they never took the position that war against the Central Government was an act of rebellion. It was in their eyes simply a struggle for supremacy between their faction and another one which happened to reside in the national capital and to be recognised as the Central Government by foreign Powers,” and reaches the conclusion that, “from this summary description, it appears that disruptive forces in China are still powerful”.

**Impossibility of
reconciling these
statements with
non-repudiation of
authority of “Central
Government”.
Recent events.**

How can these entirely justified statements be reconciled with the optimistic views to which expression is given in the same chapter? It is stated, for instance, on page 17, that “although, at present, the Central Government’s authority is still weak in a number of provinces, the central authority is not, at least openly, repudiated”.

It is hardly necessary to recall facts of recent date, subsequent to the composition of the report, which prove that the struggles between rival war-lords are very far from having come to an end. In the North, despite the injunction of the National Government, General Liu Chen-nien and General Han Fu-chu have been carrying on hostilities since the middle

of September. In the South, for instance, the struggle for the presidency of the Provincial Government of Fukien has also brought about fights between opposing military and civil factions. In the West, Tibetan troops have occupied the provinces of Hsikang and Kokonor. In the province of Szechuan, military operations have taken place between General Liu Wen-hui and General Liu Hsiang ; and, in spite of an urgent telegram from General Chiang Kai-shek, reminding them that such behaviour is calculated to produce an impression of want of unity, these hostilities have gone on unabated.

The report indeed explicitly states that Communism in China does not only mean, as in most countries other than the Union of Soviet Socialist Republics, either a political doctrine held by certain members of existing parties or the organisation of a special party to compete for power with other political parties. " It has become an actual rival of the National Government. It possesses its own law, army and government, and its own territorial sphere of action. For this state of affairs, there is no parallel in any other country " (page 23).

Upon this rapid review of the " disruptive forces ", the continually controlling nature of which the report duly recognises, it is the conviction of the Japanese Government that, contrary to the view expressed on page 17 of the report, that " considerable progress has in fact been made " since the date of the Washington Conference, fuller examination will show that the condition of China is in fact much worse.

Conditions worse since Washington Conference, 1922.

B. ANTI-FOREIGN ACTIVITIES IN CHINA

The many intense manifestations of anti-foreign sentiment that have taken place in China have played no less a part than those conditions of anarchy and disturbance which have just been described in creating the atmosphere that gave rise to the recent unfortunate conflict.

The report takes occasion to pronounce that :

" Having started upon the road of international co-operation for the purpose of solving her difficulties, as was done at Washington, China might have made more substantial progress in the ten years that have since elapsed had she continued to follow that road. She has only been hampered by the virulence of the anti-foreign propaganda which has been pursued. In two particulars has this been carried so far as to contribute to the creation of the atmosphere in which the present conflict arose—namely, the use made of the economic boycott, and the introduction of anti-foreign propaganda into the schools " (page 18).

Anti-foreign propaganda and boycott to be co-ordinated.

Anti-foreign propaganda (in the schools especially) and boycott are circumstances of aggravation which are unfortunately dis severed from each other in the report. They must be attentively co-ordinated, if we desire to understand the real state of things which prevailed in China, when special causes of tension in Manchuria resulted in the incident of September 18th, 1931.

The " National " Government are permeated by acute anti-foreign feeling, and work earnestly to instil a virulent hatred of foreigners into the minds of the younger generation. Fifty millions of young Chinese are growing up under the influence of violent ideas, thus constituting a terrific problem for the immediate future. The Nanking Government are doing their best to foster this alarming process. Let us cite from the report :

Propaganda in schools.

" The ideas of Dr. Sun Yat-sen are now taught in the schools as if they had the same authority as that of the Classics in former centuries.

The sayings of the master receive the same veneration as the sayings of Confucius received in the days before the Revolution. Unfortunately, however, more attention has been given to the negative than to the constructive side of nationalism in the education of the young. A perusal of the text-books used in the schools leaves the impression on the mind of a reader that their authors have sought to kindle patriotism with the flame of hatred, and to build up manliness upon a sense of injury. As a result of this virulent anti-foreign propaganda, begun in the schools and carried through every phase of public life, the students have been induced to engage in political activities which sometimes have culminated in attacks on the persons, homes or offices of Ministers and other authorities, and in attempts to overthrow the Government " (page 19).

Boycotts.

The report recognises that the Chinese boycotts have been the definite expression of a hostile attitude on the part of China towards Japan, that they injure the economic interests of Japan, and that they are consequently detrimental to friendly relations between Japan and China, both from a psychological and from a material point of view. These observations confirm what the Japanese Government have always consistently maintained.

Some remarks may, however, be made on the special character of Chinese boycotts and on the question of responsibility for them.

In recent years, the boycott has developed in China the special characteristic of being employed, not only as a means of protest against legitimate measures of foreign Powers to protect the lives and property of their respective subjects in China, but also as an instrument of national policy to secure the abandonment by another nation of its treaty rights.

**Responsibility
for boycott.**

As to the question of governmental responsibility, the report states that " there is no doubt " as to the responsibility of the Kuomintang for the boycotts. This is patently correct, and it must be added that the Kuomintang, or the Nationalist Party, is not a simple political party in the Occidental sense of the term, but a regular State organ of China in accordance with the Chinese organic law. It is evident that its acts entail a national responsibility upon the National Government.

**Revolutionary
diplomacy.**

No isolated descriptions, however minute and detailed, of anti-foreign methods of education and of the operation of boycott movements can be sufficient of themselves to give a full understanding of the actual conditions prevailing in China. It is necessary that the whole should be co-ordinated, so as to reveal, underlying these two phases of anti-foreign activity, the anti-foreign policy of the Kuomintang and the Nationalist Government. This feature the report fails to bring out. It is noteworthy that the Kuomintang and the Nationalist Government began to play an important rôle in China within a few years of the Washington Conference. They have persistently pursued their so-called " revolutionary policy " ever since they came into power. It is this avowed policy of theirs, as well as the lawless conditions subsisting in China, that has alarmed foreign Powers and has increased their reluctance to surrender the rights which constitute at the moment their only protection.

On this point, the report states that " the influence of the Kuomintang has introduced into the nationalism of China an additional and abnormal tinge of bitterness against all foreign influences . . . It demands the return of leased territories, of administrative and other not purely commercial rights exercised by a foreign agency in railway areas, of administrative rights in concessions and settlements, and of extra-territorial rights which imply that foreigners are not amenable to Chinese laws, law courts and taxation " (page 18); and that " China demands immediately the surrender of certain exceptional powers and privileges because they are felt to be derogatory to her national dignity and sovereignty " (page 23).

Further study would have revealed to the Commission that these were not empty "demands", but that the Chinese authorities were determined to push them through to fruition by their own unilateral declarations and their own brute force.

The Kuomintang Party has time and again announced as its basic foreign policy the abolition of foreign rights, with the avowed intention of denouncing "unequal" treaties unilaterally, if need be, regardless of the attitude of the other signatory Powers. In 1926, General Chiang Kai-shek declared that, should the Nationalist revolution succeed, China would abolish all "unequal" treaties immediately and unilaterally. In January 1927, the British Concessions in Hankow and Kiukiang were forcibly seized by the Kuomintang. Its actions may have become somewhat more moderate after the establishment of the Nationalist Government at Nanking in April the same year, but its policy did not change. They repeatedly proclaimed their intention of abrogating "unequal" treaties and of doing away with the rights and interests acquired by foreigners in China. They repeatedly pledged themselves to the public to carry out this policy. Acting upon the pledge, the Government, on December 28th, 1929, promulgated a law providing for the abolition of extra-territoriality as from January 1st, 1930, and again, in January 1931, declared that, unless a satisfactory settlement of the extra-territoriality issue could be arrived at by the end of February of the same year, the Government would proceed with their proclaimed policy of abolishing extra-territoriality by other than diplomatic means. At the same time, there were issued "Regulations regarding the Administration of Justice in the Case of Foreigners", and thus they openly expressed their intention of unilaterally doing away with the treaties, announcing the fact to the interested Powers.

It will be apparent that foreigners and their rights in China were faced with serious dangers prior to the Incident of September 18th.

And, as the report observes: "So far as Japan is China's nearest neighbour and largest customer, she has suffered more than any other Power from the lawless conditions . . ." (page 23).

**Official
threatening
declarations.**

**Japan,
greatest
sufferer.**

C. ABNORMAL STATUS OF FOREIGNERS IN CHINA

The internal disintegration which, in fact, lies at the very heart of the capital question of China, together with the state of constant insecurity to which the lives and property of foreigners are consequently exposed, the inculcation of hatred in the schools and the anti-foreign propaganda among the adolescent, the perfected methods of boycott to be applied to foreigners of one nationality or another, the unilateral denunciation of treaties, along with the rest of the measures derived from the theories of "revolutionary diplomacy", all contribute to invest the problems which are presented by China, destitute as she is of a strong and united Government, with an entirely special character, and prevent the application of usual methods of solution. Such anti-foreign characteristics as have been described (and which are unparalleled anywhere else), have obliged foreign Powers to maintain a system for the protection of their rights and interests at their own hand. These Powers not only possess rights of extra-territorial jurisdiction in China, but maintain (of course, besides their leased territories) concessions in Tientsin, Hankow, Shanghai and other cities, which they themselves police and administer. While thus making due provision to minimise the evil effects of Chinese lawlessness, these Powers hold themselves in a condition to protect their rights by force of arms. Besides the forces protecting the Japanese railway in Manchuria, there were before the Incident of September 18th, 4,700 American, British, French and Italian troops, together with some 900

**Abnormal
system of self-
protection
adopted by
foreign Powers.**

Japanese, in the Peiping and Tientsin districts, all stationed there since 1901 in virtue of treaty stipulations. Most of these Powers also have forces stationed in Shanghai, not under treaty, but under the simple necessities of self-defence, a state of affairs which has come about altogether subsequently to the Washington Conference of 1922, and thus shows the deterioration of conditions since that date. Many men-of-war are also stationed, not only at seaports like Shanghai and Tsingtao, but also in inland waters, such as the Yangtze River and the Paiho.

Nor is this an empty form. There have been many occasions on which these troops and vessels have been employed in active self-defence.

Instances.

Besides such conspicuous cases as those presented by the firing by foreign forces at Shameen in 1925, the bombardment of Wanhsien in 1926 and that of Nanking in 1927, there have been numerous cases in which foreign men-of-war navigating the Yangtze River have been compelled to return the unprovoked fire of Chinese troops from the banks. These unprovoked attacks have indeed been on the increase in recent years, particularly since the Kuomintang came into power.

Report implies that China does not discharge functions of modern Government.

It is thus clear that the position of foreign Powers in China is an altogether exceptional one, without parallel in other parts of the world. International usages and the manner of exercising the right of self-defence are there marked by characteristics unlike any to be found in other civilised countries. The report states, on page 23, that "the realisation of China's national aspirations in the field of foreign relations depends on her ability to discharge the functions of a modern Government in the sphere of domestic affairs, and until the discrepancy between these two has been removed the danger of international friction and of incidents, boycotts and armed interventions will continue".

Consequent inapplicability of normal peace machinery in China.

The application of what may be called "peace machinery", such as resort to international courts or arbitrators, encounters insuperable obstacles in the case of China. It has been found impossible in the past to make use of these organs even in disputes which did not involve vital interests. The abnormal conditions of China and the fact that the Powers refuse, in view of their existence, to modify the abnormal and extraordinary institutions above mentioned are sufficient proof of the impossibility of applying to Chinese disputes the normal "peace machinery", as constituted at present.

Chapter II.

MANCHURIA

A. GENERAL SURVEY

Manchuria not naturally and necessarily integral part of China.

The Commission seem throughout to be influenced by the assumption that Manchuria is naturally and necessarily part of China. In fact, on page 29, they say it has always been considered "an integral part of China". As a matter of fact, the union of Manchuria with China has only been temporary and accidental. This is apparent from the report, which passes lightly over the situation which supervened on the dethronement of the Manchu Dynasty. Although the Manchurian authorities may have "followed the lead of Yuan Shih-kai", and may not have concerned themselves very much about their constitutional position, it is safe to accept the considered opinion of M. Escarra, an adviser to the Nanking Government (*La Chine et le Droit International*, page 240), who says that the disappearance of the Manchu Dynasty from China and the consequent

disappearance of the substratum (*support*) of the dynastic bond which united Manchuria in a personal union with China “*ne s’accompagnait guère d’autres modes de rattachement*”. “*La Mandchourie*”, says this author, “*n’a jamais été vassale de la Chine, puisque c’est une famille mandchoue, au contraire, qui a conquis l’Empire chinois. On ne peut pas, d’autre part, considérer la Chine comme ayant été vassale de la Mandchourie, . . . il s’agit bien d’un exemple d’union personnelle . . .*” “*Au fond*”, M. Escarra proceeds, “*il ne pouvait guère être question des droits de la Chine sur la Mandchourie. Il n’y avait eu que ce fait que des Mandchous étaient sur le trône de Chine, sans plus. Cette famille disparaissant, il fallait trouver une autre formule juridique pour expliquer le rattachement de la Mandchourie à la Chine. Il ne semble pas que cette formule ait été recherchée d’une manière consciente.*” Thus the connection between Manchuria and China was loose and vague, and on various occasions Chang Tso-lin repudiated it in set terms.

Even assuming that, in this ambiguous state of things, Manchuria must be pronounced to have been for the moment duly incorporated with China—a large assumption—the fall of the United Republic after the death of Yuan Shih-kai in 1916 signalled the break-up of all unity of government in China. None of the Governments arising in that vast area had any title to supremacy over the rest, and the eventual establishment of a Government at Nanking and its recognition as a legitimate Government by the Powers could not invest it with authority over regions, such as Manchuria, which had never been subject to its sway.

After the
Empire.

In point of fact, Chang Tso-lin never took orders from any of the various parties who from time to time seized authority in Peking, though he may have consulted their inclinations when it suited him to do so. “His attitude from time to time”, says the report (page 28), “depended on the nature of his personal relations with the military leaders who controlled the changing central authorities. He seems to have looked upon his relations with the Government in the sense of a personal alliance.” The report gives many instances of his independence and proceeds to develop the theory that, in asserting independence of, and free alliance with, the Chinese Government, he did not mean to be independent of China (page 28). This assertion can only mean, at most, that Chang desired, and would have welcomed, a United China comprising his own Manchuria. That may or may not have been the case, but it obviously in no respect affects the status of Manchuria, which depends solely on facts and not upon surmises. In point of fact, in his declaration of May 1922, Chang expressly says that the North-Eastern Provinces “are not recognised as territories of the Republic of China”.¹

Chang Tso-lin.

¹ “To the Foreign Ministers in Peking, the foreign Consuls in Tientsin and the foreign Residents, both Civil and Military, in Tong-shan.

“I have received from Hsu Shih-chang a communication giving away Three Eastern Provinces, the special areas, Jehol and Cha Ha-erh, also the Inner and the Outer Mongolia. All these are not recognised as territories of the Republic of China.

“I, with my special position, cannot but assume all the responsibilities thereof, and do my utmost to protect the lives and properties of all the friendly nations cultivating friendly relationship with them. All the important treaties which have been made under the Manchu Regime and the Republic of China will be fully recognised and respected. The Foreign Ministers, the foreign Consuls and foreign Residents who wish to conduct negotiations on other matters and affairs can communicate with my office at Lanchow. I shall hereafter have closer commercial relationship than ever before with the friendly nations in order to promote the happiness and prosperity of the people. Whatever treaties Hsu Shih-chang will make after the first day of this month with reference to the Three Eastern Provinces, the Inner and the Outer Mongolia, Jehol and Cha Ha-erh, and which do not have my direct permission, will not be recognised by me, and I shall look upon them as something done with bad intention by Hsu Shih-chang.—(Signed) CHANG TSO-LIN, Commander-in-Chief of Fengtien Troops.”

**Chang
Hsueh-liang.**

Chang Tso-lin's son and successor, General Chang Hsueh-liang, has adopted essentially the same attitude; not repudiating the ideal of a United China which should include Manchuria, and accepting the Nanking Government as a symbol of that ideal unity, but entirely repudiating any subjection to it in practice. As the report says (page 30):

“The relationship with the Central Government depended in all affairs—military, civil, financial and foreign—on voluntary co-operation. Orders or instructions requiring unquestioning obedience would not have been tolerated. Appointments or dismissals against the wishes of the Manchurian authorities were unthinkable.”

The report thus clearly demonstrates the entire independence of Manchuria under the Changs from subjection to, or interference by, any Chinese Government.

**Self-
contradiction
of report.**

When, therefore, on page 29, the report declares Manchuria to have “remained an integral part of China”, and elsewhere declares that such is still its position, it contradicts all that it has adduced to prove its independence. Invoking against Japan the Law of Nations, it collides with the most fundamental doctrine of that law—viz., that a State must possess and continue to possess one supreme Government. Since 1916, no single Government has ever exerted actual authority over the whole of China.

**Chinese racial
origin no
argument.**

As a further attempt to prove that Manchuria ought to be regarded as a part of China, the report relies on the undoubted fact that many or most of the present inhabitants of Manchuria are Chinese immigrants. To this, it is sufficient to remark that, as the report itself observes, the Chinese have not a keen sense of nationality, and to add that the doctrine of the report would have very awkward consequences for the territorial status of many countries and for the peace of the world if applied elsewhere.

B. MISGOVERNMENT OF THE CHANGS

The independence of the Three Eastern Provinces, and subsequently of the Four North-Eastern Provinces, and the maintenance even subsequently to December, 1928, of their administrative unity, does not mean that Manchuria was well governed. The Commission note, while they somewhat extenuate, the maladministration which prevailed under the Changs (page 31).

“The Manchurian authorities realised that, as before, their power derived much more from their armies than from Nanking.

“This fact explains the maintenance of large standing armies numbering about 250,000 men, and of the huge arsenal on which more than 200,000,000 silver dollars are reported to have been spent. Military expenses are estimated to have amounted to 80 per cent of the total expenditure. The remainder was not sufficient to provide for the costs of administration, police, justice and education. The Treasury was not capable of paying adequate salaries to the officials. As all power rested in the hands of a few military men, office could be owned only through them. Nepotism, corruption and maladministration continued to be the unavoidable consequences of this state of affairs. The Commission found grave complaints concerning this maladministration to be widely current. This state of affairs, however, was not peculiar to Manchuria, as similar or even worse conditions existed in other parts of China.

“Heavy taxation was needed for the upkeep of the army. As ordinary revenues were still insufficient, the authorities further taxed the people by steadily depreciating the irredeemable provincial currencies. This was often done, particularly of late, in connection

with 'official bean-buying' operations, which, by 1930, had already assumed monopolistic proportions. By gaining control over Manchuria's staple products, the authorities had hoped to enhance their gains by compelling the foreign bean-buyers, particularly the Japanese, to pay higher prices. Such transactions show the extent to which the authorities controlled banks and commerce. Officials likewise engaged freely in all sorts of private enterprise and used their power to gather wealth for themselves and their favourites."

This gloomy picture is a severely edited summary of the material presented by the Japanese Assessor to the Commission in Chapter VIII of "The Present Condition of China", and only imperfectly reflects the true and actual conditions, which were even worse (especially as regards the administration of justice and the police) than the above extract would suggest. But the passage is effective, even in its moderate statements, as showing how the Manchurian people laboured under an oppressive yoke of official and militarist victimisation, and how unlikely it was that any artificial Japanese stimulus was necessary in order to induce them to break it when the opportunity came.

C. SPECIAL POSITION OF JAPAN

It is in this region that Japan has acquired a "special position".

The "special position" of Japan in Manchuria, to which so much mystery is attached, is in reality a very simple matter. It is nothing but the aggregate of Japan's exceptional treaty rights in that country, *plus* the natural consequences which flow from her close neighbourhood and geographical situation and from her historical associations. Her measures of self-defence must be measured by the extent of her interests, and her interests are exceptional, intimate and vital. In the standard case of the *Caroline*, it was the propinquity to the United States and the extreme importance and disturbed conditions of Canada that led the United States to acquiesce in the action of Great Britain in invading American soil and destroying the instant menace.

Every act of self-defence must depend for its justification on the importance of the interests to be defended, on the imminence of the danger, and on the necessity of the act. Japanese interests in Manchuria are commanding; her territory is contiguous, and Japan cannot depend wholly upon the local forces. Her "special position" is at once apparent. It does not give her, nor is it asserted to give her, a general and vexatious right of intervention in the administration of the country. But it certainly creates a position in which she must defend herself with uncommon energy against military attack.

The Japanese Government agree fully with the passages in which the Commission enumerate the rights acquired by Japan in Manchuria by virtue of the Treaties of 1905 and 1915, which it is satisfactory to know that they recognise are in full force and cannot be abolished by unilateral action.

At page 38, they observe :

"This summary of the long list of Japan's rights in Manchuria shows clearly the exceptional character of the political, economic and legal relations created between that country and China in Manchuria. There is probably nowhere in the world an exact parallel to this situation, no example of a country enjoying in the territory of a neighbouring State such extensive economic and administrative privileges."

**"Special
position" of
Japan in
Manchuria.**

**Special rights
of Japan.**

And on page 39 :

“ Japanese interests in Manchuria differ both in character and degree from those of any other foreign country. Deep in the mind of every Japanese is the memory of their country's great struggle with Russia in 1904-05, fought on the plains of Manchuria, at Mukden and Liaoyang, along the line of the South Manchuria Railway, at the Yalu River, and in the Liaotung Peninsula. To the Japanese, the war with Russia will ever be remembered as a life-and-death struggle fought in self-defence against the menace of Russian encroachments. The fact that a hundred thousand Japanese soldiers died in this war, and that two billion gold yen were expended, has created in Japanese minds a determination that these sacrifices shall not have been made in vain.”

**No conflict
with local
sovereignty.**

There is nothing in this “ special position ” conflicting (as the report asserts) with the sovereign rights of China.

The powers conferred upon Russia, and secured by Japan, in the extremely limited area known as the South Manchuria Railway Zone did not at all present a conflict with Chinese sovereignty. No exception could have been taken to a cession or long lease by China of this zone to Russia, and through Russia to Japan. It would have been an exercise of sovereignty and not a conflict with sovereignty. That the nominal sovereignty of China was permitted to subsist, when the agreement with Russia was made, does not make the rights which China conferred on Russia “ conflict ” with the sovereignty of China ; they were, on the contrary, derived from the sovereignty of China.

Nor is it possible to imagine that the propinquity and the economic and strategic importance of Manchuria to Japan conflict with the local sovereignty. They make it more possible that Japan might be obliged to resort to self-protection by events in Manchuria than she would be if Manchuria were on the other side of the world. But this is no restriction on the sovereignty of the region ; it is only a remote liability to an occurrence to which every State is subject—even the strongest. The sovereignty of the United States was not impaired by the *Caroline* case.

**Japan's
civilising
achievements.**

The “ special position ” of Japan, called in question, has resulted in Japan's accomplishment, in spite of many embarrassments, of a great work of civilisation in Manchuria. The principal agent in this development has been the South Manchuria Railway in its multiform activities. But neither in Chapter II nor in Chapter VIII of the report is any acknowledgment made of the work so accomplished—in fact, the railway is scarcely mentioned at all, although great stress is laid on the activities of Chinese immigrants. The present prosperity of Manchuria is no doubt due, as the report says, in no small measure to the influx of a hard-working and plain-living Chinese population. This cannot be ascribed to an official Chinese policy of emigration. The phenomenon is simply and solely due to the attractiveness of Manchuria to the Chinese farmer. And Manchuria was attractive, not because it was well governed, but because, owing to the presence of Japan, it was free from the scourge of war. The Chinese, as is well known, and as is pointed out in the report, are highly adaptable to environment and are destitute of any strong national feeling. Their connection, if any, with China is a matter of social and family sentiment. It implies no political attachment. “ The ties ”, as the report observes (page 125), “ between Manchuria and the rest of China remain chiefly racial and social ”—*i.e.*, they are not political. They are “ racial and social rather than economic ” (page 123). In view of this, it is difficult to understand the emphasis which is placed by the report on the political efficiency of this non-political, non-economic tie.

D. ATTACKS ON JAPAN'S POSITION

Although the report says little concerning the enterprises and establishments of the Japanese in Manchuria, it is these enterprises and establishments which have been the objects of Chinese direct attack, and, in Chapter III of the report, these particular questions are examined—viz. :

**Attacks on
Japan's
position.**

- (1) The encircling policy directed against the South Manchuria Railway ;
- (2) The embarrassments placed in the way of leasing land and of the exercise of other treaty rights ;
- (3) The oppression exercised upon Japanese subjects, and especially on those of Korean origin ;
- (4) The assassination of Captain Nakamura.

But the report neither in Chapter III nor anywhere else evinces any condemnation of the deliberate policy of violation and repudiation of treaties and other engagements pursued by China—it even inclines to excuse them on the plea of the Nationalist programme of emancipation. Nor does the report touch on the impossibility, by reason of the hostile attitude of China, of arriving at any satisfactory solution of pending questions. It is to be regretted that the report deals with those matters piecemeal and here again fails to co-ordinate them into one whole. If that had been done, it would have been apparent that one basic cause underlay them all, and that, whatever the precise rights or wrongs of each case, they were manifestations of a fixed intention to annihilate Japanese rights in Manchuria.

**Extenuations
in report.**

That conclusion is more clearly apparent in the summary given in the report (pages 30 and 31) of the situation as it developed in Manchuria after the alliance of General Chang Hsueh-liang with the Government at Nanking.

**Bearing of
these attacks
on Incident of
September
18th.**

“ In the domain of foreign policy, the union of Manchuria with the Nationalist Government was to have more important consequences, although, in this respect, the local authorities were also left much liberty of action. The persistent assaults of Marshal Chang Tso-lin on the position of the Chinese Eastern Railway in Manchuria, and his disregard of certain rights claimed by Japan, show that in Manchuria a “ forward policy ” had already been adopted before the union with the Nationalists. However, after the union, Manchuria was opened to well-organised and systematic Kuomintang propaganda. In its official party publication and numerous affiliated organs it never ceased to insist on the primary importance of the recovery of lost sovereign rights, and abolition of unequal treaties, and the wickedness of imperialism. Such propaganda was bound to make a profound impression in Manchuria, where the reality of foreign interests, courts, police, guards or soldiers on Chinese soil was apparent. Through the Nationalist school books, party propaganda entered the schools. Associations such as the Liaoning People's Foreign Policy Association made their appearance. They stimulated and intensified the nationalist sentiment and carried on an anti-Japanese agitation. Pressure was brought to bear on Chinese house-owners and landlords to raise the rents of Japanese and Korean tenants, or to refuse renewal of rent contracts. The Japanese reported to the Commission many cases of this nature. Korean settlers were subjected to systematic persecution. Various orders and instructions of an anti-Japanese nature were issued. Cases of friction accumulated,

and dangerous tension developed. The Kuomintang Party headquarters in the provincial capitals were established in March 1931, and subsequently branch organisations were set up in the other towns and districts. Party propagandists from China came north in increasing numbers. The Japanese complained that the anti-Japanese agitation was intensified every day. In April 1931, a five-days' conference under the auspices of the People's Foreign Policy Association was held at Mukden, with over three hundred delegates from various parts of Manchuria in attendance. The possibility of liquidating the Japanese position in Manchuria was discussed, the recovery of the South Manchuria Railway being included in the resolutions adopted. At the same time, the Union of Soviet Socialist Republics and her citizens suffered from similar tendencies, while the White Russians, although they had no sovereign rights or exceptional privileges to surrender, were subjected to humiliation and ill-treatment."

Unfortunately, this summary, which gives an adequate picture of the situation as it existed on the eve of September 18th, is only to be found in Chapter II of the report, and nothing is said about it in connection with the account of the incident of that date (which is dealt with in Chapter IV).

**Background
of Incident cut
adrift.**

In dealing with that crucial subject in Chapter IV, the report evinces no appreciation of its connection with the long chain of Chinese attacks on Japanese interests. Neither the intensive boycott of Japanese goods, nor the denial of validity to Japanese treaties, nor the destructive competition with the Japanese railways, nor the obstructions put in the way of Korean immigrants, nor the Wanpaoshan affair, is referred to; and the case of Captain Nakamura is only incidentally touched upon. The whole background of the incident is cut adrift.

All the evidence of an aggressive determination on the part of Chinese is discarded. It is replaced by a collection of reasons why the Japanese people may be supposed to have been prepared "for a resumption of 'positive policy'".

Surely an armed attack on a vital nerve of the nation's safety by the regular troops of an aggressive neighbour may be repelled without calling in such factors as Japanese trade depression to explain it. The result of dissociating the swift and complete repulse from the prior evidence of Chinese aggressive disposition is to put before the reader the domestic discontents in Japan, in place of Chinese aggressiveness, as the reason why the final attack on the railway was dealt with as it deserved. It is the reason why the Chinese adopted a "positive policy" in Manchuria that the Commission might well have investigated.

**Japan's effort
to lessen
tension.**

As early as June 15th, 1931, the Japanese Government were pointing out the serious results which would be liable to follow from the conduct of the officials and police in Manchuria, and, so far from being impelled by trade depression or military and political discontents to initiate a "positive policy", they endeavoured by all means to lessen the tension. In spite of these efforts, the aggressive attitude of the Chinese continued unabated, and it is notable that, when the "North Barracks" were entered by the Japanese troops, there was observed on the walls a placard exhorting the men in garrison to "look at the railway running along the west side of these barracks". It is little wonder that, at this very spot, the explosion of September 18th was engineered by those very men.

This attitude of aggressiveness on the part of the Chinese, and not the resumption of a "positive policy" on the part of Japan, as is suggested in the report, explains the state of tension which existed in Manchuria. Many other instances of the insolence and truculence prevailing in General Chang Hsueh-liang's army in Mukden are given in a pamphlet prepared

by the Kwantung Army and laid before the Commission on April 24th, entitled "A Review on Sino-Japanese Clashes in Manchuria", to which they have not apparently thought it necessary to allude in their report. The paramount necessity of avoiding the smallest act which might explode the inflammable atmosphere must be apparent to everyone who has followed the march of events so far, and has realised the growing aggressiveness of the Chinese as detailed in the report.

Chapter III.

THE INCIDENT OF SEPTEMBER 18th AND SUBSEQUENT OPERATIONS

The Japanese military authorities have furnished the Commission, both in writing and in conversations with the headquarters staff of the Kwantung Army, with a complete and detailed information regarding the various phases of this incident. This information is considered by the Japanese Government an accurate and truthful account, and they must sustain it in its integrity.

**Official
account.**

The report sums up this information in six paragraphs entitled "the Japanese version" (page 67). From this summary, many not unimportant details are omitted. Accordingly, Members of the Council, who wish for further information, are referred to the accounts supplied by the principal actors themselves and inserted in the documents presented by the Japanese Government.

After summing up also "the Chinese version", the report formulates certain conclusions which cannot but cause surprise, as they are not the logical consequence of the two versions which precede them, and appear, as the report admits, to be especially influenced by information drawn from other and unofficial sources.

**Commission's
surprising
conclusions.**

The Commission recognise (page 71) the fact of the explosion, but they add that the damage done was not of itself "sufficient to justify military action". Here they fail to take into account two other factors, which they nevertheless admit to have existed—viz., the state of acute tension already existing between the conflicting military forces and the existence of an emergency plan of campaign, which the Japanese Army, like any other organised force, must necessarily prepare whenever it is stationed on or in the neighbourhood of foreign territory, particularly when repeated occurrences show that prompt measures may become imperative.

This state of acute tension, admitted by the report to have existed—general and growing tension between China and Japan, and local tension between the military forces in close contact—is, as has already been observed, insufficiently brought out in the report.

**Tension
neglected by
report.**

As respects the assertion that the Japanese had "a carefully prepared plan to meet the case of possible hostilities between themselves and the Chinese" (page 71), it is only necessary to look for a moment at the facts to be convinced that no other Power or its armed forces could possibly have acted otherwise.

**Japanese army
plan.**

The Japanese Army in Manchuria before September 18th, in view of its much inferior strength, faced, as it was, by very superior forces provided with a vast supply of material, including aeroplanes, reserve

munitions and a great arsenal, naturally had to provide for the event of some occurrence, or a Chinese attack, obliging it to take immediate steps to prevent itself from being overwhelmed by a more numerous adversary. That the Japanese Army had its plans for dealing with such a situation is undoubtedly the case, and it would have been a gross dereliction of duty if it had not. Every possible combination had been minutely worked out ; frequent manœuvres helped to make the execution of the plan almost automatic. And although a certain amount of initiative had to be left to those who were on the spot in any given conjuncture, the main objectives in case of any attack were foreseen and well known. It was therefore perfectly natural that, after the explosion on the railway-line and the firing of the first shots—all the work of Chinese soldiery—the plan was “put into operation with swiftness and precision” (page 71).

Asserted
pacific
telegram.

The report draws a contrast between the preparation of this emergency plan, a legitimate and necessary measure of security, and the absence on the Chinese side of any plan “of attacking the Japanese troops, or of endangering the lives or property of Japanese nationals at this particular time or place” (page 71). It relies, in support of this attitude, on a telegram supposed to have been sent on September 6th by General Chang Hsueh-liang, instructing the Chinese forces to exercise patience and avoid having recourse to force. Supposing—though the Japanese have no knowledge on the point—that such a telegram was in fact despatched, received and circulated, and, further, that these orders were not subsequently cancelled or modified by General Chang Hsueh-liang himself, the telegram in itself could not, in the notorious state of indiscipline of a Chinese army, give any guarantee that the Chinese would never have attacked the Japanese, nor could it furnish any decisive proof that they did not make the attack of September 18th. And it is to be remarked that, in point of fact, the Chinese troops did attack on that night and continued to resist by force of arms. The Commission’s statement that “the Chinese made no *concerted or authorised* attack on the Japanese forces” shows that they do not discard the hypothesis of a Chinese attack, but would limit its bearing on the case by refusing to call it “concerted” or “authorised”. According to the report, the attack might be the work of soldiery acting on their own initiative and without orders from their superiors.

Automatic
execution of
plan.

But, in any event, there remains the solid fact that the explosion did take place, and that an attack was launched by Chinese soldiers ; in consequence, the Japanese emergency plan was automatically put in motion long before such question as the extent of the damage could ever be discussed.

Opinion
expressed by
Commission.

In dealing with the events of the night of September 18th, the Commission have thought it their duty further to add that “the military operations of the Japanese troops during this night . . . cannot be regarded as measures of legitimate self-defence” (page 71).

It is entirely impossible to accept this opinion, which must be a surprising one to anyone belonging to those countries which are parties to the Briand-Kellogg Treaty for the outlawry of war.

Self-defence
authorised.

The paragraph concerning the right of self-defence contained in the Identical Note of Mr. Kellogg, Secretary of State, dated June 23rd, 1928, reads :

“(1) *Self-defence.* — There is nothing in the American draft of an anti-war treaty which restricts or impairs in any way the right of self-defence. *That right is inherent in every sovereign State and is implicit in every treaty.* Every nation is free at all times and regardless of treaty provisions to defend its territory from attack or invasion and it alone is competent to decide whether circumstances require recourse to war in self-defence.”

The resolution adopted by the Senate of the United States at the time of ratification of that Treaty states :

“ It is well understood that the exercise of the right of self-protection may, and frequently does, extend in its effect *beyond the limits of the territorial jurisdiction of the State exercising it.*”

The letters of Sir Austen Chamberlain to the American diplomatic representatives in London, dated May 19th and July 18th, 1928, may also be cited.

The first observes :

“ 4. After studying the wording of Article 1 of the United States draft, His Majesty's Government do not think that its terms exclude action which a State may be forced to take in self-defence. Mr. Kellogg has made it clear in the speech to which I have referred above that he regards the right of self-defence as inalienable, and His Majesty's Government are disposed to think that on this question no addition to the text is necessary. . . .

“ 10. The language of Article 1, as to the renunciation of war as an instrument of national policy, renders it desirable that I should remind Your Excellency that there are *certain regions of the world the welfare and integrity of which constitute a special and vital interest for our peace and safety. His Majesty's Government have been at pains to make it clear in the past that interference with these regions cannot be suffered. Their protection against attack is to the British Empire a measure of self-defence.* It must be clearly understood that His Majesty's Government in Great Britain accept the new treaty upon the distinct understanding that it does not prejudice their freedom of action in this respect. The Government of the United States have comparable interests any disregard of which by a foreign Power they have declared that they would regard as an unfriendly act. His Majesty's Government believe, therefore, that, in defining their position, they are expressing the intention and meaning of the United States Government.”

The second says :

“ I am entirely in accord with the views expressed by Mr. Kellogg in his speech of April 28th, that *the proposed treaty does not restrict or impair in any way the right of self-defence*, as also with his opinion that *each State alone is competent to decide when circumstances necessitate recourse to war for that purpose.*”

The French Government, in their reply of July 14th, 1928, to the American Ambassador in Paris, similarly remarked :

“ *Rien dans le nouveau Traité ne restreint ni ne compromet d'une façon quelconque le droit de défense personnelle. Chaque nation à cet égard reste toujours libre de défendre son territoire contre une attaque ou une invasion; seule, elle est compétente pour décider si les circonstances exigent de recourir à la guerre pour sa propre défense.*”

The German Government, in their letter of April 27th, 1928, to the American Ambassador in Berlin, also declare that they start with the presumption that the proposed treaty “ would not put in question the sovereign right of any State to defend itself ”.

The Japanese Government, informed of all these communications, also did not fail to emphasise, in their note of May 26th, 1928, to the American Ambassador, that “ the proposal of the United States is understood to contain nothing that would refuse to independent States the right of self-defence ”.

In the face of these express reserves, the right to pronounce a decisive opinion on an act of self-defence falls solely within the sovereign appreciation of the interested State. And on this point the finding of the Commission explicitly is that "the Commission does not exclude the hypothesis that the officers on the spot may have thought they were acting in self-defence" (page 71). In the case of this incident of September 18th, no one except the officers on the spot could possibly be qualified to judge whether or not the action undertaken by the Japanese Army was a measure of self-defence.

Self-defence
varies with
importance of
interests
involved.

It is unnecessary here to enlarge on the nature of the right of self-defence. It has never been better defined than by Daniel Webster when, as Secretary of State of the American Republic, he laid down that it demanded for its just exercise a case of "necessity, instant and overwhelming, allowing no choice of means and no instant for deliberation". With those conditions the Incident of September 18th precisely complies. There was the necessity of meeting a great and imminent danger—an overt attack by members of a vastly superior force, capable, if not nipped in the bud, of driving the Japanese into the sea. There was no choice of means. What else was to be done? There was no instant for deliberation—the open attack was launched upon them. It is fortunately unnecessary to consider whether the magnitude of the interests at stake warranted forcible measures. For these interests were nothing less than the whole position of Japan in the Far East.

It is as impossible as it would be unjust to make Japan responsible for the further events which supervened on the Chinese resistance. Measures of self-protection usually meet no resistance and are at once settled by amicable discussion between the Governments concerned. If, however, they are not met by armed opposition, there is no knowing how far they may develop, and necessarily so.

It may not be inappropriate to recall the case of *Navarino*, where a conflict was so little desired or expected that one of the Governments involved described it as an "untoward event". The Egyptian armament had come to assist the Turks to suppress the revolt in Greece. They were faced by a fleet of English, French and Russians, who were bent on preventing them from doing so. In that state of tension, a chance shot furnished the spark that produced the conflict. The result destroyed the Egyptian fleet and Turkish hopes, and set the seal on the independence of Greece. Yet it began in mere self-defence—the return of fire. This illustrates how impossible it is to limit the consequences of self-defensive measures.

Synchroni-
sation.

The Commission, while drawing attention to the synchronisation of the operations which took place on September 18th throughout the entire extent of the South Manchuria Railway zone, omit to notice the necessity for such simultaneous action. There was no other alternative for the Japanese commander, with his 10,400 troops stationed all along an eleven-hundred-kilometre line of railway, and faced by 220,000 Chinese troops (without reckoning 110,000 beyond the Great Wall, also under General Chang Hsueh-liang's command). At Mukden itself, a single Japanese regiment of reduced strength together with a few railway patrols, 1,500 men in all, were faced by 15,000 Chinese with some forty guns; and a similar situation existed at Changchung and elsewhere. The Japanese Commander-in-Chief was, in fact, responsible for the protection of over a million Japanese subjects residing in Manchuria. In case of an attack at one point, and with the evident possibility before him of attacks at other points, the only possible way of assuring that protection was to use all the transport facilities that the railway afforded, and to take the Chinese troops by surprise before they could have time to move.

Conclusion.

To sum up, the operations which commenced on the night of September 18th were only the putting into active execution of a plan prepared to

meet the case of a Chinese attack, and whose prompt and accurate execution had always been considered by the Commander-in-Chief as absolutely essential for the fulfilment of the task of protection which was incumbent on him, in view of the great local superiority of the Chinese. These operations had no relation to anything but self-defence, and the Japanese Government cannot allow either their necessity or their appropriateness to be the subject of dispute.

The report relates at considerable length the ensuing operations undertaken subsequently to September 18th with a view to effectively ensuring the safety of Japanese life and property. The Japanese Government will not here enter into the numerous points of detail on which observations would have to be made. They are conscious of never having transgressed the due limits of the right of self-defence.

Subsequent operations.

Chapter IV.

THE NEW STATE

The questions regarding Manchuria considered in Chapter VI of the report are of great importance, since it is on the conclusions formulated in this chapter, respecting the establishment of Manchukuo and the attitude of its inhabitants towards the new Government, that the Commission base their general finding in Chapter IX to the effect that "the maintenance and recognition of the present regime in Manchuria would be equally unsatisfactory".

Importance of topic.

The conclusion in question appears to have been reached with little reference to proved facts. It is certainly hard, in the course of a brief sojourn, to ascertain the true state of affairs in the case of a new State, only a few weeks old. Such a State is naturally subject to infantile ailments, to all the hostile activities of dissident and discontented elements, to the difficulties necessarily incident to a period of transition, particularly inimical to business and agriculture, and, in an especial measure in the case of Manchukuo, to an intensely hostile and unscrupulous propaganda.

Unsatisfactory nature of evidence.

It is nevertheless regrettable that the Commission, declining to accept the solemn declarations of the Japanese Government and attaching too little value to the detailed documents presented by them, have, alike in Manchuria and in Peiping, the stronghold of General Chang Hsueh-liang, apparently listened to the opinion of unidentified persons and given credence to letters and communications of doubtful or unknown origin.

Accordingly, the Japanese Government think it their especial duty to enable the Council of the League of Nations to acquire a more correct idea of the matters which form the subject-matter of Chapter VI—viz., the establishment of Manchukuo, the views of its inhabitants and the organisation and prospects of the new State.

A. ESTABLISHMENT OF MANCHUKUO

The report concludes, in the first place, that nothing was ever heard of the independence of Manchuria before September 1931 (page 97).

It has been clearly explained above, however, that Manchuria has always constituted a special territory—often even forming entirely independent Kingdoms—geographically and historically distinct from China Proper. It constituted, under the Manchu Dynasty, a separate crown

Manchurian independence no new thing.

domain or private estate appanage ; there was no power in the Republic or its officers to annex it to China Proper, and its independence was at least twice proclaimed by Chang Tso-lin, as the report itself acknowledges. The oppressive misgovernment of that ruler, and, still more, that of his son, General Chang Hsueh-liang, are notorious and are also admitted by the report. At the expense of Manchuria, their ambition and greed induced them to embark on costly and disastrous invasions of China, and it is matter of history that this led very long ago to the cry of " Manchuria for the Manchurians ", embodied in the movement known as " Paoching Anmin " (preserve the frontiers and give us peace). From such a movement to complete independence, in name as well as in fact, was a very small step. The existence of this movement is no supposititious figment ; its leaders are perfectly well known. They were M. Wang Yung-chiang (Provincial Governor of Fengtien under Chang Tso-lin) and M. Yu Chung-han, one of Chang's counsellors. Both had to resign and give way to Chang's grandiose schemes. It was this M. Yu who, subsequent to the incident of September 18th, became the organiser of the Self-Government Guiding Board mentioned later. In this, he was not yielding to Japanese solicitations ; he was merely carrying on his interrupted work. His case is typical.

The point need not be elaborated by citing the other independence movements of different shades which arose in the time of the Changs. But a certain surprise may be avowed that the report avers that the idea of independence did not exist.

The misgovernment and extortions of Chang Tso-lin and General Chang Hsueh-liang had long driven the educated Chinese and Manchus to consider the necessity of reforms. Dr. Chao Hsin-po, President of the Lawyers' Association of Mukden, broached the subject to Chang Tso-lin, who refused to listen. At the Feng-yung University, in Mukden, a group of professors also took up the study of the political reforms rendered necessary in order to counteract the militarist policy of General Chang Hsueh-liang, and Dr. Chao was in touch with this group.

There was in existence, therefore, at a period prior to September 1931, a movement based on Manchurian independence, and here the Commission appear to have entirely left out of sight all the information supplied them, particularly in the course of conversations in Manchuria with the leading personages in the new Government.

Details of recent assertion of independence.

So much for the assertion that Manchurian independence had never been heard of. We now come to the mode of the definite establishment of the independent State of Manchukuo and the attitude of the Japanese toward it. Here the report is very far from being in accordance with the facts.

The report says that the movement to proclaim the independent State of Manchuria was inaugurated, organised and carried through by the Japanese as a solution for the situation which had arisen as a consequence of the events of September 18th, utilising for this purpose the names and active co-operation of certain Chinese personages ; that the activities of the Japanese Headquarters Staff were marked, from September 18th onwards, by political motives ; and that the General Staff in Tokio lent the independence movement their assistance and gave directions to its organisers.

But a little thought will show how unfounded is this assumption.

When the authorities who, under General Chang Hsueh-liang, were responsible for the maintenance of order in Manchuria disappeared, as they mainly did after the events of September 18th, some organisation was evidently necessary in order to carry on the normal machinery of daily life ; local vigilance committees were formed by the local leaders, and the Japanese Army welcomed their co-operation and assisted them. An

army is bound to do as little damage to an occupied territory as possible, and the preservation of the means of civilised life was one of the first cares of the Japanese Army and was accomplished in this way. That these nuclei of government eventually coalesced and developed into a genuine State is no matter for astonishment and offers no occasion for invoking an imaginary Japanese stimulus. The country had been wretchedly governed and was only superior to China in this—that it had one master and was not ravaged by the conflicts of half-a-dozen. It is no wonder that its new administrators decided to be free of the Chang regime. To anyone acquainted with the actual conditions which prevailed in Manchuria before and after September 18th, 1931, it will be readily apparent that the widespread determination to get rid of the Chang administration was one which was easily capable of developing into a movement for the proclamation of complete independence. And, in this connection, it should also be remembered that another movement—that for the restoration of the Manchu Dynasty—is as old as the Republic of China, and has been connected throughout in a large degree with Manchuria, once the cradle of that dynasty and later its own crown domain. The “independence movement”, as it actually developed, can have caused no surprise to anyone with an intimate knowledge of these circumstances. And the supposition that it was wholly (page 97, line 25), or partially (page 97, line 33), the work of unidentified Japanese or of the Japanese General Staff must then be discarded.

According to the statements of the report itself, all these movements in favour of local, provincial and State independence were the work of personages of high standing who were all Chinese, Manchus or Mongols. At Mukden, it was Dr. Chao Hsin-po, President of the Lawyers' Association; M. Yuan Chin-kai, a former Vice-President of the North-Eastern Political Committee under General Chang Hsueh-liang; M. Yu Chung-han, Vice-President of the Committee of Peace and Order; General Tsang Shih-yi, Governor of the Province of Fengtien. At Kirin, it was General Hsi Hsia, Acting President of the Provincial Government; at Harbin, it was General Chang Ching-hui, Administrator of that Special District. And the persons who worked at the preparation of plans of the establishment of the new State were two Chinese, M. Yu Chung-han and General Tsang Shih-yi. The detailed organisation of the State was framed, and the declaration of independence drawn up, by the principal men of Fengtien, Kirin, Heilungkiang, Jehol and the Special District, and by various Mongolian banner-men who assembled at Mukden. And Chinese, Manchus and Mongols alone comprised the North-Eastern Administrative Council, which formed the germ of the new State.

The evident inconsistency between the facts and the conclusions of the Commission becomes a sheer contradiction if we consider the dates. The Committee for the Preservation of Order in the region of Fengtien was established on September 24th, and already on the 26th it was issuing declarations which contemplated the independence of that province and of the Three Eastern Provinces. On September 26th, General Hsi Hsia declared the independence of the province of Kirin. At Harbin, on September 27th, there was established a Committee for the preservation of order. On October 1st, General Chang Hai-peng proclaimed his independence at Taonan. On October 17th, General Yu Chi-shan, the commander of the Liaoning Army of Defence, also declared his independence, demanding the foundation of a Manchu-Mongol State with the ex-Emperor as its ruler. Can it be supposed that, between September 18th and these various independence movements, Japanese officials could have met together, concerted and agreed upon a programme of initiating independence, and secured its being at once put in execution by Chinese, Manchus and Mongols as their own? It is more simple and more reasonable to

**Admittedly
work of
Chinese and
Manchus.**

Dates.

conclude that the aspirations which were already floating in the minds of many of the leading Chinese, Manchu and Mongol inhabitants spontaneously and naturally found a sphere of action hitherto denied them, upon the disappearance of an administration which presented so many objectionable features.

There can be no doubt that the idea of proclaiming independence, which had also a certain affinity with the idea of restoring the Manchu Dynasty, had its origin, therefore, entirely among the Chinese, Manchus and Mongols. For instance, M. Chang Yin-ching (Manchukuo Minister of Industry, Commerce and Agriculture, a son of Chang Chih-tung, the renowned scholar-statesman under the Manchu regime) and M. Hsieh Chieh-shih, the present Foreign Minister of Manchukuo, were both prominent figures in the movement, particularly in the restoration movement of the Manchu Dynasty. General Hsi Hsia, a Manchu and a noted monarchist, at present the Manchukuo Minister of Finance, was also a leading member of the same group. Japanese officials were certainly cognisant of the currency of these ideas; but whatever sympathy may have been felt for such projects by individuals, neither the Japanese Government nor the Headquarters Staff on the spot gave them any encouragement.

**Japanese
abstention.**

It is proper, in this connection, to point out the fact that both Baron Shidehara, Minister for Foreign Affairs, and General Minami, Minister of War, issued, on September 26th, instructions to the Japanese officials in Manchuria strictly forbidding participation by Japanese in the various attempts to establish a new political authority in Manchuria.

Conformably with these instructions, the Japanese, civil as well as military, uniformly abstained from interference. When the movement had become a definite one, the Headquarters of the Kwantung Army could evidently not ignore it, and when its leaders had matured and explained their plans, the movement was in a situation to command respect from those ultimately responsible for the preservation of order, as a development calculated to remove all disquieting elements by the definite establishment of a new regime.

As for the "Self-Government Guiding Board", to which the report appears to attach some importance, this was not created until November 10th, and was under the management of a Chinese. Yet the report turns it into an organ of the Fourth Department of the Kwantung Army Headquarters, "organised, and in large part officered, by Japanese" (page 92). This is a mere repetition of the allegations in the Chinese memorandum, corroborated, according to the report, by "reliable" witnesses, who are left unidentified, and it is completely at variance with the facts. There has always been at the Kwantung Army Headquarters a department for the study of political developments in Manchuria, and, after September 18th, 1931, when the independence movements began to show themselves, this department, in the fulfilment of its functions, had certainly to collect all the information that could be gathered concerning them. But this department of the Headquarters had no connection whatever with the "Self-Government Guiding Board", organised under the management of M. Yu Chung-han for the purpose of co-ordinating the action of the various committees for preservation of peace, or for independence, which had already been constituted in the province of Fengtien since the beginning of October. Dr. Chao Hsin-po recounted to the Commission how the association of which he was President set to work, immediately after September 18th, to form an Independence Committee, which sent delegates to the various provincial districts to ascertain the opinions of the leading personages regarding the establishment of a new Government.

**Argument
based on pre-
sence of Japa-
nese troops.**

Finally, the report makes the point that such a movement in favour of a change of Government could not have been carried through but for the presence of the Japanese troops. But the Japanese troops were there

in the exercise of their just rights. They were stationed in the railway zone in virtue of a right derived from treaty, and they moved out of the zone in the exercise of the right of self-defence. If the independence movement took advantage of the conditions thus created, that altered in no wise the spontaneity of the movement. There are many instances in other continents where the presence of foreign forces has afforded the possibility of attaining independence, and where that independence has never been questioned.

It may be urged that the Nine-Power Treaty of 1922 prevents the signatory Powers from impairing the sovereignty of China. That is true, but irrelevant. If, in the due fulfilment of its lawful rights, a signatory Power finds herself in Chinese territory, she cannot be held responsible for the consequences. If these consequences impair Chinese sovereignty and integrity, it is not she who is to blame. Even supposing, therefore, that Manchuria under General Chang Hsueh-liang was really an integral part of China, still Japan cannot be answerable for the consequences of her proper and necessary action. If China really were an organised State retaining an integrity of administration in Manchuria, this would still be true.

In short, to deny that the present regime is to be regarded as the outcome of a natural and spontaneous movement is to admit that all the evidence presented by Manchukuo has been disregarded. The *Histoire de l'indépendance du Mandchoukouo*, prepared by the Manchukuo Government and presented to the Commission, contains an account of the successive demonstrations in favour of independence which took place in the various districts throughout the country. Here, we have precision and open declarations; names are given; the text of declarations and resolutions is reproduced. Commercial, industrial, agricultural, educational groups, sometimes numbering thousands of adherents, were represented at those demonstrations. For the Constituent Assembly, delegates were appointed in each district, in the accustomed fashion, by the accord of the four leading local associations, so that the General Assembly which, on February 29th, 1932, proclaimed at Mukden the establishment of the new State was fully representative of every interest. And it is singular that the report, in sketching a practical system by which to ascertain the state of popular opinion on the conduct of a Manchurian Government, suggests this very same traditional system of representations of the chambers of commerce, the trade guilds and other civil agencies (page 134).

In fine, the conclusions of the Commission in this section of Chapter VI run counter to the historic elements which underlie the new regime, to the psychological and material causes which have called forth the surge of latent sentiments, and to all the facts which go to prove the spontaneous character of the independence movement among the people of Manchuria, which has had for its result the foundation of the new State.

The Japanese Government would repeat that the movement for the proclamation of the independence of Manchuria was a genuine, spontaneous, popular and natural one. The old crown domain installed the descendant of its ancient chiefs as its ruler, to secure it alike from the oppressions of its quondam militarist tyrants and from the anarchy of China Proper. Why this eminently rational and natural step should be ascribed to the machinations of Japan, it is hard to imagine. The assertions that the chief agency in bringing about independence was an organ of the Kwantung Army Headquarters (page 92); that a group of Japanese officials conceived, organised and carried through this movement (page 97); and that the activities of Japanese officials were "a most effective" factor in the creation of Manchukuo (*ibid.*) are assertions destitute of foundation, contrary to the express assurance of this Government, and entirely unsupported by evidence. In putting them forward, the report appears simply to have adopted wholesale the allegations of the Chinese Assessor.

**Argument
based on
"Nine-Power"
Treaty.**

Conclusion.

B. ATTITUDE OF THE INHABITANTS TOWARDS MANCHUKUO

The Commission have had placed at their disposal, as material upon which to form their opinion :

**Materials in
hand of
Commission.**

(1) Petitions and declarations emanating from qualified bodies composed of persons of various races (Chinese, Manchus, Mongols, Japanese, Koreans, Russians) representing chambers of commerce, political organisations, agricultural and educational organisations, etc. ;

(2) Letters and other written communications to the number of 1,550, transmitted by post or otherwise, and apparently coming from Chinese ;

(3) Private conversations with business-men, bankers, professors, physicians, police officers and others.

**Excessive and
deficient credit
accorded.**

A striking feature of this part of the report is the great credit accorded to the letters of unknown Chinese—all but two of which are said to be unfavourable to Manchukuo and Japan—and the little weight given to official memoranda and to the petitions and declarations of responsible bodies, which enumerate the grievances which the population had against the late administration and which give voice to its aspirations and its hopes.

The Commission have received 1,548 letters objecting to the foundation of the new State. Considering the vigour and activity of Chinese propaganda, it is really astonishing that they received no more. There are some 30,000,000 people in Manchuria, and if one in twenty thousand only was moved to communicate his desires to the Commission, the fact is rather a tribute to the credit of Manchukuo than otherwise. On the other hand, the positive evidence afforded by gatherings of thousands of people in favour of Manchukuo, supported by the testimony of responsible delegations and leading citizens, is simply dismissed as generally due to the machinations of the Japanese. It is surely intelligible that a people who had admittedly been systematically "squeezed", oppressed and defrauded by their rulers would not need the stimulus of Japanese threats and bribes to induce them to accept and approve a Government which at least offered them a chance of security for the produce of their labour. Certainly the attitude of the farmers and workmen cannot be collected from the opinions of "foreigners and educated Chinese" (page 109).

**Opinions of
various classes
and races.**

As to the other classes of the population (officials, police, soldiers, business-men, bankers, etc.), the report not only carefully takes note of anyone who is hostile, but discredits those who support Manchukuo as being actuated by self-interest or by fear, and as moved by no patriotic ideals.

Lastly, the report, insisting on the antagonism of the Chinese to Manchukuo, tries to explain away the adhesion freely given to the new State by the Koreans, the Russians and the Mongols. The report admits the welcome given by the Koreans to the new regime, but it cannot bring itself to do so ungrudgingly. It wonders how long the welcome will last. As for the Mongols, while recognising their generally favourable attitude, the report gives undue emphasis to one anti-Manchukuo declaration made by a deputation of Mongol princes at Peiping under the ægis of General Chang Hsueh-liang.

The truth is fortunately more encouraging than the unfavourable picture drawn in the report. It is needless to recall once more the many great popular demonstrations which immediately preceded the establishment of the new State, described as they are in detail in the document

Histoire de l'Indépendance du Mandchoukouo. Nor need there be enumerated here the signal marks of acceptance which, in spite of the efforts of the enemies of Manchukuo, the population has continuously accorded to the new regime. It is a civil Government, the first of this character that the people of the country have known since the Manchu Dynasty was overthrown, and this civil character stands out conspicuously in comparison with any of the autocratic militarist Governments which at present bear rule in China.

C. ORGANISATION AND PROSPECTS OF MANCHUKUO.

The report, after describing in Chapter, VI the organisation of Manchukuo, its programme, and the various measures it has taken to affirm its independence from China, observes that :

**Report's
comments on
programmes of
reform in
Manchukuo.**

“The programme of this ‘Government’ contains a number of liberal reforms, the application of which would be desirable, not only in Manchuria, but in the rest of China—in fact, many of these reforms figure equally in the programme of the Chinese Government. In their interviews with the Commission, the representatives of this ‘Government’ claimed that, with the help of the Japanese, they would be able to establish peace and order within a reasonable time and would thereafter be able to maintain it permanently. They expressed the belief that they would be able to secure the support of the people in time by assuring them an honest and efficient administration, security from bandit raids, lower taxation as the result of reduced military expenditure, currency reform, improved communications and popular political representation” (pages 105 and 106).

But from this promising material the report only concludes that, “after making every allowance for the short time which has hitherto been at the disposal of the ‘Manchukuo Government’ for carrying out its policy, and after paying due regard to the steps already taken, there is no indication that this ‘Government’ will, in fact, be able to carry out many of its reforms. To mention but one example, there seem to be serious obstacles in the way of the realisation of their budgetary and currency reforms” (page 106).

The comments of the Commission on Manchukuo above quoted present a signal contrast with certain comments offered in Chapter I, where we read :

**Report's
comments on
programmes of
reform in China
Proper.**

“The present Government has tried to balance its current receipts and expenditures and to adhere to sound financial principles. Various taxes have been consolidated and simplified. In default of a proper budgetary system, an annual statement has been issued by the Ministry of Finance. A Central Bank has been established. A National Financial Committee has been appointed, which includes among its members influential representatives of banking and commercial interests. The Ministry of Finance is also trying to supervise the finances of the provinces, where the methods of raising taxes are often still highly unsatisfactory. For all these new measures the Government is entitled to credit. . . In many things, no doubt, the Government has failed, but it has already accomplished much” (pages 17 and 18).

It will be noted that, while China is given credit for having accomplished much, in view of the various measures which are enumerated by the Commission, but which, in fact, have mostly failed to bring about

**Why this
pessimism and
optimism ?**

any actual results, judgment on Manchukuo inclines rather on the side of severity.

Two special features: order and finance.

The Japanese Government are not disposed to discuss the grounds of the pessimistic opinion advanced by the Commission, because facts are more eloquent than words. However, the attention of the Council is called to two important points—namely, the steps for the restoration of peace and order, in which the Japanese Army is co-operating with the Government of Manchukuo, and the financial condition of that Government.

Establishment of order.

That in a newly-founded State peace and order should be disturbed by reactionaries and malcontents is a common phenomenon in all parts of the world. In the case of Manchukuo, there is further to be observed the special circumstance that vast forces, enlisted in regular armies under the old regime, were, upon the fall of that regime, turned adrift to become hordes of bandits. The Government of Manchukuo, in their programme for the restoration of peace and order, consider the first stage to be the destruction or dispersal of the major groups formed by these bandits; the second stage being the subjugation of the less important remnants, and of the smaller native bands of brigands, through the police system now in process of complete establishment, as well as by other administrative measures. At the same time, they are improving the existing means of communication in order to facilitate the work of restoring order. It should be stated that much progress has been made in the accomplishment of the work of the first stage above indicated since the time when the Commission were in Manchuria. The forces under the command of General Ma Chan-shan, by far the most formidable foe to the new State, have been destroyed. Those under General Li Hai-Ching have been beaten. Those under Generals Ting Chao and Li Tu have been driven into the remote regions north of the Eastern Section of the Chinese Eastern Railway. The strong brigand bands which infested an area between the Mukden-Hailung Railway and the River Yalu and constituted the principal source of danger in South Manchuria have been annihilated by the joint forces of Japan and Manchukuo. Other major groups in South Manchuria are being driven into remote places along the border between Fengtien and Jehol. Generally speaking, the present situation throughout Manchuria, north and south, is such as to make it possible for the Government of Manchukuo to embark upon the second, or police, part of their programme.

Chinese help to brigands.

Regarding the present condition of banditry in Manchuria, the significant fact should not be forgotten that all these soldier-bandits are receiving support from China Proper. It is sufficient to point to the public collection of funds for the assistance of the Manchurian bandits, which is conducted in various Chinese cities, without adverting to the many cases in which such support is secretly given.

Apparent attempts to discredit Manchukuo by stimulating crime.

It should also be noted that, of late, in proportion to the lessening of that menace to peace and order which arises from the activities of major groups of bandits, the operations of the numerous minor bands have come more and more to display the character of political tactics. For instance, the recent activities of bandits and kidnappers in Manchuria have mainly been directed against foreigners, thus casting discredit upon the newly-established nation. This is believed to be a deliberate attempt on the part of the anti-Manchukuo element in China to make present conditions appear worse than before.

Bandit menace extinguishable in reasonable time.

Finally, the Japanese Government, whilst anticipating that the complete restoration of peace and order in Manchuria will require some considerable time, as indeed it would anywhere in similar circumstances, are content to repeat the expression of their confident belief, quoted in the report, that the presence of the Japanese troops in the country will

enable the principal bandit units to be wiped out within from two to three years : and they adopt as their own the words in which the Commission describe their attitude :

“ They hope that the organisation of ‘ Manchukuo ’ police and of self-defence corps in each community will help to put an end to banditry. Many of the present bandits are believed to have been peaceful citizens who, on account of the complete loss of their property, were induced to take up their present occupation. Given the opportunity of resuming the occupation of farming, it is hoped that they will return to their former peaceful mode of life ” (page 83).

As regards the financial condition of Manchukuo, the Council can easily see how unfounded is the gloomy view contained in the report by referring to the following information supplied by the Government of Manchukuo.

From the foundation of the State on March 1st, 1932, to June 30th of the same year (the first year of Tatung), the income and expenditure of the Central Government are as follows :

| | <i>Yuan</i> |
|--|-------------|
| Income (income from taxes and from the Salt Gabelle) | 9,300,000 |
| Paid out | 9,100,000 |

This indicates a far better financial status than existed at the time of the visit of the League of Nations Commission of Enquiry.

Subsequently, Manchukuo has taken over the Maritime Customs (in June) and has abolished the finance offices of the various provinces (in July), thus proceeding rapidly with its task of centralising and strengthening the financial structure. As a result of these measures, its budget for the first year of Tatung (from July 1st, 1932, to June 30th, 1933) is based upon the following estimate :

| | <i>Yuan</i> |
|------------------------------|-------------|
| Annual income | 101,000,000 |
| Annual expenditure | 113,000,000 |

This indicates a very satisfactory condition. (Incidentally, the military expenditure in this budget totals 33,000,000 *yuan*—*i.e.*, about a third of the 100,000,000 *yuan* expended in 1930—and, while the budget shows a deficit of 12,000,000 *yuan*, it must be noted that the budget allows for an emergency reserve fund of 15,000,000 *yuan*.)

The Central Bank of Manchukuo, founded with a capital of 30,000,000 *yuan*, took over, from provincial banks of the old regime, 142,000,000 *yuan* in notes in circulation, against which it has a specie reserve of 82,000,000 *yuan* and a guarantee fund of 60,000,000 *yuan*. It opened for business on July 1st.

In this connection, it is interesting to observe that the Bank of Japan opened for business in 1882 with a silver capital of 10,000,000 *yen* and successfully unified all the paper currency issued by various national banks ; and that the capital of the Manchukuo Central Bank is sufficient, if one takes into due consideration the economic status, for the trade conditions and the population of Manchuria.

The Manchukuo Government, respecting the independence of the bank, is taking every precaution not to interfere with the functions of the institution as a note-issuing bank, and therefore it may safely be said that to declare that the basis of the Central Bank and Manchurian currency is unstable is a flagrant error. As a point of fact, the Central Bank, since its establishment four months ago, has maintained its paper currency at par, and has stabilised the currency, the circulation of which is very normal.

Finance.

Income and expenditure.

Central finance : budget for 1932-33.

Central Bank.

Currency.

It may be remarked that this shows a signal contrast to the actual state of things under the Changs.

Manchuria, having an excess of exports, receives a large amount of silver from abroad. Therefore, there is no doubt that Manchukuo will be able to maintain the value of its currency.

Opinion of Japanese Government on prospects of Manchukuo.

The Japanese Government desire, further, to give emphatic expression to their opinion, formed upon mature consideration, regarding the future prospects of the country.

Manchukuo has before it a brilliant future. With a great extent of territory and a large population, it has the advantage of possessing natural frontiers. Its Government have spontaneously declared that they intend to respect all international engagements made by China, so far as they are applicable to Manchuria, and that they will faithfully observe the principles of the Open Door and Equal Opportunity. They entertain no anti-foreign sentiments. There is no communist peril, such as exists in China. Manchukuo is still in its infancy; but would it not have been an act of straightforward justice on the part of the Commission, who have shown themselves, in spite of all discouragements, so sympathetic towards China, to exhibit some degree of patience with a State scarcely six months old?

Suggestion that Japan controls Manchukuo.

In so far as the report's observations concern the Japanese Government, they would prefer not to dwell upon the purely gratuitous suppositions contained in the report, to the effect that all political and administrative power in Manchukuo is in the hands of Japanese officials and advisers. The report notes the occasional divergence of opinion between these officials and the Tokio Government, but it states that the Japanese officials possess all the means of exerting irresistible pressure on the Manchukuo Government. This, it remarks, flows from the fact of military occupation and through the dependence of Manchukuo on the Japanese troops for the maintenance of its sovereignty and independence.

Misleading characters of allegations.

These allegations can certainly not command the attention of the League of Nations. There are, and there have been, numerous States, universally acknowledged to be independent, which employ the services of many officials of one or more foreign nationalities, and others which have foreign troops stationed within their territory. The Members of the League of Nations have only recently admitted that the presence of such foreign troops is no obstacle to the admission of a State as a Member of that Society.

Protocol of September 15th, 1932.

Finally, the report emphasises (page 106) the difficulty that was experienced by the Commission in defining the relations between Japan and Manchukuo. That difficulty has now disappeared through the signature of the Protocol of September 15th, 1932, which reads:

“Whereas Japan has recognised the fact that Manchukuo, in accordance with the free will of its inhabitants, has organised and established itself as an independent State; and

“Whereas Manchukuo has declared its intention of abiding by all international engagements entered into by China in so far as they are applicable to Manchukuo;

“Now the Governments of Japan and Manchukuo have, for the purpose of establishing a perpetual relationship of good neighbourhood between Japan and Manchukuo, each respecting the territorial rights of the other, and also in order to secure the peace of the Far East, agreed as follows:

“1. Manchukuo shall confirm and respect, in so far as no agreement to the contrary shall be made between Japan and Manchukuo in the future, all rights and interests possessed by Japan or her subjects within the territory of Manchukuo by virtue of Sino-Japanese treaties, agreements or other arrangements or of Sino-Japanese contracts, private as well as public;

“2. Japan and Manchukuo, recognising that any threat to the territory or to the peace and order of either of the High Contracting Parties constitutes at the same time a threat to the safety and existence of the other, agree to co-operate in the maintenance of their national security; it being understood that such Japanese forces as may be necessary for this purpose shall be stationed in Manchukuo.”

It is scarcely necessary to point out that nothing in this Protocol, nor in the acts of Japan in co-operating with the new Government thus established, is inconsistent with any of the public engagements of this country. By the Nine-Power Treaty of Washington, she joined in an undertaking to respect the sovereignty and the territorial and administrative integrity of China. That undertaking was never intended to exempt China from the usual accidents of State life, and to deprive the people of China of the right of self-determination and securing themselves a sound and acceptable Government. It is an inevitable corollary from this that the signatories be not disabled from recognising such a *fait accompli*, as required by the necessities of international intercourse. In the same way, Article 10 of the Covenant of the League of Nations is an engagement to respect and preserve the territorial integrity of Members of the League “as against external aggression”. If by internal development the territorial integrity of a Member is impaired, there is nothing in the Covenant to interfere with the right and duty of Members to recognise that impairment. To hold otherwise would be to deny the basis on which many European and most American States subsist.

**Not
inconsistent
with any
international
engagement.**

Chapter V.

CONCLUSIONS

In the observations advanced above, the Japanese Government have set forth the following propositions :

**Japanese
propositions.**

1. That China has, since the Revolution of 1911, fallen into a condition of confusion bordering upon anarchy, and remains in the same condition at the present moment; that, so long as such a state of affairs persists, China may properly be considered as in a condition of national disintegration; and that at least, under present circumstances, it is entirely impossible to tell when China may come to have a strong and permanent central Government, even if we grant the ultimate possibility of that event.

**China an
abnormal
country.**

2. That, because of the fact that such a state of affairs prevails in China, foreign lives and property cannot be afforded adequate protection, and that, especially in recent years, the situation has been aggravated as a result of the intensification of internal conflict and the operation of the so-called “revolutionary” foreign policy of the Kuomintang directed against foreign Powers.

**No security for
foreign life and
property.**

3. That, consequently, foreign Powers have continued to exercise exceptional powers and privileges in China of a character now without parallel elsewhere in the world, such as extra-territorial jurisdiction, settlements and concessions, the maintenance of garrisons and the permanent stationing of warships in inland waters.

**Consequent
system of
constant self-
protection.**

4. That, while all foreign Powers having interests in China have suffered from the anarchical condition and anti-foreign policy of China, Japan has suffered by far the most severely.

**Special
damage
sustained by
Japan.**

Japan in intimate relation to Manchuria.

5. That Japan stands in the most intimate relation, geographically and historically, to Manchuria ; that she possesses in that region important treaty rights besides vast economic interests, while great numbers of her people are settled there ; that, moreover, the question of her own national security makes Japan vitally interested in Manchuria both from a political and strategic point of view—in fine, that Japan's position in Manchuria is an altogether exceptional and special one, unparalleled in other parts of the world.

Encroachments on Japan's rights.

6. That, of late years, the former Manchurian authorities resorted to various intrigues with a view to undermining this special position, and that, after the *rapprochement* of General Chang Hsueh-liang with the National Government, the encroachments of the Manchurian authorities upon the rights and interests of Japan became increasingly frequent and flagrant, despite Japan's earnest efforts to ameliorate the situation, producing an alarming state of tension.

Propriety of Japan's military measures.

7. That it was in this strained atmosphere that the events of September 18th occurred ; that none of the measures taken by the Japanese Army at the time of that incident, or subsequently, exceeded the limits of the right of self-defence ; and that Japan must, on any impartial consideration, be pronounced to have done precisely what any other Power would have done in similar circumstances.

Manchuria's separate situation : her rejection of Chang tyranny, and assertion of self-determination, spontaneous popular act.

Recognition violates no engagements.

8. That Manchuria has always occupied a separate position, historically as well as geographically, in relation to China Proper, and that its inhabitants bitterly resented the tyrannous rule of the Changs, and opposed the latter's policy which dragged Manchuria into the civil turmoil of China Proper ; that, from this geographic and historical circumstance, coupled with the popular opposition to the Chang family, there sprang the movement known as " Preserve the frontiers and give us peace " ; that the foundation of Manchukuo was accomplished by the spontaneous action of the Manchurians, the movement to restore the Manchu Dynasty playing no small part ; that Manchukuo is making steady progress guided by sound policy, and has a highly promising future before it ; and, finally, that the attitude of Japan towards the establishment of Manchukuo and her formal recognition of that State do not violate any international engagement whatever.

Recapitulation.

Abnormal condition of China has introduced abnormal rights of self-protection.

Especially in case of Japan, which has so many vital points of contact.

Normal rules insufficient for this abnormal situation.

In order, therefore, to understand correctly the questions at issue, it is necessary to bear constantly in mind these propositions. *First*, that the abnormal conditions of China are such as can scarcely qualify her to be a modern organised State, and that, because of this abnormal condition, other Powers have, in order to protect their own interests by themselves, retained extraordinary powers and privileges which operate as limitations on Chinese sovereignty, and have been accustomed, whenever those rights were threatened or injured, to make use of these extraordinary powers. *Secondly*, that this aspect of the foreign relations of China Proper becomes more pronounced in the case of Manchuria as far as Japan is concerned, because of her special position there and the special position which Manchuria itself occupies in relation to China Proper. The fact must be thrown into relief that the Chinese problem, and especially the Manchurian problem, are characterised by exceptional complexity and by abnormal features, which are to be found nowhere else. Consequently, in handling the quite abnormal problem, it is difficult to apply the formulæ commonly employed in dealing with international questions under ordinary circumstances, nor can the procedure employed in handling such an abnormal question or any solution that may eventually be reached thereon

establish precedents for ordinary cases of international dispute. With regard to this point, the report contains a significant passage at the beginning of Chapter IX :

“ It must be apparent to every reader of the preceding chapters that the issues involved in this conflict are not as simple as they are often represented to be. They are, on the contrary, exceedingly complicated, and only an intimate knowledge of all the facts, as well as of their historical background, should entitle anyone to express a definite opinion upon them. This is not a case in which one country has declared war on another country without previously exhausting the opportunities for conciliation provided in the Covenant of the League of Nations. Neither is it a simple case of the violation of the frontier of one country by the armed forces of a neighbouring country, because in Manchuria there are many features without an exact parallel in other parts of the world ” (page 126).

The above are put forward as the fundamental views of the Japanese Government with regard to the Chinese problem, and particularly the Manchurian problem. A few observations may now be offered, on the basis of these fundamental views, on some of the points advanced in Chapters IX and X of the report.

**Application of
above
propositions.**

One paragraph in Chapter IX reads :

“ It must be clear from everything that we have already said that a mere restoration of the *status quo ante* would be no solution. Since the present conflict arose out of the conditions prevailing before last September, to restore these conditions would merely be to invite a repetition of the trouble. It would be to treat the whole question theoretically and to leave out of account the realities of the situation ” (page 127).

**Report rejects
mere
restoration of
*status quo ante***

The statement has the unreserved concurrence of this Government. But they cannot agree with the opinion recorded in the same chapter to the effect that the maintenance and recognition of the present regime in Manchuria would be an equally unsatisfactory course to adopt. In fact, even if all the passages in the report bearing on the point were accepted for the sake of argument, it is impossible to admit that such an opinion can be arrived at as a necessary deduction. The Japanese Government's view has already been stated that a solution based upon the maintenance and recognition of Manchukuo would in no way be in contravention of the fundamental principles of international obligation. It has further been stated that such a solution would satisfy the aspiration of the Manchurians. Moreover, the expectation may be confidently entertained that the Chinese people themselves will ultimately come to realise that such a solution alone can stabilise relations between Japan and China and ensure peace in the Orient. At any rate, it can never be supposed that the dissolution of the new State, which has been set up and is making rapid and healthy progress, can really be a course adapted to “existing realities”. It is the belief of the Japanese Government that, in view of the necessity of handling and regulating these matters in accordance with the realities of the situation, it cannot be a commendable policy to ignore the actual fact of the existence of Manchukuo, or to leave that State devoid of international intercourse.

**Maintenance
of Manchukuo
essential.**

Japan, because of the important and special position which she occupies in Manchuria, cannot afford to leave that country and her relations with it in a state of instability and uncertainty. For the above-stated reasons, Japan considers the general recognition of Manchukuo, and international co-operation for the purpose of fostering its healthy development, as the only solution which is adapted to the existing circumstances

**Japan
specially
concerned to
have stable
conditions in
Manchuria.**

and which will stabilise conditions in Manchuria and bring peace to the Far East. It is believed that any other country placed in Japan's position would have come to the same conclusion and would have followed the same course. It was for this reason that the Japanese Government signed the Protocol of September 15th, which is based upon the above essential conditions and which defines clearly the relations between the two countries. A foundation has thereby been laid down in an amicable manner for the protection of Japanese rights and interests in Manchuria, for the preservation of the territorial integrity of Manchukuo, and for the assurance of Manchurian safety against external and internal menaces ; in this way, contributing in no small degree to the securities for the maintenance of peace in the Far East.

Daily
development of
events to be
subject of close
attention.

Upon this point, a passage occurring at the beginning of Chapter X of the report may be regarded as pertinent :

“ It is with this object that, whilst bearing in mind the principles of the League of Nations, the spirit and letter of the Treaties concerning China and the general interests of peace, we have not overlooked existing realities, and have taken account of the administrative machinery existing and in process of evolution in the Three Eastern Provinces. It would be the function of the Council, in the paramount interest of world peace, whatever may be the eventuality, to decide how the suggestions made in our report may be extended and applied to events which are still developing from day to day, always with the object of securing a durable understanding between China and Japan by utilising all the sound forces, whether in ideals or persons, whether in thought or action, which are at present fermenting in Manchuria ” (page 132).

The Council of the League of Nations, in studying the report with the due regard to the view of the Commission expressed in this passage, must necessarily desire to acquire a full comprehension and satisfactory information regarding the course of events as it develops from day to day, which will be found to exhibit continued confusion in China Proper and steady progress on the part of Manchukuo. In this connection, the Japanese Government are at all times prepared to furnish the Council with any further information at their disposal, so that, in accordance with what was said in the introduction to these observations, the Members of the Council may have a thorough acquaintance with every aspect of the complex situation.

Criticism of
suggestions
made by
report.

As regards certain suggestions contained in Chapter X of the report, that chapter opens with a statement that “ it is not the function of the Commission to submit directly to the Governments of China and Japan recommendations for the solution of the present dispute ” (page 132), which is a right and proper observation in view of the Commission's terms of reference. The report itself brings out the point clearly that these suggestions are merely intended as an illustration of one way in which the various principles contained in Chapter IX might be carried into practical effect. Moreover, the Commission themselves show the tentative and contingent nature of these suggestions in adding the following observations :

“ Even if the formal recognition of ‘ Manchukuo ’ by Japan should take place before our report is considered in Geneva—an eventuality which we cannot ignore—we do not think that our work will have been rendered valueless. We believe that, in any case, the Council would find that our report contains suggestions which would be helpful for its decisions or for its recommendations to the two great Powers concerned, with the object of satisfying their vital interests in Manchuria ” (page 132).

In other words, the Commission recognised, by the vague terms in which they attached some continuing importance to their suggestions in such an event, that a certain amount of doubt would be cast upon the utility of these suggestions in case the recognition of the Manchukuo by Japan should have taken place. It would, therefore, seem unnecessary to enter into detailed discussions of these suggestions. In order further to elucidate the position, however, the following brief remarks on certain features of these suggestions may be ventured.

(a) As we shall see, principle 10 of Chapter IX would be liable to result in an international control of China Proper. In the same way, the still more important suggestions contained in Chapter X would amount, in practice, to a disguised international control of Manchuria, which is certain to be rejected by Manchukuo. Nor from the standpoint of Japan can these suggestions be regarded as acceptable.

(b) These suggestions appear, moreover, to be of too refined and intricate a nature. They might prove suitable if applied to Europe and America, but would not prove adaptable to the realities of the Far East as they at present exist. Such a plan as is advanced by the Commission calls for the minimum requirement that the disputant parties shall each possess a strong and reliable central Government. To attempt to apply these suggestions to the solution of the Manchurian question, which is one of unprecedented complexity, and one in which one party does not possess a strong and reliable central Government, is to make confusion worse confounded.

(c) The Japanese Government cannot persuade themselves that the suggestion of demilitarising Manchuria, maintaining peace and order there by a special international gendarmerie alone, would adapt itself to the realities of the situation. It is questionable whether, even in Europe, peace and order could possibly be adequately maintained throughout a territory so vast as Manchuria by such a system. It could never meet the desires of the Manchurians, and would be a source of great anxiety to the Japanese Government, as it would foment unrest and disturbances in that region, which is exactly what Japan desires above everything to avoid. Thus the suggestion is extremely unsatisfactory in that it would make matters worse than the restoration of the *status quo ante*, which is rejected by the Commission themselves.

So much for the concrete suggestions. We now come to a little more abstract matter—viz., the principles for the solution of the dispute on which these tentative suggestions are based. The Commission took pains to define in Chapter IX “ the general principles to which any satisfactory solution should conform ”, and it was in supposed conformity with these principles that the plan of settlement in Chapter X was elaborated. Certain of these principles to which the Japanese Government have no fundamental objection have already found concrete application in the Protocol signed by Japan and Manchukuo.

But, in any view of the matter, it must evidently be impossible, so long as the anarchical state of things in China persists, to arrive at a satisfactory solution of the question at issue on the basis of the first nine of these principles, especially principles 4 to 9. As is sustained in principle 10, these nine principles cannot be practically applied “ without a strong central Government in China ”. In order to help a strong central Government to come into being in China, international co-operation in the task of internal reconstruction is certainly desirable. Any international co-operation (apart from technical assistance) for that purpose is, however, a remote contingency and extremely difficult to attain, unless, indeed, such co-operation were to take the form of an international control of

**Criticism of
suggested ten
principles.**

China. Moreover, even granting that such an international co-operation were possible, there would be no assurance that, in that way, a strong central Government would forthwith be brought into being. Japan cannot idly wait for such an uncertain eventuality in order to solve the Manchurian question.

**Apprehensions
of danger if
stability be
disturbed by
unsympathetic
attitude to
Manchukuo.**

Such being the case, any scheme that might tend to destroy that peace and order which is now in process of restoration will inevitably usher in a new era of disputes and difficulties. Would it not, then, be better statesmanship to work at least for the stabilisation of conditions in Manchuria? Should not the world, which has manifested so much patience and sympathy regarding the reconstruction of China throughout these past twenty years, come to entertain sentiments of understanding and hope concerning the new State of Manchukuo? When the Manchurian question shall have once been settled, the settlement of the far greater question of China itself will be materially simplified. It can hardly be the subject of doubt that the advent of peace and a good and efficient administration in Manchuria will set an example which it would be well for China to follow, and will exert a favourable influence upon her attitude and divert her domestic and foreign policies into sane and moderate channels, not only bringing happiness to the Chinese people, but allowing other nations to share the resultant benefits.

[Communicated to the Assembly,
the Council and the Members
of the League.]

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Geneva, December 3rd, 1932.

LEAGUE OF NATIONS

APPEAL FROM THE CHINESE GOVERNMENT

COMMUNICATION
FROM THE CHINESE DELEGATION

16

Note by the Secretary-General.

At the request of the Chinese delegation, the Secretary-General has the honour to circulate to the Assembly the following communication dated December 3rd.

Series of League of Nations Publications
VII. POLITICAL ✓
1932. VII. 16.

LETTER FROM THE CHINESE REPRESENTATIVE TO THE SECRETARY-GENERAL

Geneva, December 3rd, 1932.

Referring to my reservation of right at the meetings of the Council on November 21st and 23rd last to make further comments on the statements of the Japanese representative on the Council, as well as on the Observations of the Japanese Government on the Report of the Commission of Enquiry constituted under the Council resolution of December 10th, 1931, I have the honour to send you herewith the comments of the Chinese delegation upon the same. I shall be much obliged if you will be good enough to circulate these comments to the Members of the Council and of the League.

(Signed) V. K. Wellington Koo.
Chinese representative on the Council.

**CHINESE COMMENTS ON THE "OBSERVATIONS
OF THE JAPANESE GOVERNMENT ON THE REPORT
OF THE COMMISSION OF ENQUIRY" AND ON THE
STATEMENTS MADE BY THE JAPANESE
REPRESENTATIVE ON THE COUNCIL**

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INTRODUCTORY REMARKS

At the meetings of the Council of the League of Nations on November 21st, 23rd and 24th, 1932, the Chinese representative on the Council, while presenting the views of the Chinese Government on the report of the Commission of Enquiry constituted under the Council's resolution of December 10th, 1931, and making comments upon the statements made by the Japanese representative, reserved the right to set forth supplementary views and comments either in a written statement or verbally on a subsequent occasion. The statement in the following pages is presented in conformity with the first of the reservations, without prejudice to the submission of further comments.

The criticism of the Japanese Government directed against the Commission's programme of visit and methods of investigations may safely be left to the Commissioners individually or as a body to answer. In so far, however, as the purpose of this criticism is to try to vitiate the validity of certain Chinese contentions as confirmed by the Commission in its report, after a most conscientious and comprehensive study on the spot, it is deemed desirable to present the views of the Chinese delegation in regard to it.

The Japanese Government complains of the shortness of the Commission's visit in China and objects to "the atmosphere of Peking and Nanking", but it does not state the fact at the same time that the Commission made two visits to Japan and spent over a fortnight in Tokio without being accompanied by the Chinese Assessor, whose absence, on its second visit to Tokio, was due to difficulties placed in his way by Japan, in contrast with the attitude of the Chinese Government, which accorded every courtesy and facility to the Japanese Assessor for accompanying and assisting the Commission in China—in Nanking and in Peiping, as well as in other places.

As regards the evidence given in the report, the Japanese Government "are impressed by the feeling that items of information drawn from unimpeachable sources—*e.g.*, those presented by the representatives of the Japanese Government—have been passed over or disregarded, whilst undue credit has been accorded to information coming from obscure or even unknown quarters". The fact is that, by strict surveillance over the movements of the members and staff of the Commission, and unwarranted denial of liberty of movement and communication to the Chinese Assessor and his suite, the Japanese authorities in Manchuria attempted to restrict their work of investigation and limit their evidence to "items of information drawn from unimpeachable sources—*e.g.*, those presented by the representatives of the Japanese Government". In consequence of the manifest unwillingness of the Japanese authorities to "afford the Commission all facilities to obtain on the spot whatever information it may require", as was promised by the Japanese Government in the Council resolution of December 10th, 1931, it was obviously necessary for the Commission to devise other ways of securing truthful evidence in order to complete its mission of investigation. Thus the report says on page 107 :

"But the effect of the police measures adopted was to keep away witnesses; and many Chinese were frankly afraid of even meeting members of our staff. We were informed at one place that, before our

The Japanese Government failed to mention the two visits of the Commission to Japan.

Obstacles placed by Japan in the way of investigation by the Commission and the Chinese Assessor.

arrival, it had been announced that no one would be allowed to see the Commission without official permission. Interviews were therefore usually arranged with considerable difficulty and in secrecy and many informed us that it was too dangerous for them to meet us even in this way. . . . Most of the delegations were introduced by Japanese or ' Manchukuo ' authorities and we had strong grounds for believing that the statements left with us had previously obtained Japanese approval."

**Evidence
presented by
the Japanese
Government
not
" unim-
peachable ".**

From the attitude and conduct of the Japanese authorities towards the Commission and the Chinese Assessor in Manchuria, from the strict censorship of letters and telegrams and Press opinion, from the evidence of intimidation in force there against imparting information unfavourable to Japan, from the " Observations of the Japanese Government on the Report of the Commission of Enquiry," and from the persistent objection of the Japanese representative at the recent meetings of the Council to giving an opportunity to the Commission, present at the invitation of the Council, to defend its own report in view of the Japanese allegations—from all these facts it is abundantly clear that Japan's view is that the evidence presented by the Japanese Government is alone " unimpeachable " and only such " unimpeachable " evidence should have been completely accepted. Any other evidence not being thus " unimpeachable " should have been disregarded. To have accorded such other evidence undue credit in the report accounts, in the opinion of the Japanese Government, for the " omissions, inconsistencies and misapprehensions " in its various passages.

If a such a claim could have been entertained, it would have been unnecessary to create the Commission of Enquiry and despatch it to the Far East to study on the spot. It was because the " items of information drawn from unimpeachable sources—*e.g.*, those presented by the representatives of the Japanese Government " were found by the League of Nations to be impeachable that the Chinese Government agreed to the establishment of the Commission, in order that the true facts of the Manchurian situation might be fully brought to light.

A. CONDITIONS IN CHINA AND JAPAN

In the statements of the Japanese representative before the Council as well as in the "Observations of the Japanese Government", there is a studied attempt to portray the internal conditions of China in most lurid colours for the obvious purpose, as is indeed avowed in the "Observations", of contending that Japan is warranted to do what she likes with her solemn international obligations under the peace instruments, on the alleged ground of "the impossibility of applying to Chinese disputes the normal 'peace machinery', as constituted at present". Such a naïve effort to misrepresent China is no less objectionable than to pretend to give a full picture of the conditions of the countries in Europe and America by quoting from the records of crime and riot filed at the headquarters of their respective police authorities. This point is dealt with at length in the statement made by the Chinese representative before the Council on November 21st last. Suffice it to quote from it here one passage :

"There is no mystery in the fact that China in the present period of transforming herself from an old empire of 4,000 years into a modern democracy is now undergoing a period of trials and tribulations familiar to students of political history and inevitable in the reconstruction of any country. The apparent disarray of factors and forces in the country is nothing but a symbol of vigour and vitality in a reawakened people; it is evidence of progress in the rebuilding of a country of 450 million people. The spectacle of China in transition may not be entirely pleasant to view, but it is not different from the sight of an old structure in the process of remodelling. The important point is, to quote the words of the Commission's report, that 'in spite of difficulties, delays and failures, considerable progress has in fact been made'" (page 17).

That the criticism of the Japanese representative about conditions in China is not well-founded in fact appears clear, not only from the report of the Commission of Enquiry with which he disagrees, but also from statements by other impartial observers. Thus, for example, Dr. David Brown, a trusted associate of President Hoover in international relief work, addressing the American University Club at Shanghai recently upon his return from his extensive visit to Central China, said :

"I have travelled by air and motor nearly 4,000 miles and visited the provinces of Suiyuan, Shansi, Shensi, Kansu, Honan. Not only did I not see any evidence of disturbed conditions, but every evidence of order, unity and loyalty to the Central Government. I am not unaware of the disturbed conditions in some parts of China, but this is a vast country with a young Government going through the ordeal of finding itself, just as other Governments have had to do. To ask or expect perfect unity among all people of China is to ask more of this young republic than many older Governments are able to present to the world."

Indeed, on November 20th, 1932, when the Japanese delegation here in Geneva was widely distributing the "Observations of the Japanese

**Criticism
about Chinese
internal
conditions
unfounded.**

**Dr. David
Brown's
opinion.**

**M. Ariyoshi's
statement.**

Government", in which it repeated the allegation that "China is in a condition of complete chaos and incredible anarchy", and only a few hours before the Japanese representative on the Council again saw fit to complain at the meeting of the Council on November 21st of "the unhappy condition" of China and the "kaleidoscope of rival military leaders", M. Ariyoshi, Japanese Minister to China, made the following statement to the Japanese journalists at Shanghai :

"There is a great deal of talk about dismemberment of China and the continual development of civil troubles, but it is absolutely impossible to believe that General Chiang Kai-shek can possibly lose control of the situation. He has made a vigorous and energetic attack against Communism, and the Government in all its administrative departments is thoroughly united in its politics and in its programme. Consequently, there is not any reason whatever to expect the fall of General Chiang Kai-shek or the Central Government."

**Japan's policy
of preventing
unification in
China.**

The contradictory statements from responsible Japanese spokesmen cannot all be correct. Not only do they illustrate the nature of the well-known "dual diplomacy" of the Foreign Office and the Army in Tokio, but also serve to call attention to the standard of veracity observed by Japanese representatives when hard pressed to defend their country's case before an international tribunal.

The fact is that one of the great difficulties with which China has been confronted in her task of unification and reconstruction is Japan's repeated attempts to embarrass her and to prevent its accomplishment. During the past twenty years, since the establishment of the Chinese Republic, the activities of Japanese agents to instigate revolts and create disorders in China have been conspicuous. Several instances are cited in the statement of the Chinese representative before the Council at its meeting held on November 21st last and it is needless to go into detail again. Suffice it to reproduce here a paragraph commenting upon the Japanese allegation that "China is not an organised State", as follows :

"It is a singular yet significant fact to be noted that Japan, while never ceasing to complain to the world of the disunited condition of China, persistently pursues a policy of preventing unification in China. It raises the question whether Japan really wants to see China united. There is evidently a sense of apprehension lest a united China would be a blow to her policy of expansion and to her dream of world conquest. This fear is gently hinted in the report when it says (page 131) that 'at the heart of the problem for Japan, lies her anxiety concerning the political development of modern China, and the future to which it is tending'."

**Japan's
continental
policy.**

The Japanese representative in his statement before the Council asks "on the other hand, for how many years has the condition of China been a menace to the peace of the world and how long will it continue to be?" The real menace to the peace of the Far East and the world is Japan's traditional policy, the so-called continental policy, of expansion and conquest on the Asiatic mainland. The nature, scope and historical background of this policy of Japanese aggression are explained in the statement of the Chinese representative before the Council at its meeting of November 21st last. It is implemented with a definite plan of action based upon two immediate objectives: the northward push—*i.e.*, invasion into Manchuria and North China through Korea—and the southward push—*i.e.*, invasion of Central and South China and the territories in the South Seas, setting its base of operations on Formosa. There is no better account of the principal features of this policy than what is described in

a document called the "Tanaka Memorial".¹ The "positive policy" announced and pursued by General Tanaka when he was Premier is only one phase of the continental policy of expansion. The policy of modern Japan *vis-à-vis* China and the Asiatic mainland in general, corresponds so clearly with the comprehensive policy outlined in this document that all those who wish to understand the meaning of the actions of military Japan could not do better than to read it, whatever may be its real character. This policy is a most important "circumstance which, affecting international relations, threatens to disturb the peace between China and Japan or the good understanding between them upon which peace depends". It explains the recurrence of friction, conflict and war between China and Japan during the past decades. It is the mainspring of the flagrant acts of aggression and war in Shanghai, Tientsin and Manchuria and accounts for Japan's repeated failure to keep faith with other nations.

Internally, it is also this policy which is the underlying cause of the reign of terror, financial stress and social unrest in Japan to-day. The whole country is now in the grip of the military chiefs. With the right of direct appeal to the Throne conferred by the Imperial Constitution upon the Ministers of War and Navy, the Chief of General Staff and the Chief of the Naval General Staff, with their absolute control of all military matters, without the intervention even of the Premier, and with their immunity from responsibility to the Imperial Diet, the military clique make and unmake cabinets in Tokio. The civilian leaders are coerced into acquiescence. There is such a reign of terror in Japan to-day that even the strong-minded liberal elements consider discretion as the better part of valour, or their lives will at once be in danger. Thus, within nine months, four of the most prominent political leaders were killed by the band of assassins. Premier Hamaguchi, leader of the Minseito Party, died on August 26th, 1932, of a bullet wound received on November 14th, 1930. M. Inoue,

**The Tanaka
Memorial.**

**Japan's
internal
conditions :
Reign of terror,
financial stress
and social
unrest.**

¹ The Japanese representative at the Council meeting of November 23rd claimed that the so-called "Tanaka Memorial" was a forged document. He stated among other things :

"In bringing a serious charge against the late General Tanaka and stating that there was no room to doubt the authenticity of it, I presume the delegate of China is ready to prove this by producing evidence before the Council."

Later at the meeting, he again said that :

"Since he [the Chinese representative] had committed himself to a statement that there was no room to doubt its authenticity, I asked him to prove it by the production of evidence. I made that demand in order that at the next meeting he will have my request particularly in mind and will respond to it."

The reply was given by the Chinese representative at the meeting of the Council on November 24th. He stated in fact :

"Let me say, on the question of the existence of a Japanese document, such evidence can be produced only by those who have access to the Imperial archives in Tokio, but, in my opinion, the best proof on the question is really the whole situation in Manchuria to-day."

That reference to the "Tanaka Memorial", which contains such a masterly exposition of Japan's national policy of expansion and conquest, should have been considered by the Japanese representative as "a serious charge against the late General Tanaka", is difficult to understand. This is the more so, since the "positive policy" was announced by General Tanaka when he was Premier of Japan and has always been highly commended by the Japanese people.

What were the precise words spoken by the Chinese representative on this point? They were :

"According to the Memorial to the Throne of General Tanaka, former Premier of Japan, a document which was frequently referred to in the Japanese Press before the Manchurian situation arose in September 1931, without ever raising any doubt as to its authenticity, "the control of China's Three Eastern Provinces is but one step in the programme of world domination".

The Japanese publications alluded to are, among others, the *Chugai Shogyo-Shimpo* of July 31st, 1931, and the *Central Review*, of September 1931. Nothing in the words employed justified the Japanese representative in repeatedly asserting that the Chinese representative "had committed himself to a statement that there was no room to doubt its authenticity," and such an assertion cannot be explained except as another instance of Japanese studied distortion. As regards the nature of the document itself, if one is to judge by the clear evidence of Japan's actions in Manchuria and in China proper, there is ample reason to believe that the "Tanaka Memorial", while it may not have actually been presented to the Mikado, is an authentic document of great significance.

Minister of Finance, was assassinated on February 9th, 1932. Baron Dan, financial brain of the Mitsui clique, was shot to death on March 5th, 1932. Premier Inukai, leader of the Seiyukai Party, was killed by a fusillade of shots from a group of seventeen young cadets of the Army and the Navy on May 15th, 1932. On the same day, another group of cadets threw bombs and fired shots at the Central Station of the Metropolitan Police, the Bank of Japan, the Mitsubishi Bank, and the headquarters of the Seiyukai Party. No judgment is reported to have been rendered, nor trial known to have been held by any court.

The consequences and effect of Japanese military aggression in Manchuria and China proper have aggravated the depressing situation brought about by the world economic crisis. As a result of the loss of trade and decrease of exports, the Japanese yen depreciated in value by at least 60 per cent, while the increased expenses consequent upon the military venture in China and the diminution of revenue have combined to produce in the budget of 1932-33 a deficit of nearly 900 million yen, or more than 40 per cent of the total budgeted expenditure, which has to be covered only by internal loans. In contrast with this financial chaos in Japan, let us quote a significant sentence in the recent address of Dr. David Brown before the American University at Shanghai when referring to China's finances :

“ A country that can balance its budget at a time when the budgets of the world are out of balance gives evidence of economic stability and sound planning.”

B. CHINESE NATIONALISM AND THE SO-CALLED “ANTI-FOREIGNISM”

On November 23rd last, the Japanese representative endeavoured to conjure up before the Council a dangerous China where fifty million young Chinese, as he said, were being nurtured in anti-foreign teachings, and made an appeal to the Council to deal with the problem immediately. In order to give weight to this appeal, he mentioned the now obsolete case of Boxer uprisings in 1900.

In the “Observations”, the Japanese Government likewise called the attention of the Council to the “revolutionary diplomacy” of the Chinese Government as well as to the so-called anti-foreign methods of education and the operation of the boycott movements.

It is needless to reiterate the statement that there is no anti-foreign sentiment in China, and that if such sentiment appears to prevail *vis-à-vis* Japan, it is she who, by her own acts of aggression toward China, is responsible for its emergence as a natural reaction.

As the Japanese representative introduced a reference to the Boxer disturbances as a reminder of the existence of anti-foreign feelings on the part of the Chinese people, a word ought to be said with reference to it. The anti-foreign activities in the fateful years of 1900 and 1901 were initiated by the Dowager Empress of the now defunct Manchu dynasty and organised and carried out by her entourage in obedience to her strict orders. The common people in North China readily approved the movement and lent their support to it, because of their unvented feeling of indignation against the “scramble for territory” and the “battle for concessions”, threatening the dismemberment of the Chinese Empire. But most of the far-sighted Chinese officials refrained from associating themselves with it. Indeed, such influential viceroys and governors like Li-Hung-Chang, Liu Kun-yi, Chang Tse-tung and Yuan Shih-kai endeavoured to prevent, and succeeded in preventing, the spread of the disturbances into the provinces under their respective jurisdiction. Other Chinese officials of high rank in the Court, including Hsu Ching-chen, a former envoy at St. Petersburg, even paid the extreme penalty for their effort to dissuade the Dowager Empress from further precipitating the catastrophe. While the subsequent protocol definitely fixed the responsibility on the then Manchu Government of the Chinese Empire, the point to bear in mind is that the whole incident by no means reflected the views of the more sober-minded and more enlightened section of the people in China. With the radical change of policy toward China on the part of the occidental nations, not only whatever feeling of distrust existed thirty years ago has disappeared, but there is to-day a prevailing sincere desire on the part of the Government and people of China to collaborate with them for common interest.

Moreover, the growth of nationalism in China and echoes of the shibboleth of “revolutionary diplomacy” in recent years merely symbolise the re-awakening of a virile national sentiment in China in favour of a definite programme for the attainment of her rightful position in the family of nations. Japan, as well as the countries in America and Europe, has officially expressed her approval of this legitimate aspiration. As late as January 22nd, 1931, Baron Shidehara, then acting Premier and Minister for Foreign Affairs, made a statement to the Imperial Diet, in which he

**Charges of
“anti-
foreignism”
entirely
unfounded.**

**Japan as well
as countries in
Europe and
America in
sympathy with
China's
aspirations.**

Baron
Shidehara's
statement,
January, 22nd,
1931.

Japan's
experiences in
the past :
Anti-foreign
riots and
agitations.

Anti-foreign
passages in
Japanese
school
text-books.

reiterated the determination of his Government to co-operate with China in a friendly and constructive manner for the solution of the latter's problems which would ultimately result in the relinquishment by the Powers of their special rights and privileges. What Japan to-day is severely criticising as the anti-foreign policy of the Chinese Government is none other than that which simply aims at the eventual restoration to China by negotiation and agreement of the special rights and privileges which she has conferred upon foreign nationals within her borders by treaties conducted nearly a century ago and which are generally considered as derogatory to her sovereignty.

The truth is that the popular movement in China to emancipate her from the one-sided restrictions on her political, administrative and jurisdictional freedom is characterised by singular restraint and moderation when contrasted with the experience of Japan in dealing with a similar situation. Thus it may be recalled here that the conclusion of the early treaties by the Japanese Shogunate, in the middle of the nineteenth century, was followed by the outbreak of riots and agitations resulting in the wounding and killing of a number of foreigners and, on two occasions, by an attack on the British Legation. The subsequent negotiations by Inoue for the abrogation of extra-territorial rights gave rise to manifestations of popular discontent and acts of violence against foreign nationals in Japan and had to be suspended because of the insistence of the foreign Powers upon certain conditions as safeguards. The resumption of negotiations on a later occasion culminated in the Kurushima incident, marked with bitter anti-foreign sentiment, in the course of which Count Okuma had his right leg blown off by a bomb and received other serious injuries.

It may also be noticed that in text-books in use in Japanese schools there are not lacking passages inserted apparently for the purpose of constantly reminding the younger generation of Japan of the painful experiences of their country in the past in her relations with foreign Powers. Suffice it to give a few quotations here. In Lesson 2, Volume II, of the "Japanese History Text-book for Primary Schools", (compiled by the Japanese Board of Education), there appears this sentence : " We swear to carry out anti-foreignism ". In Lesson 47 of the " National History for Primary Schools ", compiled by the Japanese Board of Education, the following passage reads :

" Anti-foreignism . . . by this time the Western countries suddenly enlarged their sphere of activities in the Far East . . . repeatedly hampered us from all sides ; because we refused to have commercial intercourse with her, Russia invaded Karafuto Island, Chishima Island, etc. ; and British ships also created trouble in Nagasaki ; the people, feeling enraged, advocated anti-foreignism, and the Shogunate therefore gave the order to attack the pirate ships of the foreign countries. "

Again, Chapter 32 of the " Japanese Middle School History Text-book " (approved by the Japanese Board of Education and published by Sanshodo Kabushiki Co., Japan), reads in part :

" British ships were often seen sailing near the Japanese coast . . . one ship suddenly invaded Nagasaki and violated our national law with the utmost savagery. Our people were much enraged by these violent actions of the British and the Russians and advocated anti-foreignism. "

Lastly, in Chapter 34 of the same text-book, there is this sentence :

" America, backed by military force, compelled us to sign unequal treaties. "

As the report of the Commission rightly observes :

“ The nationalism of modern China is a normal aspect of the period of political transition through which the country is passing. National sentiments and aspirations of a similar kind would be found in any country placed in the same position.”

The striking fact is that Japan, instead of profiting by her own experience in this respect and manifesting sympathy for China in her task of reintegrating her sovereignty, should be the first country to misinterpret the legitimate aspirations of the Chinese people and to oppose their full realisation by attributing to them “ xenophobia ” and “ anti-foreignism ”, in order to mislead world opinion.

On the question of the boycott, the views of the Chinese Government have been fully presented in the statement of the Chinese representative at the meeting of the Council on November 21st last. It is necessary to add only a few comments here.

In the statement of the Japanese representative at the Council meeting of November 23rd, exception was taken, among other things, to the observation that the boycott is “ a form of reaction against a given cause of external origin and beyond China’s control ”. It was claimed by the Japanese representative that the boycotts of 1908, 1909, 1919, 1923 and 1925 could not be regarded as retaliation against Japanese military measures.

It is to be noted that the attempt to exclude the five above-mentioned cases from the category of boycotts directed against Japanese military aggression necessarily implies that the other four cases do fall within that category. However, it must be pointed out that all the nine cases of boycotts against Japanese goods which took place in the past twenty-five years arose as a natural and spontaneous response in resistance to Japanese aggressions of one form or another.

Further, if the Chinese Government felt it necessary, as on the present occasion, to adopt special measures in view of the popular and spontaneous manifestations of indignation aroused by the anti-Chinese riots in Korea and intensified by the subsequent Japanese invasion of Manchuria, this was done out of a desire to guide the movement within lawful bounds and to ensure more effectively the safety of Japanese nationals. It was certainly due to this special precaution that only few local incidents have taken place in comparison with the appalling loss of Chinese lives and destruction of Chinese property in Korea, in the Chinese Three Eastern Provinces and in other parts of China, all as a result of Japanese negligence or aggression.

It goes without saying, however, that, if the cause of the boycott movement for which Japan is responsible is removed, the movement itself would, as evidenced by the instances in the past, disappear as naturally as it arose ; and that, if boycott entails State responsibility, as is to be inferred from the Japanese representative’s statement, it certainly rests with Japan, the aggressor, and not with China, the victim of Japanese aggression. To hold China responsible for the effect of the boycott *vis-à-vis* Japan would not only be mistaking the result for the cause, but also adding injustice to the wrong and injury to which China has been subjected for the past fifteen months.

Observation in the report on the nationalism of modern China.

Boycott question.

Boycotts as natural response to Japanese aggressions of one form or another.

Government measures to guide movement within lawful bounds and ensure better protection of Japanese nationals.

Responsibility rests with Japan not China.

C. CHINA'S THREE EASTERN PROVINCES (MANCHURIA)

**Manchuria
an integral
part of China.**

Manchuria, which is known in China as the Three Eastern Provinces, is historically, racially, culturally and politically an integral part of China. But in the "Observations of the Japanese Government", as well as in the statement of the Japanese representative before the Council, an attempt is made to question this indisputable fact. One of the arguments advanced is that it "was distinctly and almost exclusively a Crown domain or a private estate appanage of the Manchu dynasty up to the present century". The fact is that, even before the establishment of the Chinese Republic, the Three Eastern Provinces were placed upon the same footing as other provinces in China proper and were governed or administered in much the same way as the latter. Moreover, the Imperial Edict of Abdication of February 12th, 1912, itself expressly and formally confirms the fact that the Republic of China comprises the territories of the Ta Tsing Empire by enforcing the "union of all the territories of the five races of Manchus, Chinese, Mongols, Mohammedans and Thibetans into a great Republic of China". The provisional Constitution of the Republic of 1912, too, in Article 3, expressly provides that "the Territory of the Republic of China consists of the twenty-two Provinces". The same or similar provision is found in the Constitutions of October 10th, 1923, and June 1st, 1931.

On pages 14 and 15 of the "Observations", the Japanese Government took pains to show that "the union of Manchuria with China has only been temporary and accidental" and that such connection "was loose and vague". In support of this position, special attention was drawn to a certain passage quoted from a recent book written by a French author, M. ESCARRA, and to a translation of a declaration issued by Chang Tso-lin in May 1922.

**M. Escarra's
letter.**

With reference to M. Escarra's recent publication, he wrote in his letter to Dr. Wellington Koo, dated Paris, November 22nd last, to say that "*le passage visé signifie exclusivement que la disparition de la dynastie mandchoue enlevait désormais toute base à la formule d'union personnelle sur laquelle on avait pu, à une certaine époque, fonder le rattachement politique de la Mandchourie à la Chine. Il fallait donc trouver une autre formule juridique et il est rechercher (sic) cette formule nouvelle d'une manière consciente. Il n'en était du reste nul besoin, les droits de la Chine sur la Mandchourie n'ayant jamais paru contestables à personne.*" And he remarked in the same letter that "*le procédé de citation employé et l'interprétation donnée d'un passage du livre en cause sont caractéristiques de la mauvaise foi traditionnelle du Gouvernement japonais*".

**Marshal Chang
Tso-lin's
declaration.**

As regards the declaration made by Marshal Chang Tso-lin in May 1922, in connection with a controversy between him and President Hsu Shih-Chang in that year, the first passage of that declaration, when correctly rendered into English should read as follows :

"I have received from Hsu Shih-Chang a communication ignoring the Three Eastern Provinces, the Special Areas of Jehol and Chahar as well as Inner and Outer Mongolia. Such disregard means his non-recognition of these places of the territory of the Chinese Republic."

This was the declaration which Marshal Chang Tso-lin made in order to justify his taking up arms against the Central Government on the alleged ground that President Hsu Shih-Chang had neglected the territories mentioned. Apart from the fact that this allegation was nothing more than an act of imputation in the polemics of political controversy, the Chinese text of this document makes it clear that the Marshal himself considered these territories as an integral part of the Chinese Republic and was determined to preserve them as such even by resort to arms. Not only does the Japanese argument based upon the declaration betray a clear misinterpretation of its meaning, but the text given in the footnote of the "Observations" is an erroneous translation. Far from contradicting it, this document confirms the statement in the report (page 28) that "the independence declared by Marshal Chang Tso-lin at different times never meant that he or the people of Manchuria wished to be separated from China". In fact: "Through all its wars and periods of independence, therefore", to quote another expression of the report, page 29, "Manchuria remained an integral part of China".

Internationally, Manchuria has always been and is recognised as an integral part of China. The diplomatic instruments and correspondence between China and other nations, including Japan, show beyond a doubt that Japan as well as the rest of the world recognised Chinese sovereignty over Manchuria since, as well as before, the Republic was established in 1912, and only now she attempts to deny it.

Indeed, if China is not sovereign in Manchuria, why did Japan issue an ultimatum to China in 1915 in order to force China to confer certain valuable rights in Manchuria upon Japan? In all the proceedings of the Washington Conference, too, Japan did not once question this fundamental fact. In fact, the Nine-Power Treaty itself is based upon the preservation of the political and territorial integrity of the entire Chinese domain. To that, Japan unreservedly agreed and solemnised it by the signature of her duly authorised representatives.

When Baron Shidehara, Japanese Minister for Foreign Affairs, desired, in October 1931, to negotiate direct with China for a settlement of the Manchurian situation, it was to the Chinese Government at Nanking that he addressed his proposal.

In a word, as the report (page 38) states:

"The Chinese people regard Manchuria as an integral part of China and deeply resent any attempt to separate it from the rest of their country. Hitherto, these Three Eastern Provinces have always been considered both by China and by foreign Powers as a part of China, and the *de jure* authority of the Chinese Government there has been unquestioned. This is evidenced in many Sino-Japanese treaties and agreements, as well as in other international conventions, and has been reiterated in numerous statements issued officially by Foreign Offices, including that of Japan."

The "Observations" of the Japanese Government criticised the former Chinese administration in Manchuria and cited passages in the report to support its criticism, carefully avoiding other passages which give credit to the Chinese authorities for their efforts and achievements in Manchuria.

Thus the report, on the same pages (pages 31 and 32) from which the "Observations" have quoted, reads:

"Whatever the shortcomings of the administration in Manchuria may have been in the period preceding the events of September 1931, efforts were made in some parts of the country to improve the administration, and certain achievements must be noted, particularly in the field of education, progress of municipal administration, and of

**Manchuria
always
recognised
as an integral
part of China
by Japan and
other nations.**

**Statement in
the report.**

**China's efforts
and
achievements
in
Manchuria.**

public utility work. It is necessary, in particular, to emphasise that, during this period, under the administration of Marshal Chang Tso-lin and Marshal Chang Hsueh-liang, the Chinese population and Chinese interests played a much greater part than formerly in the development and organisation of the economic resources of Manchuria.

“ The extensive settlement of Chinese immigrants, already mentioned, helped to develop the economic and social relations between Manchuria and the rest of China. But, apart from this colonisation, it was during this period that Chinese railways, independent of Japanese capital, notably the Mudken-Hailung, the Tahushan-Tungliao (a branch of the Peiping-Mukden system), the Tsitsihar-Koshan, and the Hulun-Hailun railways, were built, and that the Hulutao Harbour project, the Liao River Conservancy work, and some navigation enterprises on various rivers were started. Official and private Chinese interests participated in many enterprises. In mining, they had an interest in the Penhsihu, Muling, Chalainoerh and Laotoukou coal-mines, and sole responsibility for the development of other mines, many of them under the direction of the official North-Eastern Mining Administration; they were also interested in gold-mining in Heilungkiang Province. In forestry, they had a joint interest with Japanese in the Yalu Timber Company and were engaged in the timber industry in Heilungkiang and Kirin Provinces. Agricultural experimental stations were started in various places in Manchuria, and agricultural associations and irrigation projects were encouraged. Finally, Chinese interests were engaged in milling and textile industries, bean, oil and flour mills in Harbin, spinning and weaving mills for Pongee or Tussah silk, cotton and wool.

“ Commerce between Manchuria and the rest of China also increased. This trade was partly financed by Chinese banks, notably the Bank of China, which had established branches in the leading towns in Manchuria. Chinese steamships and native junks plied between China proper and Dairen, Yingkow (New-chang) and Antung.”

The above-quoted paragraphs give only an indication of the progress affected by Chinese authorities in Manchuria. A more complete picture of what was accomplished by them is given in a memorandum (document No. 17) on “ Chinese Efforts in the Development of the Three Eastern Provinces ”, submitted by the Chinese Assessor to the Commission of Enquiry.

Without denying due credit for what improvements Japan has actually made over the former Russian achievements in the leased territory of Port Arthur and Dairen and within the South Manchuria Railway zone, it is only stating a fact when it is pointed out that the prosperity of the vast territory of Manchuria, of which the territory under Japanese control constitutes less than $\frac{1}{2}$ per cent of the whole area, has been due neither to Japan's “ great work of civilisation ” nor to her alleged “ special position ”. Let us quote a disinterested and impartial authority on the subject. Mr. F. E. WILKINSON, who was British Consul-General in Mukden from 1921 to 1928, wrote in the *Spectator* of May 7th, 1932 :

**Mr.
Wilkinson's
opinion.**

“ No one will deny that the progress which Manchuria has made during the past twenty-five years has been mainly due to the development by the Chinese of its agricultural resources. That this development was only rendered possible by the construction of the Chinese Eastern and South Manchuria Railways may be admitted, but both these railways were originally planned and built by the Russians, who also opened Dairen as a commercial port. The Japanese have merely carried on and extended the work initiated by the Russians

and, while they have done so very efficiently and with great advantage to the trade of the territory as well as their own trade, the claim which they make to being the creators of the prosperity of Manchuria is absurd. Considering the extraordinary fertility of its soil and its great natural wealth, the steady increase since 1907 in the trade of Manchuria is in no way astonishing. It would have been far more rapid but for the preferential rights claimed by the Japanese, and, more especially, their veto on the employment of foreign capital other than Japanese in the construction of railways and the development of the mineral resources of the territory."

The claim of Japan to a "special position" in Manchuria is a mere cloak for her traditional policy of expansion and conquest on the Asiatic mainland. It has never been, and is not, admitted by China nor understood by the other Powers. According to the "Observations", "it is nothing but the aggregate of Japan's exceptional treaty rights in that country, plus the natural consequences which flow from her close neighbourhood and geographical situation and from her historical association". It is more: it is, in part, according to the report, made up of "feeling" and "pride". Japan's arguments in support of her claim to a "special position" in Manchuria are the same arguments which she advanced in the case of Korea before annexation. If such considerations were accepted as justifying the recognition of a "special position" in another country's sovereign territory, it could be imagined what dangerous complications might arise, not only in the Far East, but in other parts of the world. There could be no hope of permanent peace in the relations of nations. Such being the nature of the Japanese claims to a "special position" in Manchuria, as the report (page 39) says, "It is very natural, therefore, that the Japanese use of this expression in diplomatic language should be obscure, and that other States should have found it difficult, if not impossible, to recognise it by international instruments". The views of the Commission are clearly given in the following passage:

Japan's claim to a "special position" in Manchuria unfounded.

"The Japanese Government, since the Russo-Japanese war, has at various times sought to obtain from Russia, France, the United Kingdom and the United States of America recognition of their country's 'special position', 'special influence and interest', or 'paramount interest' in Manchuria. These efforts have only met with partial success, and, where recognition of such claims has been accorded in more or less definite terms, the international agreements or understandings containing them have largely disappeared with the passage of time, either by formal abrogation or otherwise—as, for example, the Russo-Japanese secret Conventions of 1907, 1910, 1912 and 1916, made with the former Tsarist Government of Russia; the Anglo-Japanese Conventions of Alliance, Guarantee and Declaration of Policies; and the Lansing-Ishii Exchange of Notes of 1917. The signatories of the Nine-Power Treaty of the Washington Conference of February 6th, 1922, by agreeing 'to respect the sovereignty, the independence, and the territorial and administrative integrity' of China, to maintain 'equality of opportunity in China for the trade and industry of all nations', by refraining from taking advantage of conditions in China 'in order to seek special rights or privileges' there, and by providing 'the fullest and most unembarrassed opportunity to China to develop and maintain for herself an effective and stable 'Government', challenged to a large extent the claims of any signatory State to a 'special position' or to 'special rights and interests' in any part of China, including Manchuria. . . .

Views of the Commission.

“ The Japanese claim with respect to Manchuria conflicts with the sovereign rights of China and is irreconcilable with the aspirations of the National Government, which seeks to curtail existing exceptional rights and privileges of foreign States throughout China and to prevent their further extension in the future. ”

Japan's enterprises in Manchuria carried on with a political motive.

The Japanese Government also allege in their “ Observations ” that the enterprises and establishments of the Japanese in Manchuria “ have been the objects of Chinese direct attack ”. That such a general allegation is not founded on fact will be seen from a perusal of the memoranda presented to the Commission of Enquiry by the Chinese Assessor. The fact that the Japanese enterprises and establishments are carried on and maintained with a political motive renders it necessary to keep them closely to the terms of the grant under which they have been authorised by China. It is an established canon of law that instruments conferring rights which are in their nature limitations upon the sovereignty of the grantor should be strictly construed. In other words, the political character of the Japanese activities in China's Three Eastern Provinces explains the reluctance of the Chinese authorities to see them extend their scope, especially when such extension is contrary to the treaties or agreements in force. Thus, speaking of the South Manchuria Railway, which is the principal enterprise in Manchuria, the report on pages 50 and 51 says :

“ The railway company was, in fact, a political enterprise. It was a Japanese Government agency, the Government controlling a majority of its shares ; its administrative policy was so closely controlled by the Government that the company's higher officials were almost invariably changed when a new Cabinet came into power in Japan. Moreover, the company had always been charged, under Japanese law, with broad political administrative functions, including police, taxation and education. To have divested the company of these functions would have been to abandon the entire ‘ special mission ’ of the South Manchuria Railway, as originally conceived and subsequently developed.”

It is further stated in the “ Observations ” that “ the report neither in Chapter III nor anywhere else evinces any condemnation of the deliberate policy of violation and repudiation of treaties and other engagements pursued by China ; it even inclines to excuse them on the plea of the Nationalist programme of emancipation ”.

China is not pursuing any policy of violation and repudiation of treaties.

It cannot be too strongly emphasised that China has never been, and is not, pursuing any policy of violation and repudiation of treaties. Nor is it true that there was “ the impossibility by reason of the hostile attitude of China of arriving at any satisfactory solution of pending questions ”.

The “ parallel railways ” question.

All of the four questions mentioned by the Japanese Government are the subjects of special memoranda presented to the Commission of Enquiry by the Chinese Assessor and in which the views of the Chinese Government are stated. It is not necessary to discuss them here again. But to show that the Japanese allegation in respect of these questions is not founded on fact, it is useful, as an example, to refer to the Japanese charge that China has formulated and carried out the so-called “ encircling policy directed against the South Manchuria Railway ”. This charge was based upon a claim by Japan of an alleged “ treaty right ” in her favour binding China not to construct railways parallel to the South Manchuria Railway. It has always been contended by China, and this contention is now confirmed in the report of the Commission, that there was no such treaty right (page 44). But Japan argued to the contrary, and even notified the Chancelleries of Europe and America that her claim was well founded.

Now the mystery has at last been lifted by the following statement in the report (page 44) :

“ . . . we are now able to state that the alleged engagement of the Chinese plenipotentiaries of the Peking Conference of November-December 1905 regarding so-called ‘ parallel railways ’ is not contained in any formal treaty ; that the alleged engagement in question is to be found in the Minutes of the eleventh day of the Peking Conference, December 4th, 1905. We have obtained agreement from the Japanese and Chinese Assessors that no other document containing such alleged engagement exists beyond this entry in the Minutes of the Peking Conference.”

While the allegation of China’s violation of treaties has been shown to be unfounded, it is clear from the report that Japan herself has frequently acted contrary to treaties and has usurped certain rights in violation of her undertakings. As an example, we may mention the continued maintenance of Japanese railway guards and Japanese consular police.

**Japan’s
violations of
treaty
stipulations.**

As to the question of railway guards, the report, after quoting Article II of the Additional Agreement of December 22nd, 1905, in which “ the Imperial Japanese Government, in the event of Russia’s agreeing to the withdrawal of her railway guards, consents to take similar steps accordingly,” says (page 52) :

**Continued
maintenance
of railway
guards.**

“ It is this article upon which Japan based her treaty right. Russia, however, long since withdrew her guards and she relinquished her rights to keep them by the Sino-Soviet Agreement of 1924. But Japan contended that tranquillity had not been established in Manchuria and that China was not herself capable of affording full protection to foreigners ; therefore she claimed that she still retained a valid treaty right to maintain railway guards.

“ Japan has appeared increasingly inclined to defend her use of these guards less upon treaty right than upon the grounds of ‘ absolute necessity under the existing state in Manchuria ’.”

Again, on the question of Japan’s claim to maintain consular police in Manchuria and other parts of China, the report, after stating that Japan contended that this right was a corollary to the right of extra-territoriality, observes (page 53) that it is “ contrary to the general practice of countries having extra-territorial treaties ”.

**Japan’s claim
to maintain
consular police.**

D. THE INCIDENT OF SEPTEMBER 18TH AND THE QUESTION OF SELF-DEFENCE

The
September
18th incident.

On the incident of September 18th and subsequent operations, few words need be added beyond quoting the following passage in the report (page 70) :

“ After a thorough consideration of such opinions, as well as of the accounts of the interested parties, and after a mature study of the considerable quantity of written material and a careful weighing of the great mass of evidence which was presented or collected, the Commission has come to the following conclusions :

“ Tense feeling undoubtedly existed between the Japanese and Chinese military forces. The Japanese, as was explained to the Commission in evidence, had a carefully prepared plan to meet the case of possible hostilities between themselves and the Chinese. On the night of September 18th-19th, this plan was put into operation with swiftness and precision. The Chinese, in accordance with the instructions referred to on page 69, had no plan of attacking the Japanese troops, or of endangering the lives or property of Japanese nationals at this particular time or place. They made no concerted or authorised attack on the Japanese forces and were surprised by the Japanese attack and subsequent operations. An explosion undoubtedly occurred on or near the railroad between 10 and 10.30 p.m. on September 18th, but the damage, if any, to the railroad did not, in fact, prevent the punctual arrival of the south-bound train from Changchun, and was not in itself sufficient to justify military action. The military operations of the Japanese troops during the night, which have been described above, cannot be regarded as measures of legitimate self-defence.”

The Japanese Government in its “ Observations ” clearly admits that the Japanese army had a plan and adds : “ Every possible combination had been minutely worked out ; frequent manœuvres helped to make the execution of the plan almost automatic ”.

If the incident of September 18th was, according to the Japanese opinion, justifiable on the grounds of self-defence (which is clearly not the opinion of the Commission as well as of the Chinese Government), what about the subsequent military operations which have resulted in the military occupation of practically the whole of Manchuria ? Here the answer in the “ Observations ” is conveniently curt :

“ The Japanese Government will not here enter into the numerous points of detail in which observations would have to be made. They are conscious of never having transgressed the due limits of the right of self-defence.”

It is scarcely necessary to point out that the account given in the report of the Commission covering twelve full pages (71 to 83) is far more helpful to an understanding of the real purpose of the Japanese military operations which have taken place in all parts of Manchuria during the past fifteen months and which still continue to-day.

The Japanese Government, however, took great pains to labour the point that the fundamental principle underlying its military preparations before the occurrence of the September 18th incident and its military operations since then was the exercise of the full right of self-defence with the avowed object of protecting Japan's so-called "special position" in Manchuria. In support of its contention, the Japanese Government called attention to certain reservations made by some of the signatory Powers to the Kellogg-Briand Pact, and to the case of the *Caroline* as well as to the case of Navarino. It is therefore proposed to examine briefly the points thus raised in order to see how far these precedents could support the Japanese contention.

**Japan's
contention.**

It is true that, in the course of the negotiations for the conclusion of the Kellogg-Briand Pact, the French Government made four reservations thereto, one of them being that "each country should retain the right of legitimate defence". With reference to this reservation, Mr. Kellogg, American Secretary of State and co-author of the Pact, in a speech before the American International Law Association at Washington on April 29th, 1928, made these significant remarks :

**Mr. Kellogg's
view of
self-defence in
the Pact of
Paris.**

" If it [*i.e.*, the nation invoking the right of self-defence] has a good case, the world will applaud and not condemn its action. . . .

" It is not in the interest of peace that a treaty should stipulate a juristic conception of self-defence, since it is far too easy for the unscrupulous to mould events to accord with an agreed definition."

In the report of the United States Senate Committee on Foreign Relations, January 14th, 1929, it was stated that :

**Report of the
United States
Senate
Committee
on Foreign
Relations.**

" The treaty in brief pledges the nations bound by the same not to resort to war in the settlement of their international controversies save in *bona-fide* self-defence. . . ."

Again, Mr. Stimson, American Secretary of State, in an address before the Council on Foreign Relations on August 8th, 1932, said :

**Mr. Stimson's
address,
August 8th,
1932.**

" The limits of self-defence have been clearly defined by countless precedents. . . . A nation which sought to mask imperialistic policy under the guise of the defence of its nationals would soon be unmasked."

Apart from the fact that reservations made by one Power to a multilateral treaty which are not made a part thereof or an annex thereto are not binding on another signatory Power, it is clear from the above-quoted statements that a State which invokes and exercises the right of self-defence must have a good case of *bona-fide* self-defence, in the absence of which it would soon expose itself to the criticism of being an unscrupulous State endeavouring to mask its imperialistic policy under the guise of self-defence. Measured by this standard, and in view of the finding in the report (page 71) that " the military operations of the Japanese troops during this night . . . cannot be regarded as measures of legitimate self-defence ", one can easily judge for oneself whether or not Japan has a good case of *bona-fide* self-defence.

As regards the case of the *Caroline*, it need only be pointed out that it is hardly applicable to the present dispute between China and Japan. In that case, the invasion of American territorial waters by Canada appears to have been acquiesced in by the United States Government because they were satisfied that there was " a necessity of self-defence, instant, overwhelming, leaving no choice of means and no moment for deliberation ". In the case of the September 18th incident, there clearly existed no necessity of self-defence of this description. Even supposing that the

**The case of the
" Caroline ".**

alleged railroad explosion actually occurred on the night of that day, it was stated in the report in unmistakable terms (page 71) that :

“ . . . the damage, if any, to the railroad did not in fact prevent the punctual arrival of the south-bound train from Changchun and was not in itself sufficient to justify military action ”.

**Professor
K. Yokota's
speech,
October 15th,
1931.**

In this connection, it may not be out of place to give a quotation from Professor Kisaburo Yokota, of the Tokio Imperial University, from his speech on October 15th, 1931. He says, in part :

“ Granted the destruction of railroad track is a cause of grievance, the proper action to take in self-defence would be a counter-attack on the intruding soldiers. Or the most that the Japanese army could do, still in the name of self-defence, would be the occupation of Peitaying (North Barracks). But in the course of the advance on Peitaying there was almost a simultaneous attack on Mukden city. Can such an act be styled as self-defence ? Moreover, within six hours following the railway blow-up (10.30 p.m., September 18th), Kwan-chengtze, some 400 kilometres to the north, was taken (4.40 a.m., September 19th); Yinkow, 200 kilometres to the south, was also occupied by Japanese troops (5 a.m., same day). How can these facts reconcile with the professed motive for action, self-defence ?

“ If the mobilisation of troops is actuated by self-defence, then their withdrawal should only be a matter of course when self-defensive measures are no longer warranted. But should irrelevant issues be allowed into play, and should Japan insist on the acceptance of such demands as being conditional to the withdrawal of her troops, the very idea of self-defence would immediately invite scrutiny and suspicion.”

Moreover, the salient features in the case of the *Caroline* were that the English force was withdrawn after having set adrift the steamer in question down the Falls of Niagara and that subsequently the British Government apologised for the violation of American territorial sovereignty.

**Hall's
comments in
connection
with the case
of the
“ Caroline ”.**

In commenting on that case, HALL in his *International Law* (7th edition, pages 280 and 281) says :

“ As the measures taken when a State protects itself by violating the sovereignty of another are confessedly exceptional acts, beyond the limits of ordinary law, and permitted only for the supreme motive of self-preservation, they must evidently be confined within the narrowest limits consistent with obtaining the required end. It is therefore more than questionable whether a State can use advantages gained by such measures to do anything beyond that which is necessary for immediate self-protection, which it will not otherwise be in a position to do.”

And it may be added here that Hall's views as expressed above are fully endorsed by Dr. TAKAHASHI, an eminent Japanese jurist, in his *International Law* (10th edition, page 535).

**The case of
Navarino.**

With reference to the case of Navarino, only a few words need be said. As the independence movement of Greece from the oppressions of Turkey and Egypt had been planned by the Greeks years before the Battle of Navarino, it is inaccurate to suggest that a chance shot resulted in the independence of Greece. If, in the case of Manchuria, there was the so-called “ independence declared by Marshal Chang Tso-lin at different times ”, the report says on page 28 that it “ never meant that he or the people of Manchuria wished to be separated from China ”. The report adds (page 97) that the “ Independence Movement . . . had never been

heard of in Manchuria before September 1931". Therefore, there is no similarity between the case of Navarino and the September 18th incident, which was created and precipitated by Japan with the ultimate object of the alienation of the Three Eastern Provinces from the rest of China.

From the foregoing, it is clear that the statement in the Japanese "Observations" that "these [military] operations had no relation to anything but self-defence" and that the Japanese Government "are conscious of never having transgressed the due limits of the right of self-defence" (page 25) is entirely misleading and cannot be justified in international law or in international practice.

**Japanese
statement
misleading.**

E. "MANCHUKUO".

"Manchukuo" is an artificial creation of Japan.

The "Observations" in Chapter IV devote ten pages to "the New State". This chapter, like others, is filled with a number of unfounded allegations, irrelevant arguments and unwarranted assertions, but adds no new data to what the Japanese Assessor presented to the Commission and exchanged with the Chinese Assessor. Practically the only addition is the text of the Protocol of September 15th, 1932, which is useful only as further evidence of Japan's wanton disregard of her solemn obligations under the Nine-Power Treaty "to respect the sovereignty, the independence and the territorial and administrative integrity of China". All the points raised in respect to the establishment of the "Manchukuo", the opinion of the inhabitants in Manchuria and the future prospect of this puppet regime have been discussed carefully, objectively, comprehensively, and in great detail by the report of the Commission extending over twenty-two full pages. It is conclusively proved by the report that the "Manchukuo", far from being the expression of the free will of the people of Manchuria, is an artificial creation of the Japanese officials and is controlled by them.

Actual meaning of the expression "Paoching Anmin".

But to the considered opinion of the Commission the Japanese "Observations" take exception. Few comments, however, are needed to show that the reasons they have advanced for their objection are as ill-founded as the opinions of the Commission are convincing. Thus, for example, the Chinese phrase "*Paoching Anmin*" simply means "Protect our area and ensure peace to the inhabitants". It is a political slogan frequently employed in different parts of China to indicate the adoption of a policy on the part of the authorities concerned to keep aloof from any civil strife that might be raging in their neighbourhood. The area may be a city, a district, or a province or a group of provinces. It is never meant to connote or imply any intention to secede from China as a whole or to seek an independent national existence. Therefore, it is a far-fetched attempt to interpret, or rather misinterpret, the phrase "*Paoching Anmin*" as the embodiment of a movement for "Manchuria for the Manchurians"—a movement which existed only in the minds of the Japanese. Of the two supposed leaders of this "movement", one, M. Wang Yung-chiang, has been dead for over three years, and the other, M. Yu Chung-han, because he has always been closely associated with the Japanese in a variety of business and industrial enterprises, has never been able to be entirely free from Japanese influence and pressure. But there is reason to doubt whether even this gentleman really would favour a Japanese created and controlled Manchukuo.¹

So-called leaders in the "Independence Movement".

¹ At a conference held at the Yamato Hotel, Mukden, on January 11th, 1932, for the purpose of exchanging views on the question of the establishment of a new State, attended by thirty-one Japanese, including the Japanese Consul, M. Morishima, and six Chinese, and presided over by M. Takeuchi, chief Mukden correspondent of the *Osaka Asahi*, M. Yu Chung-han, when called upon by the Chairman to express his views, said:

"I am not well to-day and feel weak. As to the measures of rehabilitation for Manchuria and Mongolia, the establishment of a new State, as stated by M. Takeuchi, seems most appropriate. It is most important, however, as regards the organisation of a new State, to respect the will of the people."

M. Takeuchi: "Then what form of government should be adopted in the new independent State of Manchuria and Mongolia?"

M. Yu Chung-han: "On this, it is difficult to make a decision without a thorough study. I cannot therefore answer now."

It is quite probable, as stated in the "Observations", that Dr. Chao Hsin-po and a group of professors at the Fung Yung University in Mukden, in their opposition to the militarist policy of General Chang Hsueh-liang, desired to effect political reforms. The dislike of militaristic rulers exists in other parts of China too, but neither in Manchuria nor elsewhere in China has it been accompanied by a desire to create an independence movement and establish a new State separate from China. It is a well-recognised fact that the so-called "independence movement" had never been heard of in Manchuria before September 1931.

The "Observations" consider it as "unfounded" that the movement to proclaim the independent State of Manchuria was inaugurated, organised and carried through by the Japanese as a solution for the situation which had arisen as a consequence of the events of September 18th, utilising for this purpose the names and active co-operation of certain Chinese personages; that the activities of the Japanese Headquarters Staff were marked, from September 18th onwards, by political motives; and that the General Staff in Tokio lent the independence movement their assistance and gave directions to its organisers. On the contrary, the Japanese Government observes:

"When the authorities who, under General Chang Hsueh-liang, were responsible for the maintenance of order in Manchuria disappeared, as they mainly did after the events of September 18th, some organisation was evidently necessary in order to carry on the normal machinery of daily life; local vigilance committees were formed by the local leaders, and the Japanese army welcomed their co-operation and assisted them. . . ."

In point of fact, the Japanese military authorities, wherever their troops reached in Manchuria, destroyed the Chinese civil administration and, by coercion and intimidation, they did away with the legitimate Chinese officials or forced them to do their bidding. Failing to secure any docile Chinese to fill a vacated office, they did not hesitate to appoint a Japanese instead. Thus Colonel Dohihara, who later spirited Henry Pu-yi from Tientsin for installation as "Chief Executive of Manchukuo", was appointed Mayor of Mukden by General Honjo immediately after the incident of September 18th.

The deliberate intention and purpose on the part of the Japanese of destroying Chinese civil authority in order to carry out their own political programme was disclosed in all their Machiavellian unscrupulousness in the bombarding and destruction in October 1931 of Chinchow, whither the Chinese Provincial Government at Mukden had just removed.

As to the allegation obviously made as an argument to prove the reality of the "independence movement" that the movement for the restoration of the Manchu Dynasty "has been connected throughout in a large degree with Manchuria", it will suffice to recall the Japanese plot—mentioned in the statement of the Chinese representative before the Council on November 21st last and told in detail by Baron Goto in his pamphlet "The Activities of Japanese Nationals and Troops in Manchuria and Mongolia"—to organise a monarchical movement in the Three Eastern Provinces with Prince Su as the figure-head.

Of the so-called Chinese personages of high standing who are alleged in the "Observations" to be "in favour of local, provincial and State independence", practically none is really in sympathy with the Japanese inspired and controlled movement to establish a new, independent State.

For example, Yuan Chin-kai, Chairman of the Mukden Committee of Peace and Order established after the incident of September 18th, in an interview with Reiji Hirano, correspondent of the *Central Review* (a

**Destruction of
Chinese civil
administration
and
appointment of
Japanese as
officers.**

**Yuan
Chin-kai's
interview
with Reiji
Hirano.**

Japanese periodical in Tokio of which the first issue was published on January 1st, 1932), stated :

“ As the situation was urgent and critical, I felt in duty bound to devote all my energy to the maintenance of peace and order in the province [of Liaoning]. On the other hand, I do not entertain any idea as to the suggestion for the unification of the four north-eastern provinces, nor do I have any knowledge about the selection of Henry Pu-yi to govern these four provinces, although a rumour to that effect is gaining currency.”

**Tsang Shih-yi's
speech of
inauguration.**

General Tsang Shih-yi, Governor of Liaoning Province before September 18th, 1931, was put under military surveillance on the morrow of the Japanese attack, when he refused to make a declaration of independence as asked by the Japanese. He was removed to, and imprisoned in, General Bao's house for three months and was released only when he consented to serve as the head of the new Provincial Government of Liaoning. Yet in his speech of inauguration, on December 15th, 1931, not a word was said about the establishment of a new State. His significant words are :

“ As to the Sino-Japanese relations, the Three Eastern Provinces are more intimately concerned with them. I shall exert my best efforts to promote friendliness between China and Japan. ”

**Other
personages.**

In practically all the proclamations of the Chinese authorities which were issued before Japan's artificial creation of the “ Manchukuo ” and which are alleged in the “ Observations ” as declarations in favour of an “ independence movement ” for Manchuria, the purpose was clearly stated to be “ the maintenance of the local peace and order ”. This is no less true of the proclamation which General Hsi Hsia was compelled to issue in the city of Kirin on September 26th, 1931, when his troops had been disarmed by Japanese troops in command of General Tamon and when Japanese flags had been hoisted by the latter on the Chinese official buildings.

As to M. Chang Yin-ching and M. Hsieh Chieh-shih, they, like a number of other Chinese “ officials of the Manchukuo ”, are not even natives of the Three Eastern Provinces. M. Chang is of Hopei (Chihli) Province, while M. Hsieh is from Formosa, and was brought to Manchuria by the Japanese for the first time after the incident of September 18th. To ascribe to them a genuine interest in the artificial movement of “ Manchuria for the Manchurians ”, when they themselves are not “ Manchurians ”, is little short of ludicrous.

It is stated in the “ Observations ” (page 28) that :

“ It is proper, in this connection, to point out the fact that both Baron Shidehara, Minister for Foreign Affairs, and General Ninami, Minister of War, issued, on September 26th, instructions to the Japanese officials in Manchuria strictly forbidding participation by Japanese in the various attempts to establish a new political authority in Manchuria. Conformably with these instructions, the Japanese, civil as well as military, uniformly abstained from interference.”

**Major
Hayashi's
demands to
General Ma
Chan-shan.**

That these instructions, if issued, were never followed is beyond doubt. One needs only, for proof, to recall the well-known names of such Japanese as General Honjo, Colonel Dohihara, Major Hayashi, M. Komai, M. Ohashi, and many others, who have been most active as promoters and organisers of the “ Manchukuo ”. To give just one proof : on November 5th, 1931, Major Hayashi presented the following demands to General Ma Chan-shan, Governor of Hailungkiang Province, as conditions for ceasing to attack : (1) that General Ma should resign the governorship of the province in favour of General Chang Hai-peng ; and (2) that a Public Safety Committee should at once be organised.

Referring to the "Self-Government Guiding Board", which, in the words of the Commission's report, was the "chief agency in bringing about independence", the "Observations" stated that this board "was under the management of a Chinese", and that the Fourth Department of the Kwantung Army Headquarters, which controlled and was identified with it, "had no connection whatever with the Self-Government Guiding Board". It is to be pointed out, however, that, of the thirteen principal officers of this board, twelve were Japanese. Although the nominal chairman was Yu Chung-han, a Chinese, the real head was M. Nakano, who was at the same time the Chief of the Political Department of the Kwantung Army Headquarters. It is also this Japanese who, as its president, controlled the Training School for Guidance in Self-Government. As a proof of the fact that the Self-Government Guiding Board was entirely controlled by the Japanese in spite of its Chinese chairman, it may be noted that the sixty-four "guiding officers" despatched by the Board to the thirty-two districts of Liaoning Province, being two for each district, were all Japanese.

The "Self-Government Guiding Board".

That the idea of establishing the "Manchukuo" was first conceived and propagated by the Japanese, evidence abounds in the utterances of contemporary Japanese statesmen and soldiers. A few illustrations will serve to make clear this point. In his proclamation of October 4th, 1931, issued at Mukden, two weeks after the incident of September 18th, General Honjo, Commander of the Kwantung Army, openly invited the organisation of an independence movement by saying, in part :

Proofs that idea of establishing "Manchukuo" was first conceived and propagated by Japanese.

"But, on the other hand, if the thirty million inhabitants of Manchuria and Mongolia desire to make of these regions a land of happiness in which to live and prosper, they will have the heartiest sympathy of the Army, whose only wish is that this unification be speedily accomplished. Such a scheme, which is entirely compatible with our 'kingly doctrine', is, in fact, an urgent measure for our Empire in order to establish friendly relations with our neighbours and build up a sure foundation for eternal peace in 'Eastern Ocean'. It is obvious that all nations of the world, in their love of justice and for the sake of the welfare of these thirty million inhabitants, will not hesitate to lend them their assistance."

Honjo's proclamation.

At a meeting of leading Japanese statesmen, held on December 5th, 1931, at the Terkoku Hotel in Tokio to discuss the situation in Manchuria, M. Koku Mori, then Secretary-General of the Inukai Cabinet and Chief Secretary of the Seiyukai party, remarked :

Koku Mori's remark.

"In regard to the Manchurian and Mongolian question, since the Japanese nation has made up her mind, there is no longer any necessity for maintaining a secretive attitude towards other nations of the world. . . . From now on, we cannot countenance the establishment there of any political power which may be in opposition to the mission of the Japanese or which may originate from China proper."

At the same meeting, Colonel Yasunosuke Sato was even more explicit and emphatic. He said :

Colonel Sato's remark.

"Our soldiers and officers who have been despatched to Manchuria are unanimously of the opinion that, unless Manchuria is totally detached from China proper, it will be tantamount to restoring the *status quo ante* and thus setting at nought all the efforts and sacrifices made by the Japanese troops since the outbreak of the September incident. . . . If we could all be given sufficient time in which to continue our financial and military assistance to those now in Manchuria, there might be hope of attaining success."

Manipulated demonstrations.

Criticism is made in the "Observations" that not sufficient attention has been paid to the Japanese "account of the successive demonstrations in favour of independence which took place in the various districts throughout the country. Here we have precision and open declarations; names are given; the text of declarations and resolutions is reproduced. . . ." It is, however, an open secret in Manchuria that demonstrations were organised by the Japanese "guiding officers"; resolutions and declarations were prepared by them in advance under general instructions issued by the Self-Government Guiding Board in Mukden. Few of the people who attended knew what the meeting was about. Attendance was made compulsory under threat of severe punishment. Thus, for example, one circular sent out by the "Publicity Association for the Celebration of the Establishment of the New State" in March 1932, under the auspices of the Japanese authorities, reads:

"It has been decided that the mass meeting in celebration of the establishment of the new State be held on the tenth, eleventh and twelfth of this month. All business firms and residents will be required to participate in the procession, for which purpose a house of ten persons shall send a deputation of two, and the same proportion applies where there are more than ten persons.

"Any person not observing this requirement shall be punished as acting against the new State.

"The Police Department has been duly notified and we hope that the Chamber of Commerce will inform all the merchants and residents accordingly."

Hanzawa's remark.

In short, the so-called spontaneity of the independence movement in Manchuria is a myth. As has been reported by M. G. Hanzawa, editor of the *Gaiko Jiho* (*La Revue Diplomatique*), after a tour of inspection in Manchuria in May last made on the invitation of General Honjo and published in a secret pamphlet for private circulation:

"Everything has been carried on under the absolute control of the Resident Headquarters (the Kwantung Army)."

It is also therein stated that the "Manchukuo" had to be set up in great haste in view of the imminent arrival of the Commission of Enquiry in the Far East and that all the "political actions in Manchuria have been carried out by the Japanese military autocracy".

Chinese opposition to the puppet regime.

Referring to the 1,548 letters which the Commission has received objecting to the foundation of the new State, the Japanese Government, in its "Observations", argues:

"There are some 30,000,000 people in Manchuria, and if one in twenty thousand only was moved to communicate his desires to the Commission, the fact is rather a tribute to the credit of Manchukuo than otherwise."

Such an argument assumes for granted that those who did not write to the Commission were all in favour of the new regime. But the assumption is entirely unfounded. A little sense of humour would have enabled one to see that the fact that the hundreds of thousands of Chinese troops and volunteers under Generals Ma Chan-Shan, Ting Chao, Li Tu, Su Ping-wen and others have been and are still fighting the Japanese and "Manchukuo" forces in different parts of Manchuria is an unmistakable proof, if further evidence is needed, of the widespread opposition to the new regime. But let us merely quote one significant paragraph from a speech made by the above-mentioned M. Hanzawa before a meeting of a group of members of

Hanzawa pamphlet.

the House of Peers in Tokio on June 25th, 1932, and later published in a pamphlet. He said :

“ So far, there is utter lack of cohesion between the ‘ Manchukuo ’ Government and the people ; there is no unity either in form or in spirit. These Manchurians regard the new Government as if it were a new Japanese administration. What we have been speaking of as the Government established by the free will of 30,000,000 inhabitants has not yet entered into their hearts.”

After taking note of the foregoing account, one cannot but appreciate the more fully the thoroughness with which the members of the Commission investigated into the origin, nature and prospect of the “ Manchukuo ” and the soundness of their unanimous conclusions. Thus, after considering all the evidence, the Commission, in its report (page 97), says :

“ This evidence received from all sources has satisfied the Commission that, while there were a number of factors which contributed to the creation of ‘ Manchukuo ’, the two which, in combination, were most effective, and without which, in our judgment, the new State could not have been formed, were the presence of Japanese troops and the activities of Japanese officials, both civil and military.

“ For this reason, the present regime cannot be considered to have been called into existence by a genuine and spontaneous independence movement.”

Again, on page 99, the report reads :

“ In the ‘ Government of Manchukuo ’, Japanese officials are prominent, and Japanese advisers are attached to all important departments. Although the Premier and his Ministers are all Chinese, the heads of the various Boards of General Affairs, which, in the organisation of the new State, exercise the greatest measure of actual power, are Japanese.”

Again, on page 106, it reads in part :

“ As regards the ‘ Government ’ and the public service, although the titular heads of the Departments are Chinese residents in Manchuria, the main political and administrative power rests in the hands of Japanese officials and advisers. The political and administrative organisation of the ‘ Government ’ is such as to give to these officials and advisers opportunities, not merely of giving technical advice, but also of actually controlling and directing the administration.”

As regards the prospect of the “ Manchukuo ”, the report (page 106) says :

“ But, after making every allowance for the short time which has hitherto been at the disposal of the ‘ Manchukuo Government ’ for carrying out its policy, and after paying due regard to the steps already taken, there is no indication that this ‘ Government ’ will, in fact, be able to carry out many of its reforms. To mention but one example—there seem to be serious obstacles in the way of the realisation of their budgetary and currency reforms. A thorough programme of reforms, orderly conditions and economic prosperity could not be realised in the conditions of insecurity and disturbance which existed in 1932.”

The conditions in Manchuria to-day are appalling. The Japanese, surrounded by a people opposed to their policy of aggression and invasion, have enforced a reign of terror. There is a censorship of the Press as well as of letters and telegrams. Arrests of Chinese are made *en masse* on the slightest suspicion. Undefended towns and villages are recklessly

**Present
conditions in
Manchuria.**

bombarded by Japanese war planes in the hope of rooting out "volunteers" and their agents. They resort to the ruthless killing of civilians as well as armed Chinese. Thus the number of Chinese peasants of the three villages near the Fushun collieries mowed down by Japanese machine-guns on September 16th last, which was first reported to be 700, has been ascertained to be over 2,700. Even to-day the Japanese troops are carrying on military operations against the Chinese people west of Tsitsihar with bombing planes, tanks, artillery and all the other paraphernalia of war, causing a terrible destruction of life and property and spreading havoc amongst a people who wish only to keep Manchuria as part of China.

Besides, arbitrary orders are ruthlessly enforced whereby every five families are held responsible for the presence of any stranger in a neighbouring house; and every person in the country is obliged to obtain a "good citizen's permit", without which no one is allowed to enter cities or towns. Trade is at a standstill. Kidnapping and robbery take place even in broad daylight in the streets of large cities. There is no peace or tranquillity, but misery and distress. This is what the Japanese euphemistically call "the land of happiness" when referring to "Manchukuo".

F. CONCLUDING REMARKS.

From the foregoing comments, it appears clear that nothing in the "Observations of the Japanese Government" and the statements of the Japanese representatives before the Council justifies a modification either of the most important facts of the Manchurian situation as ascertained by the Commission of Enquiry or of the conclusions which it has drawn from its findings. The incident of September 18th, 1931, it is established beyond doubt, has been precipitated by the Japanese military authorities in pursuance of a traditional policy of aggression and expansion on the Asiatic mainland. The continued extension of military operations into the most remote parts of Manchuria, notwithstanding the repeated pledges given to the League and the other Powers not to aggravate the situation, have been carried on in execution of a preconceived and long-prepared plan of attack and occupation of the whole of Manchuria. The persistent destruction of Chinese administrative authority, the organisation of an "independence movement", the creation of the "Manchukuo", and the recent act according it recognition are different stages in a fixed programme. The holding of mass meetings, the adoption of resolutions and declarations, the presentation of petitions by deputations, the organisation of demonstrations—all these were manipulated and engineered by the Japanese for the purpose of impressing other nations with a semblance of spontaneity. The underlying idea, however, has been to confront the world with a *fait accompli* and thus to signify the completion of another phase in Japan's policy of domination and conquest in the Far East.

But the interests of Japan are not the only interests to be considered. The interests of China as the territorial sovereign in her Three Eastern Provinces and as the victim of Japanese aggression cannot be disregarded. The withdrawal of the Japanese troops which Japan has on more than one occasion promised to carry out should be effected as soon as possible. The maintenance and recognition of the present regime in Manchuria as claimed by Japan would be entirely unacceptable to China. "Such a solution does not appear to us", says the Commission, "compatible with the fundamental principle of existing international obligations, nor with the good understanding between the two countries upon which peace in the Far East depends." The dissolution of "Manchukuo" is an indispensable condition to any satisfactory solution. It is essential, in the interest of peace founded upon justice, that no premium is placed upon aggression, but full reparation accorded its victim.

In touching upon the possibility of a solution, the Japanese Government in their "Observations" advance the contention that "such a plan as is advanced by the Commission calls for the minimum requirement that the disputant parties shall each possess a strong and reliable central Government". Without entering into a discussion of the details of the suggested plan, it may be emphasised that China, in the present question before the League as on other occasions, has always scrupulously respected her international obligations. It is Japan who, in the interest of an early solution of the whole question, requires a "reliable" central Government; for it has been the painful experience of the League of Nations and the Powers to learn that the solemn engagements undertaken by Japan under the Covenant, the Pact and the Nine-Power Treaty have been broken and that every pledge given by her authorised representatives—whether, for

example, in regard to refraining from attacking Chinchow and Tsitsihar, or in regard to the speedy withdrawal of her troops into the so-called South Manchuria Railway zone and the stoppage of further military or political aggravation—has been lightly disregarded. In the opinion of the Chinese delegation, a reliable Government, weak as it may seem, is to be preferred in international intercourse to a strong but unreliable Government, constituting as it does a menace to the fundamental basis of the international order.

This point is the more important because the issues involved in the present dispute before the League are of vital interest to all other nations. As the report states on page 129 :

“ Apart from China and Japan, other Powers of the world have also important interests to defend in this Sino-Japanese conflict. We have already referred to existing multilateral treaties, and any real and lasting solution by agreement must be compatible with the stipulations of these fundamental agreements, on which is based the peace organisation of the world. The considerations which actuated the representatives of the Powers at the Washington Conference are still valid. . . .

“ Finally, the interests of peace are the same the world over. Any loss of confidence in the application of the principles of the Covenant and of the Pact of Paris in any part of the world diminishes the value and efficacy of those principles everywhere.”

It is for the foregoing considerations that the Chinese Government, faithful to its obligations under the international instruments and mindful of the general interest of peace, is gratified to find itself in full accord with the Commission of Enquiry, and remains equally convinced, that any solution of the Sino-Japanese question “ should conform to the provisions of the Covenant of the League of Nations, the Pact of Paris, and the Nine-Power Treaty of Washington ”.

2 NOV. 1932

[Communicated to the Assembly,
the Council and the Members
of the League.]

Official No.: A. 42. 1932. VII.

Geneva, October 1st, 1932.

LEAGUE OF NATIONS

ADMISSION OF NEW MEMBERS TO THE LEAGUE OF NATIONS

KINGDOM OF IRAQ

Report presented by the Sixth Committee of the Assembly.

Rapporteur : H.E. M. YEVTITCH (*Yugoslavia*).

The Sixth Committee has taken note of the report of the Sub-Committee which was instructed to consider the application of the Kingdom of Iraq. The Sixth Committee approves of the report and unanimously recommends that the Assembly should admit the Kingdom of Iraq to the League of Nations.

Iraq, whose application for admission the Sixth Committee has been requested to examine, is the first of the territories referred to in Article 22 of the Covenant that the Council, after having heard the advice of the competent organs of the League, has thought fit to be emancipated from the mandate system in accordance with the general rules applicable in that connection.

The Council made the termination of this system in Iraq subject to two conditions, the first of which has already been fulfilled : Iraq has subscribed to a declaration whereby it enters into the undertakings required by the Council in regard to the protection of minorities, the economic system, judicial organisation, international conventions, acquired rights and financial obligations, and freedom of conscience.

Admission to the League in accordance with the relevant provisions of the Covenant is the second condition demanded by the Council for the termination of the mandate system in Iraq.

In accordance with precedent, the Sub-Committee has based its examination on the questionnaire that has ordinarily been employed for admission of new Members. The questionnaire is as follows :

1. Is the application of the Kingdom of Iraq for admission to the League of Nations in order?
2. Is Iraq recognised *de jure* or *de facto*, and by what States?
3. Does the country possess a stable Government and fixed frontiers?
4. Is the country fully self-governing?
5. What have been the acts and declarations of the Kingdom of Iraq with regard to :
 - (a) Its international obligations;
 - (b) The regulations of the League concerning armaments?

Several of the points in this questionnaire have already been discussed at length in the course of the Council's enquiry with regard to the termination of the mandate system in Iraq.

To the first question the Sub-Committee replies in the affirmative.

In answer to the second question, it states that the Kingdom of Iraq has already been formally recognised by a considerable number of countries. It has acceded to the Paris Pact for the renunciation of war.

To the third question the Sub-Committee replies in the affirmative.

With reference to the precise definition and delimitation on the ground of the frontier between Iraq and Syria, the Committee has noted a declaration by which the Iraqi Government confirms that it will, for its part, accept as final such decisions as the Council of the League of Nations may reach in accordance with the procedure instituted by the Council's decision of December 9th, 1931, at the request of the British and French Governments.

The reply to the fourth question is in the affirmative.

As regards the fifth question, the Sub-Committee has noted the letter from the Prime Minister of Iraq dated July 12th, in which the Iraqi Government states that it is prepared to accept the conditions laid down in Article 1, paragraph 2, of the Covenant and to fulfil all the obligations which membership of the League implies.

With reference to the regulations of the League concerning armaments, the Sub-Committee has noted the report of the Permanent Advisory Commission for Military, Naval and Air Questions, which is appended to the present report.

APPENDIX.

MILITARY, NAVAL AND AIR FORCES OF THE KINGDOM OF IRAQ :
OPINION OF THE PERMANENT ADVISORY COMMISSION.

The Permanent Advisory Commission for Military, Naval and Air Questions considers that, from the point of view of military, naval and air armaments, the present state of the military, naval and air forces of the Kingdom of Iraq constitutes no obstacle to its admission to the League of Nations.

Genève, le 4 octobre 1932.

SOCIÉTÉ DES NATIONS

**TRAVAUX DE LA COMMISSION D'ÉTUDE POUR
L'UNION EUROPÉENNE**

Résolution soumise par la sixième Commission à l'Assemblée.

Rapporteur : S. E. M. Giuseppe MOTTA (Suisse).

« L'Assemblée prend acte du rapport du Secrétaire général à l'Assemblée sur l'œuvre accomplie par la Commission d'étude pour l'Union européenne pendant l'année écoulée ;

« Elle invite la Commission à poursuivre l'œuvre entreprise en conformité des principes posés dans la résolution du 17 septembre 1930 ;

« Elle prie la Commission de présenter un rapport sur ses travaux ultérieurs à la prochaine session ordinaire de l'Assemblée. »

LEAGUE OF NATIONS

**WORK OF THE COMMISSION OF ENQUIRY FOR
EUROPEAN UNION**

Resolution submitted by the Sixth Committee to the Assembly.

Rapporteur : H. E. M. Giuseppe MOTTA (Switzerland).

“ The Assembly takes note of the report of the Secretary-General to the Assembly on the work done by the Commission of Enquiry for European Union during the past year ;

“ It requests the Commission to pursue the work undertaken in conformity with the principles laid down in the resolution of September 17th, 1930 ;

“ It requests the Commission to submit a report on its further work to the next ordinary session of the Assembly.”

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Geneva, January 19th, 1933.

LEAGUE OF NATIONS

**DISPUTE BETWEEN HIS MAJESTY'S GOVERNMENT IN THE UNITED
KINGDOM AND THE IMPERIAL GOVERNMENT OF PERSIA**

Note by the Secretary-General.

The Secretary-General has the honour to circulate to the Council the following communication, dated January 18th, which he has received from the Imperial Government of Persia.

Geneva, January 18th, 1933.

[*Translation.*]

I have the honour to enclose, for transmission to the Council of the League of Nations, a memorandum from the Imperial Persian Government in reply to the memorandum from His Majesty's Government in the United Kingdom (document C.841.1932.VII).

(Signed) DAVAR.

Enclosures: One memorandum and six appendices.

MEMORANDUM FROM THE IMPERIAL GOVERNMENT OF PERSIA.

[*Translation.*]

1. By a contract signed at Teheran on May 28th, 1901, the Government of His Imperial Majesty the Shah of Persia granted to William Knox D'Arcy, a British subject, a concession carrying the "special and exclusive privilege to search for, obtain, exploit, develop, render suitable for trade, carry away and sell natural gas, petroleum, asphalt and ozokerite throughout the whole extent of the Persian Empire for a term of sixty years".

2. The concession signed by His Imperial Majesty the Shah was signed and sealed by the Prime Minister and countersigned by the Ministers of Foreign Affairs and Mines, but, in order that the facts may be presented in their true light, it might be well to recall that, at that time, there was as yet no constitutional government in Persia, and the administration of the country offered no guarantees, and that different parts of Persia were under two influences—British and Russian—which were already marked by Article 6 of the concession¹ before they were specifically determined in the Anglo-Russian Convention of 1907.

3. By the terms of the contract, the Persian Government granted the concessionaire—over a territory comprising the whole of the Empire, except five provinces—a great many advantages, including:

(a) Power to acquire the necessary lands, some gratuitously and some at the current price (Article 3);

(b) Freedom from all imposts and taxes for the lands acquired during the term of the concession (Article 7);

(c) Freedom from taxes and Custom House duties for the necessary material and apparatus when imported, and for all products obtained in accordance with Article 1 when exported (Article 7).

The concessionaire was authorised to found one or several companies for the working of the concession (Article 9). He was to give notice to the Government of such formation, through the medium of an Imperial Commissioner, who, in conjunction with the concessionaire, was to establish such supervision as he might think desirable to safeguard the Persian Government's interests. The first company for working the concession was to be founded before May 28th, 1903.

¹ Article 6 mentions the five provinces which are excluded from the concession. These five provinces—Azerbaijan, Ghilan, Mazenderan, Astarabad and Khorassan—are situated in the north of the country and border on Russia.

The concessionaire undertook to employ only subjects of His Imperial Majesty the Shah of Persia, except the technical staff such as the managers, engineers, borers, and foremen (Article 12).

He undertook to pay a fixed annual due of 2,000 tomans and a variable due equal to 16 per cent of the annual net profits (Articles 4 and 10).

On the expiration of the term of the concession, all materials, buildings and apparatus then used by the company for the exploitation of its industry were to become the property of the Government, free of charge (Article 15).

4. The first company for working the concession was formed in 1903. The Anglo-Persian Oil Company, established in 1909, took over all the rights and all the obligations arising out of the D'Arcy Concession.

5. From the beginning of the concession, the line of action pursued by the concessionaire gave rise to disputes :

(a) Under Article 4, the Government was to receive annually a fixed sum of 2,000 tomans. Years went by, and the due was not paid. In 1909, the arrears amounted to 16,000 tomans. The Government made representations to the Anglo-Persian Oil Company, which refused to make any payment. The Government asked for arbitration, but the company declined.

(b) Under Article 10, the Persian Government was to be paid annually a sum equal to 16 per cent of the annual net profits of any company or companies that might be formed to work the concession. Up to 1919, no sum had yet been paid under this head. During the great war, the Company complained that, in the course of hostilities (in February 1915), pipe-lines had been cut by armed bands, and that, owing to the disturbed state of the country, it would take a long time to repair them, which meant serious losses to the company. For these losses it sought to make the Persian Government responsible in virtue of Article 14. The Persian Government replied that the pipe-line, which supplied the British fleet, had been cut by armed bands at the instigation of one of the belligerents. It was not responsible, but proposed to settle the dispute by arbitration, as provided in Article 17. The company would not agree to this, and, acting as judge in its own cause, refused to pay the dues (Appendices I and II).

6. The Persian Government employed a sworn accountant, a British subject, Mr. William McLintock, to examine the company's books and accounts and those of its subsidiaries, to ascertain what losses the company might have sustained during the war, and to check the calculation of the net profits with a view to the levying of the 16 per cent.

In his report, the expert stated that the delay in repairing the pipe-lines was chiefly due to the fact that the company's ships had been requisitioned by the British military authorities. He also called attention to the wide discrepancy between the sum claimed by the company (over £600,000) and the real amount of the loss sustained (about £20,000).

He further noted that the company deducted from the gross receipts an undue amount in respect of amortisation and considerable sums in respect of interest, and subtracted the income-tax on profits before calculating the dues.

7. In consequence of the expert's investigations, a financial adviser lent by the British Government to Persia—Mr. Armitage-Smith—was appointed to settle the questions outstanding between the Persian Government and the company, either by amicable agreement or by arbitration. He made an arrangement with the company whereby :

(a) He was to calculate the arrears ;

(b) He was to fix the basis on which the dues were to be calculated ;

(c) It was decided that, if a dispute should arise in regard to the state of the dues, the method of calculating them, or any contested point, such dispute should be referred, not to the arbitrators provided for in Article 17 of the concession (in Teheran), but to London, to an expert accountant to be appointed by the President for the time being of the English Chartered Accountants' Institute, " whose award shall be final ".

8. Confronted by this text, which was alleged to be purely an interpretation of the D'Arcy Concession, the Persian Government found that it was, in reality, an alteration in the concession, and that, consequently, parliamentary sanction was constitutionally necessary. Such, indeed, was the opinion given to the Persian Government, on consultation, by the firm of lawyers LUMLEY & LUMLEY (July 27th, 1921) (Appendix III).

The Government, whose instructions—even the most formal and specific—were not followed, did not submit the Armitage-Smith " Agreement " for parliamentary sanction.

9. Consequently, the so-called interpretative agreement could only have the provisional force of a *modus vivendi*.

10. The provisional situation under this *modus vivendi* had to be brought to an end by the conclusion of a definitive agreement satisfactory to Parliament.

11. The company sought to make the Armitage-Smith Agreement binding. In view of its obstinacy, the Imperial Commissioner redoubled his protests. On May 9th, 1928, he wrote :

" I have frequently said, and now repeat, that Mr. Armitage-Smith was not instructed or authorised to draw up an agreement affecting changes in the terms of the D'Arcy Concession " (Appendix IV).

12. In such circumstances, the negotiations, which had lasted several years, became increasingly difficult.

On August 12th, 1928, the Minister of the Court wrote to the Chairman of the Company, Sir John Cadman :

“ I regret to learn that the negotiations have not as yet led to the desired results. Must I again refer to the community of Anglo-Persian interests in this enterprise ? Must I again allude to the obsolescence of the D'Arcy Concession, which was obtained at a time when the Government of the Kadjars did not realise what was being taken from it and what it was giving ? Consult any lawyer you like and you will be told that the concession needs to be remade, recast . . . ”

13. Confronted by this prospect, Sir John Cadman said he was prepared to negotiate with a view to the revision of the D'Arcy Concession. In March 1929, he went to Teheran to discuss the draft of a new concession.

14. Glimpses of an understanding began to appear. Only a few points remained to be settled. Sir John returned to London to confer with his colleagues upon them. The negotiations continued.

15. Conversation succeeded conversation until 1931. There was still some hope of success.

16. On August 7th, 1931, to the Government's great surprise and disappointment, Sir John Cadman categorically stated, in a letter to the Minister of the Court, that the revision of the concession could no longer be contemplated.

17. The Persian Government, still convinced of the necessity of revision, had to content itself with determining the basis for the calculation of the dues.

18. Towards the end of 1931, discussions took place, first in Switzerland and then in London, between the Minister of the Court and Sir John Cadman, and a preliminary draft concerning the calculation of the dues was drawn up.¹

19. On January 8th, 1932, the Minister of the Court and Sir John Cadman again met at Paris to settle the dues of which the Government was deprived by the Armitage-Smith Agreement. The representative of the company offered an inadequate sum, and the interview was fruitless.

20. The preliminary draft regarding the calculation of the dues had to be drawn up with all possible technical accuracy. It was submitted to lawyers and accountants, and, when completed, was sent to Teheran to receive parliamentary sanction in accordance with the Constitution, followed by the Persian Government's ratification.

21. When it received this document, the Cabinet studied it at great length. It found that on more than one point the document was complicated and obscure, and might thus lead to differences of interpretation.

It therefore asked the company to furnish explanations, and to send a representative to Teheran for that purpose.

22. The Company refused.

23. The Persian Government's last hope was thus extinguished.

24. With the utmost patience it had continually endeavoured for years past to secure the revision of the concession. The concessionaire had explicitly promised revision, as witness Sir John Cadman's correspondence. It was a complete rearrangement that was necessary. The Government had subsequently been forced to abandon this solution and content itself with limited results in an arrangement confined to the method of calculating the dues.

Even reduced to these terms, the negotiations came to nothing.

25. Proceeding, then, to make a general examination, the Government found how little the concession brought it in.

If, instead of stipulating for dues, it had put all its deposits gratuitously at the disposal of the concessionaire, while leaving him subject to the ordinary fiscal law, it would have drawn, between 1905 and 1932, from the taxes levied by the Customs Department alone, a sum of £19,998,509 16s., whereas actually, between 1901 and 1932, it received only about £11,000,000.

26. For more than four months the Persian Government continued to examine the various aspects of the problem. It saw no solution but to notify the Company of the cancellation of the D'Arcy contract. As a last proof of goodwill, however, it intimated that it was prepared to conclude a new contract with the Company in which the interests of both parties would receive equal consideration.

* * *

27. There was nothing surprising in this decision.

In the case of a contract in which each party's obligation depends on the other's obligation, it is not allowable for one party to require that the other shall continue to fulfil his engagements while failing to fulfil his own. Every legislation in the world establishes the principle that every synallagmatic contract is subject to the tacit rescissory condition that the failure of one party to discharge his obligations authorises the other to regard himself as released from his own.

¹ It may be well to point out that the Minister of the Court had no power to conclude an agreement on behalf of the Persian Government. He did nothing binding on the Government, but merely endeavoured to find formulæ that could be submitted to it.

The numerous grave and continued failures of the company to discharge its obligations incontestably gave the Persian Government the right to release itself in this way from obligations for which there was no longer any adequate equivalent consideration.

(a) When a source of wealth is placed by nature in a certain territory, it is only just that it should serve for the economic development of that territory.

Foreign assistance does, of course, deserve remuneration ; but it cannot demand excessive profits to the detriment of the country, and still less can it be allowed to obtain the concession of a monopoly for the purpose of deliberately limiting the exercise of that monopoly.

It is inadmissible that, when Persia grants a concession over a territory larger than Germany and France combined, as Mr. Winston Churchill said in the House of Commons on June 17th, 1914, the extraction of oil should be confined for more than thirty years (out of the sixty for which the concession was made) to an area of little more than one square mile.

Yet such is the fact. The Anglo-Persian Oil Company, which derives its power from the Persian deposits, is continually extending its activities outside Persia, but in Persia it confines itself to a restricted exploitation—a line of action that is particularly unacceptable because the conceding party receives, not a fixed sum, but a sum varying according to the extent of the exploitation.

Such an understanding and such an application of the contract are certainly inconsistent with its spirit.

There are, however, other points on which the concessionaire disregards even the explicit terms of the concession.

(b) The concessionaire explicitly undertakes to carry out in Persian territory all the operations necessary for making the oil available for trade. This may be seen from the terms of Article 1, which uses not merely the words search for, obtain, exploit, but also "develop, render suitable for trade" (referring to petroleum and other products mentioned in the article), throughout the whole extent of the Persian Empire. Notwithstanding this text, the Anglo-Persian Oil Company performs the greater part of the preparatory processes on Persian petroleum outside Persia.

(c) According to Article 12, the workmen employed in the service of the company must be subject to His Imperial Majesty the Shah, except the technical staff, which is limitatively defined as "such as the Managers, Engineers, Borers and Foremen". The concessionaire infringes this undertaking indirectly by constructing refineries and other works outside Persia, and directly by employing Indian workmen in Persia itself, despite the Government's repeated protests.

(d) Article 10 plays a vital part in the structure of the concession contract. It is the only article that settles, from the pecuniary standpoint, the division of the profits between the two contracting parties associated in the undertaking : "A sum equal to 16 per cent of the annual net profits of any company or companies that may be formed" is to be paid annually to the Government.

The execution of this article has always been seriously incomplete. The concessionaire not only flatly refuses to pay the 16 per cent on the profits of certain of its subsidiaries, but even in respect of those that it agrees to subject to the dues it calculates them on bases which the British expert McLintock has shown to be incorrect ; even the accounts produced are of such a nature that Mr. Armitage-Smith, notwithstanding all his friendliness towards the company, does not hesitate to write : "In my opinion these accounts are somewhat ambiguous" (letter to the Persian Prime Minister).

These quotations are given merely to indicate the state of affairs. The full gravity of the breaches of obligations in connection with the dues can only be established by a thorough examination by an accountant.

(e) In addition to all these fundamental breaches of obligations, the undertaking regarding the procedure provided for in Article 17 of the concession has not been observed. It reads :

"In the event of there arising between the parties to the present concession any dispute or difference in respect of its interpretation or the rights or responsibilities of one or the other of the parties resulting therefrom, such dispute or difference shall be submitted to two Arbitrators at Teheran, one of whom shall be named by each of the parties and to an Umpire who shall be appointed by the Arbitrators before they proceed to arbitrate. The decision of the Arbitrators or in the event of the latter disagreeing that of the Umpire shall be final."

On several occasions the Persian Government has been in disagreement with the company and has asked it to refer the dispute to arbitration ; but the Company has always refused (see Appendices II and V).

* * *

28. According to the most undisputed principles, the failure of one party to discharge his obligations entitles the other not to discharge his own ; this rule of justice and equity is known to all legislations, though they may differ as to the manner of putting it into effect.

Roman law allows the party suffering by the non-fulfilment of the obligations assumed towards him to notify the other party that he reciprocally regards himself as released from his own obligations. French law requires the party to apply to the courts in order to vindicate his rights.

As between these two types of legislation, Persian law shares with Roman law the following rule : the party may himself, of his own motion, cancel the contract in case of complete

non-fulfilment or partial but serious non-fulfilment. It is beyond question that that is the Character of the non-fulfilment in numerous grave forms of which Persia had to complain.

There can be no grievance against the Persian Government for having followed the principle of Persian law.

It could not be asked to resort to the procedure laid down in Article 17; for, inasmuch as it was cancelling the contract, it would not, without contradicting itself, regard itself as bound by any article of that contract—the more so because the article in question was one that the other party had always refused to observe.

Moreover, the decision taken was not one against which the company had no remedy. If it regarded the cancellation as infringing its rights, it had only to apply to the courts.

Two lines of action were open to the company: either to negotiate with the Persian Government, which announced that it was prepared to conclude a new contract with the company on equitable bases, or to apply to the Persian courts.

* * *

29. Such being the situation, it can only have been through a misunderstanding that the British Government felt called upon to intervene.

30. To interpose between the parties amounted in effect to a claim to remove from the jurisdiction of the municipal courts a dispute which naturally belonged to them, and hence to infringe Persia's jurisdictional independence.

The Persian Government had therefore legitimate reason to be surprised at the terms in which the British Government informed it of its request to withdraw the cancellation notified to one of its nationals.

31. The Persian Government might have appealed to the League of Nations to enforce respect for its jurisdictional independence. Indeed, it intended to do so, as it informed the British Government in its letter of December 12th, 1932 (Appendix VI).

32. As a result of this letter, the British Government thought fit to take the initiative by summoning the Persian Government before the Council in virtue of Article 15 of the Covenant.

33. Such a summons is contrary to the terms of that article.

34. Article 15 requires a "dispute likely to lead to a rupture". But the dispute can only exist when a Government has, by means of diplomatic protection, taken up the cause of one of its nationals.

But diplomatic protection presupposes:

- (1) A violation of general or conventional international law;
- (2) The previous exhaustion of municipal remedies.

A procedure of cancellation based on the non-fulfilment of a contract is incontestably not a violation of international law.

Even if the cancellation was unfounded, diplomatic protection could only come into play after the municipal courts had been given an opportunity of dealing with the matter.

On this point international law is quite definite.

35. This is a principle of which the British Government quite recently reminded the Finnish Government before the Council (*Official Journal* of the League of Nations, November 1931, page 2217):

"There is a perfectly well-established rule of international law and practice to the effect that a State is not entitled to make any diplomatic claim on behalf of its nationals against another State in respect of any matter where, if the claim is valid, the municipal law affords a remedy, unless such municipal remedies have been exhausted. If the private persons concerned have failed to exhaust their municipal remedies, there is no foundation for any diplomatic claim."

Lord Cecil, representing the British Government before the Council, said (*Official Journal* of the League of Nations, November 1931, page 2080):

"I was surprised to read in the Finnish memorandum that the Finnish Government throws doubt on what is a perfectly well-established principle of international law—namely, that, in a private claim of this kind, no diplomatic intervention can be used unless the parties have already exhausted all the remedies of the courts in the country against which they are making their claim."

And later:

"Both on principle and in virtue of the words of the Covenant and of previous decisions of the Council, it was undesirable for the Council to embark on a discussion of a question which was really a matter of private law and not of public international law. He submitted that, if the Council took a different view, very serious inconveniences would arise."

We read in the British memorandum of September 14th, 1931 (*Official Journal* of the League of Nations, November 1931, page 2231) :

“ It is clear that this is a claim which must come within the scope of the well-established rule of international law that the individuals concerned must have exhausted all their remedies under the municipal law of the country concerned as a condition precedent to the right of the Government whose nationals the claimants are to take up the claim and make it its own, and present it through the diplomatic channel. In such a case, unless and until this condition precedent has been fulfilled, the claimants' Government has no right to take up the case diplomatically at all, and, if the condition is fulfilled, must base its case on the failure of the country concerned to fulfil its international obligations to provide a system of law and of courts of justice through which private individuals may obtain redress in conformity with the requirements of international law. Until the municipal remedies have been exhausted, it is obviously impossible in such a case to contend that a State has failed to fulfil its international obligations in this respect. Until this condition has been fulfilled, such a claim cannot assume an international character at all.”

A little later, in the British Government's memorandum to the Council, in reply to the Finnish Government's memorandum of December 1931 (*Official Journal* of the League of Nations, March 1932, page 813), we read :

“ In paragraph 4 of the Finnish memorandum of December 1931, it appears to be argued that, as between Members of the League, the provisions of the Covenant in some way involve the abrogation or supersession of this well-known international rule. His Majesty's Government cannot help observing that this contention is somewhat startling, and that few Members of the League can have contemplated when they accepted the Covenant that the result was that the machinery of the League could be used to take the place of the municipal courts as a means by which the claims of foreigners in respect of matters within the jurisdiction of those courts should be adjudicated . . .

“ Finally, if a dispute were properly referred to the Council under Article 15, which arose out of a matter in respect of which a municipal remedy had not been exhausted, there is nothing whatever in Article 15 to suggest that the Council should ignore this fact in dealing with the matter. Indeed, the fact that municipal remedies have not been exhausted might itself form a valid ground on which the Council might find that the case was one which came within the provisions of paragraph 8 of Article 15, and decline to make any further recommendation on this ground.”

* * *

36. Like His Britannic Majesty's Government, the Imperial Persian Government keenly desires that the present incident should not disturb the friendly relations which have hitherto existed between His Britannic Majesty's Government and itself.

37. It is the more assured that this will not be the case, inasmuch as, in this instance, it confines itself to endorsing the British Government's own declarations to the Council quoted above.

38. For the reasons stated in the foregoing paragraphs, the Imperial Persian Government considers it to be clear that, in the case in question, the British national concerned has not only not exhausted, but has not even begun to utilise the legal remedies open to him under Persian municipal law, and that, accordingly, the condition precedent to diplomatic intervention, in conformity with the recognised rules of international law, not having been fulfilled, the British Government has not, and has never had, the right to make a diplomatic claim in respect of the present case, a fact which, in virtue of paragraph 1—and, in any case, of paragraph 8—of Article 15, precludes, under the terms of Article 15 itself, any application of that article.

Appendix I.

[*Translation.*]

TRANSLATION OF NOTE ADDRESSED BY THE BRITISH MINISTER AT TEHERAN TO THE
PERSIAN MINISTER FOR FOREIGN AFFAIRS.

22 Rejab, 1335 (May 14th, 1917).

I have had the honour to receive Your Highness's note, dated 6 Jamadielula last, in which you proposed that the dispute between the Imperial Government and the Anglo-Persian Oil Company should be submitted to arbitration, in accordance with Article 17 of the deed of concession.

In reply, I beg to inform you that, if it is the Persian Government's intention to confine the appeal to arbitration to the examination of the correctness of the amount of the sums claimed as reparation by the company, the latter is prepared to accept the Government's proposal. If, however, the Government wishes to refer to arbitration (a) the question of the company's right to withhold the Government's dues pending the settlement of its claim, or (b) the Company's right to take reparation for the losses it has sustained (through the negligence of the Government, which is bound by Article 14 of the D'Arcy Concession to secure the safety of the company), the company cannot accept this demand, since the arbitration clause does not operate in respect of these questions.

(Signed) Charles M. MARLING.

Appendix II.

[*Translation.*]

TRANSLATION OF A NOTE ADDRESSED BY THE PERSIAN MINISTRY FOR FOREIGN AFFAIRS
TO HIS BRITANNIC MAJESTY'S MINISTER AT TEHERAN.

No. 12187
1539

14 Zilhajeh, 1335 (September 1917).

I have had the honour to receive your answer of 22 Rejab, 1335, regarding the dispute that has arisen between the Persian Government and the Anglo-Persian Oil Company.

In reply, I beg to draw your attention to the fact that Article 17 of the D'Arcy Concession clearly provides for a reference to arbitration as proposed by the Persian Government. That article stipulates that disputes and differences of every kind in respect of the interpretation of the concession or the rights or responsibilities of one or the other of the parties shall be submitted to arbitration.

I therefore give my full support to the protests made by the Imperial Commissioner against the withholding by the company of the Persian Government's dues (£19,600 for the year 1915 and £24,747 for the year 1916). I regard the action of the company, which, in violation of the principles of ordinary law has taken upon itself to be judge in a case in which it is itself interested (no man can be judge in his own cause), as wholly illegal and arbitrary.

The specific object of the provision for arbitration in the deed of concession was to ensure that the principles of law to which I have just referred should be respected, and that this means should be employed to put an end to disputes.

Although it was essential that these principles should be respected, the company has violated them :

- (1) By withholding the said sums of its own motion, without waiting for the arbitral award ;
- (2) By declining arbitration after acting illegally towards the Imperial Government, and thereby closing the door to the only means of settling the dispute.

The Government, having undertaken to ensure the safety and protection of the company in Persian territory, is prepared to pay any sum that may be found due by it in consequence of the arbitral award. The company's proceedings, however, and its withholding of Persia's

royalties, are intolerable. It is essential that the dispute as a whole be submitted to arbitration, and that, as a preliminary, the company pay over to the Government the dues it has improperly withheld.

I trust that, in consideration of right and justice, and of the cordial and friendly relations that exist between the two countries, Your Excellency will lend your good offices to the Persian Government with a view to reaching an equitable settlement of this dispute by arbitration.

I also hope that, in order to protect the economic interests of both parties, you will prevent the company from persisting in an attitude which is making an unfavourable impression upon public opinion.

The Imperial Government, I repeat, will respect the arbitral award, whatever it may be, and will put it into effect. Should the award assign damages to the company, however, since the Persian Government has done all in its power to protect the company's interests and is not responsible for the manœuvres and operations arising out of the great war, it will be only just and fair that the sum adjudged and paid by the Government should be refunded to it, at the time of the general liquidation of war damages, by those who bear the real responsibility for the losses sustained.

Trusting in His Britannic Majesty's Government's spirit of justice and fairness, I cherish the firm hope that Your Excellency will agree entirely to the just claims of the Persian Government.

Appendix III.

37, Conduit Street, Bond Street,
London, July 27th, 1921.

To
His Excellency Farid-es-Saltaneh,
Commissaire Impérial
Chambellan to His Imperial Majesty the Shah,
Attached to the Imperial Legation of Persia.

Your Excellency,

We have the honour to inform you that we have now perused and considered the various documents you have laid before us, and beg to submit the following observations for your consideration.

Apart from the Agreement of December 22nd, 1920, between the Imperial Persian Government and the Anglo-Persian Oil Company, Limited, requiring ratification to make it binding on the Government, we are rather inclined to the view (although it is not easy to advise with confidence) that, in entering into the Agreement, Mr. Armitage-Smith may have exceeded the powers conferred upon him by the letter of August 29th, 1920. These powers were limited to the final adjustment of all questions in dispute between the Anglo-Persian Oil Company and the Imperial Government of Persia, and if such powers are to be constructed strictly, they certainly do not appear to authorise his entering into and signing an agreement, on behalf of the Imperial Government of Persia, effecting extensive variations in the terms of the original concession to the detriment of the Imperial Government.

It is to be observed that a perusal of the statement drawn up by Mr. Armitage-Smith for the opinion of counsel shows that nowhere does he ask counsel to direct their mind to the question whether he had authority to enter into the alleged Agreement under the powers conferred upon him, and no copy of the letter of authority or of the private instructions of August 29th, 1920, appears to have been laid before them.

The joint opinions of two separate sets of counsel have already been taken in relation to the matter including the construction of the concession—namely, that of Mr. D. M. Kerley, K.C., and Mr. Rayner Goddard, dated March 22nd, 1920, and that of Mr. Mark L. Romer, K.C., and Mr. W. Gordon Brown, dated December 1st, 1920.

The first-mentioned opinion certainly seems more favourable to the Imperial Government than the second, and it may be mentioned in passing, with regard to paragraph 2 of the latter opinion, which was obtained by Mr. Armitage-Smith, that the view expressed as to the possibility in practice of the Anglo-Persian Oil Company carrying out its threat to divest

itself of all interest in the subsidiary companies is based on the assumption that the shares of the company are not held by the public, whereas, as a matter of fact, a very large number of its shares were and are held by the public, there being indeed many hundreds of shareholders.

Article 10 of the concession provides for the Imperial Government being paid annually a sum equal to 16 per cent of the annual net profits of any company or companies that may be formed in accordance with the terms of the concession, and no mention is made of any deduction from such net profits of any kind. Article 1 of the alleged Agreement of December 22nd, 1920, however, makes the 16 per cent royalty on profits subject to certain conditions, limitations and exceptions, which are set out in detail in the subsequent articles of the Agreement. Moreover, according to the alleged Agreement, the royalty is confined to profits arising from *Persian* oil only. If, therefore, the view taken by Messrs. Kerly and Goddard in their opinion be correct—namely, that such part of the profits of a subsidiary company as reach the parent company and are reflected in its own profits will form part of the profits of the Anglo-Persian Oil Company for royalty purposes—then this cutting down of the 16 per cent royalty is certainly disadvantageous to the Imperial Government. It is true that Messrs. Kerly and Goddard express this view in regard to only one type of subsidiary company, but the type contemplated by them is an extreme one, and the view would accordingly apply *a fortiori* to the other subsidiary companies of the Anglo-Persian Oil Company.

It seems reasonable to suppose that, in agreeing to the deductions mentioned in the alleged Agreement from the 16 per cent royalty, Mr. Armitage-Smith was actuated by the fear that the Anglo-Persian Oil Company would, and could, carry out its threat to divest itself of all interest in the subsidiary companies, but, as indicated above, the conclusion that this might be possible in practice appears to have been based upon false premises.

Again, by Article 17 of the Concession, any dispute or difference between the parties is to be submitted to two arbitrators at Teheran, one of whom is to be named by each party, and to an umpire who is to be appointed by the arbitrators; the decision of the arbitrators (or, in the event of their disagreeing, that of the umpire) being final. By Article 2 of the alleged Agreement, failing agreement with regard to the matters referred to, the question is to be submitted to a single arbitrator, whose decision shall be final, such arbitrator in default of agreement being nominated by the President for the time being of the Chamber of Shipping in London. Furthermore, by Article 9 of the alleged Agreement, in the event of any dispute arising in connection with the calculation of royalty, etc., the question or questions in dispute are to be submitted to a chartered accountant to be nominated by the President for the time being of the Institute of Chartered Accountants in England, the decision of such arbitrator being final. This change in the constitution of the tribunal and the venue of the proceedings might conceivably militate very seriously against the interests of the Government, and, in this connection, reference may be made to the statement of Messrs. Kerly and Goddard, that one consideration of far-reaching importance must necessarily be: Who is to be the arbitrator whose opinion will ultimately decide between the parties?

With regard to Articles 3, 4 and 5 of the alleged Agreement, attention is called to the paragraph numbered 5 of the opinion of Messrs. Kerly and Goddard, in which they state that, if the subsidiary companies are formed for the purpose of working the concession or any part thereof (that is, substantially to search for and obtain or to prepare for sale or to sell oil within the Empire of Persia or to carry oil away from the Empire), the royalty payable ought to include an amount equal to 16 per cent of their profits and that no deduction should be made in respect of the 16 per cent of the profits of the Anglo-Persian Oil Company itself also included in the calculation of the royalty, on the ground that the first-mentioned amount has been brought into calculation.

Our reading of this is that the Imperial Government are entitled to a royalty of 16 per cent of the net profits of all subsidiary companies formed to work the concession, and also to a royalty of 16 per cent of the net profits of the Anglo-Persian Oil Company, notwithstanding that the latter may hold shares in such subsidiary companies. Assuming this view to be correct, then, in so far as Articles 3, 4 and 5 apply to such subsidiary companies, all deductions stipulated for in those articles would certainly seem to be a curtailment of the Imperial Government's rights; and there are other matters included in the alleged Agreement which appear to affect prejudicially the rights and interests of the Imperial Government under the Concession.

As we understand the matter, it is a question entirely for the Imperial Government whether they adopt the alleged Agreement or not, but we venture to think that the various matters we have indicated above point to the conclusion that the adoption of the Agreement would mean the Imperial Government giving up important rights and interests under the Concession.

If, however, it is intended to repudiate the Agreement, we are of opinion that steps should be taken to do so as promptly and with as little delay as possible.

If there are any further points upon which Your Excellency would like to have our views, it will give us much pleasure to place ourselves at Your Excellency's disposal.

We have the honour to be,

Your Excellency's obedient servants,

(Signed) LUMLEY & LUMLEY.

Appendix IV.

98, Lexham Gardens, London, W.8.

May 9th, 1928.

No. 538.

Messrs. The Anglo-Persian Oil Co., Ltd.,
Britannic House,
Finsbury Circus, E.C.2.

Dear Sirs,

Persian Government Royalty Arbitration.

With reference to outstanding questions, I beg to draw your attention to these facts.

On December 22nd, 1926, I sent a private letter to Sir John Cadman asking his kind intervention in bringing about an early settlement of all points under dispute pertaining to the years ended March 1924 and 1925, 1926 being now included and, in the near future, 1927. Our interests being identical, I remarked then on the distastefulness to me of having recourse to arbitration, and expressed the wish that things might be settled amicably. In Sir John's reply of December 23rd, he promised to do all in his power to bring about such a settlement, since which date one year and five months have elapsed and we have made no material advance.

The company making no movement towards a settlement, in February 1927 I curtailed my holiday in the South of France, returning to London, and took the initial steps necessary towards having the matter submitted to arbitration. In your letter of September 29th of that year, you say: "The difference in opinion . . . should appear to be incapable of adjustment. Arbitration, therefore, would seem to be the only course". In your further letter of October 18th, you say, in the last paragraph: "We appreciate that it is because you believe it to be a rightful claim that you are adopting the procedure agreed on; it is because we do not believe it to be a rightful claim that we have adopted the same procedure as the only means for the resolution of the difference between us". However, after all this loss of valuable time, you did not pursue this course, but, through Mr. Spens, your accountant, made some overtures to Sir William McLintock, hoping thereby to render the arbitration unnecessary. Though of all outstanding questions requiring adjustment the one most disputed contention concerns refining allowances, yet all are so essentially linked up that, finding your suggestions inadequate, I made counter-proposals through Sir William McLintock, who, through Mr. Spens, wrote to the Chairman on April 11th last, which proposals were briefly turned down by Sir John Cadman in his reply of April 25th, no further counter-proposals being offered.

In the course of conversation with me the day before his departure for France on April 25th, Sir John said that acceptance of my demands would be tantamount to tearing up the Agreement, to which I replied that, unfortunately, that was a course adopted by the company when their interests were served to the detriment of the interests of the Persian Government, who, it seems to me, have also a say in the matter. Article 10 of the alleged agreement decrees that the company agrees that "it will not enter into any fictitious or artificial transaction which would have the effect of reducing the amount of royalty payable". Also in paragraph 7 of the instructions given to Mr. Armitage-Smith which appear in the Blue Book of which you have a copy, in Appendix III, page 20, we read:

"Le point de vue du Gouvernement est donc le maintien du pourcentage actuel, tout en adoptant les moyens nécessaires pour empêcher la Compagnie de manier ses comptes de façon à diminuer la part de l'Etat persan, soit en soustrayant certains profits ou pourcentages, soit en inscrivant au compte de l'Etat certaines dépenses indues, soit en vendant le pétrole à prix réduit."

A case in point of the flagrant breach of these obligations is the method adopted by you regarding refining allowance. You will admit that, if the company sold all its oil at 14s. 3d. a ton which costs more than 15s. to produce, not only would there be not a penny of profit to the company, and therefore no royalty to the Persian Government, but it seems to me that, under such circumstances, the company would soon cease to exist.

I have frequently said, and now repeat, that Mr. Armitage-Smith was not instructed or authorised to draw up an agreement affecting changes in the terms of the D'Arcy concession, which act alone is binding on both the company and the Persian Government. The mission entrusted to him in accordance with letter No. 18059 of August 29th, 1920, in your

own publication of the D'Arcy concession, was merely to bring about a final adjustment of all outstanding questions between us up to date, and to evolve a practical scheme based on the view expressed in the above-quoted French extract. In drawing up an agreement, he most certainly exceeded his powers ; his authority to do so was accepted by you unquestioned, being to your advantage. The alleged agreement has never been officially recognised or ratified by the Persian Government ; but, as I have said on various occasions, pending a more satisfactory basis of operation for the future which I shall be pleased to discuss with you whenever you are disposed, my Government has unofficially acquiesced in this arrangement as a *modus vivendi* for the time being. Developments have proved that its theory is in practice unworkable. It has had the effect of completely destroying the Act of Concession in many directions to the disadvantage of my Government, which manifestly should not take place. According to Article 10 of the Act of Concession, *any company or companies formed are to pay the Persian Government 16 per cent of their annual net profits without any deduction or allowance*; but the alleged agreement has, so to speak, done away with that vital and all-important article by excluding profits arising from the transport of oil by means of ships and by making deductions for refining, distributing and marketing, etc., all of which is contrary to the letter and spirit of the Act of Concession and to the purport of the instructions given to Mr. Armitage-Smith. It is obvious that the profits arising out of all subsidiary companies form part of the annual net profits of the parent company and are therefore chargeable for royalty purposes without exception.

Article 17 of the Act of Concession provides for arbitration in Teheran, which clause is modified in Article 2 of the alleged agreement to a course of procedure which might conceivably be to the disadvantage of the Persian Government. Therefore, I think I am fully justified in saying that an agreement which provides so many loopholes of advantage for the company and which even then is disregarded by them when their own interests are to be served, of which fact the immediate refining allowance question is an outstanding example, is no more binding on the company than on the Persian Government.

In conclusion, circumstances being similar, I quote again from paragraph 6 of the instructions given to Mr. Armitage-Smith appearing in Appendix III, page 20 :

“ En formulant sa réclamation le Gouvernement impérial n'a point demandé un acte de faveur, il n'a fait que revendiquer les droits légitimes qu'il pense avoir contre la Compagnie, du chef de certains arriérés et des dividendes indûment retenus par cette dernière.”

I wish to avoid further controversy on these questions and fervently hope this may be my last communication of such nature. Though the rights are, to my belief, entirely on the side of the Imperial Persian Government, I am still open to any acceptable offer the company may be prepared to make covering all the points enumerated in Sir William McLintock's letter to Sir John Cadman. Failing such, I earnestly request you, without further loss of time, to instruct your legal advisers to get in touch with mine, so that we may reach a final and complete settlement, before summer holiday arrangements intervene and further retard us.

I remain,
Yours faithfully,
(Signed) EISSA.

Appendix V.

Anglo-Persian Oil Company.

Winchester House, Old Broad Street,
London, E.C.

His Excellency

Sadigh es Saltanah

Royal Palace Hotel,
Kensington, W.

Your Excellency,

I have to thank you for your letter of October 2nd, 1909, following on the interview that I had the pleasure of having with you on the 29th ulto.

At our interview, you were good enough to advise me that you had received definite instructions to demand from this company either the equivalent of 16,000 tomans, or a

reference to arbitration, and I replied that this company, like the original concessionnaire, both for reasons given by the latter in his letter to you of January 18th, 1909, and also in consequence of information provided to me lately by His Britannic Majesty's Consuls in Persia, deny all liability on the part of the concessionnaire for any payment in respect of three springs (*trois mines de pétrole situées à Schouster, à Kassre-Shirine — Province de Kerman-Chahan — et Balcki près de Bouchir*).

By telephone yesterday, you requested me to let you have a reply to your letter before Monday next. I promised to do so, and I now accordingly write to repeat what I said to you verbally.

You informed me that your instructions were that, if we do not admit a liability—I think you said, if we do not pay the 16,000 tomans—we must forthwith proceed to arbitration, but I regret that I cannot in the present circumstances advise the Directors to do so. I submit that it is not a reasonable request to make to us, until your Government has replied to our legitimate requests for certain information on the subject.

Your Government's claim is based on clause 4 of the concession of June 6th, 1901.

That clause speaking of the said three springs as on June 6th, 1901, says: "*qui sont actuellement affermés à des particuliers et produisent annuellement un revenu de deux mille tomans au profit du Gouvernement*".

Obviously then, if at that date the three mines collectively were not "*actuellement affermés à des particuliers et produisent annuellement un revenu de deux mille tomans au profit du Gouvernement*", and never have done so, but only produced to the Persian Government some sum less than 2,000 tomans, your Government's claim would be automatically reduced *pro tanto*. I am informed by His Majesty's Consul-General at Bushire that, in regard to the supposed spring (or mines) at Balcki, neither the Persian Government nor any representative acting on their part ever did collect anything from "particulars". Did they then even collect 2,000 tomans per annum at Kassre-Shirine and Schouster?

I am informed by His Britannic Majesty's Consul at Ahwaz that, with regard to the spring (or mine) at Schouster, the spring is farmed out now, as before, at 1,000 tomans per annum, out of which Samsam Khan, who claims a proprietary interest in the spring, receives 550 tomans, the Mustafi (or Treasurer) of the Persian Government 450 tomans, per annum. This has been regularly paid to the latter who has acknowledged its receipt to His Britannic Majesty's Consul.

As regards Kassre-Shirine, as I told you verbally, detailed authentic information has not yet reached me from His Britannic Majesty's Consul, but it has been promised, and I hope to get it by any mail, when I will advise you of its purport.

You have told me that, since May 1901, no money has been received by the Persian Government in respect of any of these "*trois mines*". If that be so, then your Government must apply to the Mustafi at Schouster for the 450 tomans per annum which he has collected and not paid in—*i.e.*, 3,600 tomans.

But, in any case, it is incumbent, under the terms of the concession, on your Government to give me the names of the persons "*particuliers*" who were paying money in this connection to your Government and details of how much each one had paid annually, prior to the signature of the concession.

We asked specifically for this, among other information, in our letter to you dated September 8th last, and I have to ask you to procure and give me this simple information in substantiation of your Government's claim before we can go further into the matter.

I am your Excellency's obedient servant,

(Signed) C. W. WALLACE,

Vice-Chairman.

Appendix VI.

[Translation.]

TRANSLATION OF THE NOTE SENT ON 21 AZAR (DECEMBER 12th, 1932) BY HIS HIGHNESS ALI KHAN FOROUGHI, PERSIAN MINISTER FOR FOREIGN AFFAIRS, TO MR. HOARE, HIS BRITANNIC MAJESTY'S MINISTER AT TEHERAN.

In reply to Your Excellency's note of 17 Azar, 1311 (December 8th, 1932), No. 604, which was a reply to my note of 12 Azar, I have the honour to communicate to you the following:

The first paragraph of your note concludes by stating that the Persian Government has adduced no argument which can be regarded as in any way justifying its action in cancelling the D'Arcy Concession, and that His Britannic Majesty's Government must therefore reiterate its request for the withdrawal of this cancellation.

In reply, I wish to state that the Persian Government has several times indicated the causes of its dissatisfaction with the action of the company holding the Oil Concession, and thought it unnecessary to repeat them. I need hardly say that, should the Persian Government be unable to conclude a new and satisfactory agreement with the company, and should it think it necessary, in order to uphold its right to denounce the D'Arcy Concession, to refer the case to a court, it would not hesitate a moment to submit its arguments in detail.

The Persian Government has always displayed good faith in this question, and it was with the best intentions that, in its previous note concerning the denunciation of the D'Arcy Concession, it refrained from going into details. It is regrettable that this repugnance of the Imperial Government to embark upon discussions and arguments has been interpreted by the British Government as a proof that the Persian Government could not found its action on any legitimate basis.

In order that His Britannic Majesty's Government should not think that the Imperial Government refuses to give the reasons that have led it to cancel the contract, I shall briefly indicate a few of them below :

Not only was the D'Arcy Concession incompatible in itself with the interests of Persia, whose legitimate rights have been disregarded, but the concession was granted at a time when the interests and welfare of the country were unfortunately not taken into consideration in drawing up contracts of this kind, and when those who wished to obtain them took great advantage of the ignorance of the authorities in charge. Furthermore, in order to obtain these concessions, all sorts of threats and pressure were used at the time, and, as a result of these threats and this pressure, the authorities that granted concessions were unable to refuse them.

Your Excellency and His Britannic Majesty's Government will no doubt admit that the world to-day attaches no value to contracts obtained in this way and does not consider them as binding on their signatories.

In addition to the defects mentioned above, the company, in its relations with the Persian Government, did not even observe the stipulations of the concession, which was already so detrimental to Persia. The company has failed to respect the rights of the Government as laid down in this burdensome and obsolete concession. In doing so, it has infringed the rights of the Persian Government.

As an example I may quote the following fact :

Under the D'Arcy Concession, the company was to pay to the Persian Government 16 per cent of all its profits and of those of all its subsidiaries without exception. The logical result of this stipulation was to give the Persian Government the right to supervise the expenditure which was to be deducted from the company's gross profits in order to arrive at the amount of the net profits, and also the right to express its opinion on the justification of this expenditure. Otherwise, Persia ran the risk of suffering continual reductions in the royalty which was due to her.

Unfortunately, the company, which has been conspicuous by its prodigality and extravagance, has never consented to the Persian Government's having a right of supervision over the operating expenditure before the payment of its royalty.

I do not wish to expatiate on the fact that the expenditure, for the most part unjustified, in which the company indulged, has a very great effect on the royalty accruing to the Persian Government and reduced it to a ridiculously small amount.

More than this, the company has never hitherto submitted to the Persian Government or its representative any detailed accounts or other evidence of its expenditure, and of the expenditure of all its subsidiaries, which would enable the Persian Government to check the calculation of its royalties. It has also refused, contrary to the express conditions of the contract, to pay the Persian Government its share in the profits earned by its subsidiaries. It has further granted to some of its subsidiaries large subsidies taken from its profits, including these sums in its accounts as expenditure and thus appreciably diminishing the Persian Government's share. Consequently, the company has manifestly violated the clauses of the concession and has thereby caused the Government considerable loss.

I could mention many other circumstances in which the company has shown a lack of sincerity in its relations with the Persian Government. If Your Excellency will refer to the reports submitted by various British experts, you will find that on numerous occasions the company has acted in such a way as to injure Persia's interests.

Another proof that the company has not respected the stipulations of the D'Arcy Concession is provided by the following facts :

Although, during the great war, the price of oil and of oil products constantly rose and the demand grew greater and greater (Persian oil being considered as an important factor in the Allied fleets) ; and although the sale of Persian oil at world rates brought the company enormous profits, the company, despite the explicit terms of the concession, failed to pay the Persian Government the sums which were its due, thus, in practice, completely invalidating the contract.

The Persian Government, has on various occasions, endeavoured to recover these royalties and to secure a settlement of the accounts of arrears, but without obtaining any satisfactory result.

Your Excellency is also aware that, under the D'Arcy Contract, the company was not entitled to any exemption from taxation in Persia (with the exception of certain Customs taxes) and that it was subject to all the laws of the country.

Although an income tax has been in force in Persia since 1309 (1930) and although the company was bound to submit to the laws of the country, it has hitherto refused to pay the tax in question and has thus shown its contempt for the laws of my country.

I have no need to inform your Excellency of the development of the company, of its present expansion and of its wealth. This wealth is obviously derived from Persian soil. Nevertheless, if the profits obtained by the Persian Government are compared with those of the company, it will be seen to what extent the interests of the Persian State have been sacrificed, in what an unjust manner the country has been deprived of its revenue, and how the company has employed the wealth extracted from Persia in foreign oil undertakings, thus endangering the future of Persian oil.

Although the company derives all its profits from the Persian oil-wells, and although the Persian people might legitimately expect to obtain the oil which they require for their industry or transport at a reasonable price, the oil and its derivatives are sold by the company in this country and in the very area in which they are extracted at a price above that ruling in other countries. Hence, the needs of Persian industry are not satisfied.

I can quote yet another example of the company's indifference to Persian interests.

Although, under the D'Arcy Contract, the company is entitled to extract oil in all parts of Persia with the exception of five northern provinces, and although the existence of oil deposits all over the country cannot be questioned, the company, far from centralising its activities in Persia and increasing its exploitation (thus augmenting the share of the profits accruing to the Persian Government), has, on the contrary, limited its exploitation in Persia and continually extended its activities outside Persia.

Despite the above-mentioned violations, the Persian Government has, on various occasions, endeavoured to place its relations with the company on a stable and fair basis and to put an end to all controversies. Unfortunately, the Persian Government's efforts have not led to any practical result. Last summer the Persian Government even expressed the desire that the company should send its representative to Teheran in order to arrive at a final agreement, but the company, taking the general crisis as an excuse, refused to send him.

In view of the company's conduct towards the Persian Government, and the fact that it has refused to pay Persia her due, and has displayed no willingness to proceed to a revision of the contract, how can His Britannic Majesty's Government consider the Imperial Government's action as unjustifiable and feel entitled to exert pressure on the Persian Government?

In view of all these circumstances, the Persian Government found itself justified, as I stated in my previous note, in denouncing the D'Arcy Concession. It therefore sees no reason for withdrawing its notice of cancellation.

I would specially draw your attention to the fact that the Persian Government has always respected its international obligations and has always made a point of basing its actions on the principles of law and justice. But it cannot tolerate its most indisputable rights being disregarded or permit the interests of the country to be sacrificed.

Because the Persian Government hopes that, in the world to-day there are ears to hear reasonable and just claims, it has never refused—indeed, it has always shown its willingness—to state its claims and to submit to the competent international courts the infringements which the rights of the country have suffered. In the present instance, as Your Excellency in the name of your Government and basing yourself on Article 36 of the Statute of the Permanent Court of International Justice alludes to a reference to that Court, I deem it my duty to draw Your Excellency's attention to the fact that, if the stipulations of the article referred to had placed the examination of such question within the competence of that Court, the Persian Government, of course, would not have hesitated at all to accept a reference to that Court; but it appears that the Permanent Court of International Justice is not competent for the examination of differences which have arisen between the Persian Government and the company, because Article 36 of the said Statute designates the competence of that Court in such a way, in all cases where reference to the Permanent Court is made on the basis of the Optional Clause, that the circumstances of the present case do not correspond with them.

Your Excellency repeats in paragraph 3 of your note that you consider the Persian Government as responsible for losses which the company may suffer.

The Persian Government cannot understand how, while, on the one hand, they have no participation whatever in the activities of the company and, on the other hand, they have not interfered and do not interfere with the affairs of the company nor cause them any inconvenience, any responsibility can devolve on them; and it is on the above grounds that I have the honour to reiterate that the company itself is responsible for any losses which it may suffer.

Coming now to the allusion constantly made by Your Excellency in your letters to the necessity of establishing friendly relations with the company, I beg to draw your attention to the fact that the Persian Government has never refused, and still does not refuse, to conclude a new agreement equitably safeguarding the interests of the two parties. It has already given

practical proof of its good faith in this connection and the reason why the Persian Government did not take measures after the cancellation of the D'Arcy Concession to interfere with the company's operations, and still hold for the time being to the same decision in the hope of attaining the desired result, is that my Government has hoped that the company, instead of entering into the sphere of disputes over principles and of legal controversies, would not lose the opportunity of sending their duly authorised representative to Teheran in order that he might enter into negotiations forthwith with the Persian Government with a view to concluding an agreement which would safeguard the legitimate interests of Persia. But, in practice, it appears, unfortunately, that His Majesty's Government are perhaps not in favour of such an agreement between the Persian Government and the company, because the threats and intimidation which His Majesty's Government are bringing to bear on my Government and the unacceptable demands that are put forward prevent, in practice, both the Persian Government and the company from taking a single step towards reaching a mutual agreement.

Although the British Legation has so far not interfered in the discussions between the Persian Government and the company, it has now become an obstacle between the two parties, and has adopted an attitude which does away at once with any hope for success in the conclusion of a new agreement with the company ; and the authorities of the Persian Government cannot but regret that, although His Majesty's Government are certainly aware of the disappointment felt by the Persian Government and of their losses, far from advising and encouraging the company to take advantage of the good faith of the Persian Government and to hasten the amelioration of their situation, are, on the contrary, encouraging the company to resist by pressure that they bring to bear on the Persian Government.

The Persian Government consider this attitude of His Majesty's Government as incompatible with the spirit of uprightness and the desire for peace which should prevail amongst friendly Powers and Members of the League of Nations, and consider themselves within their rights in bringing to the notice of the Council of the League of Nations the threats and pressure which have been directed against them.

(Signed) M. A. FOROUGHÍ.

[Communicated to the Assembly,
the Council and the Members
of the League.]

Official No.: **A (Extr.), 22.** 1933.VII.

Geneva, February 16th, 1933.

LEAGUE OF NATIONS

APPEAL OF THE CHINESE GOVERNMENT

DRAFT OF THE REPORT

PROVIDED FOR IN ARTICLE 15, PARAGRAPH 4, OF THE COVENANT.

(Submitted by the Special Committee of the Assembly in Execution of Part III (Paragraph 5)
of the Resolution of March 11th, 1932.)

LETTER FROM THE PRESIDENT OF THE ASSEMBLY TO THE SECRETARY-GENERAL.

[*Translation.*]

February 15th, 1933.

The Special Committee of the Assembly (Committee of Nineteen) has found that, after endeavouring, in accordance with the task entrusted to it, to prepare the settlement of the dispute in agreement with the parties, it was unable to make any proposals to the Assembly to this effect. The efforts made with this end in view since the Assembly adopted its resolution of December 9th last are described in Part II (Section 15) of the attached draft report.

This draft has been prepared by the Committee of Nineteen in execution of the task entrusted to it by Part III (paragraph 5) of the Assembly resolution of March 11th, 1932, under which the Committee, exercising its functions on behalf of and under the supervision of the Assembly, was instructed to prepare, if need be, the draft of the report provided for in Article 15, paragraph 4, of the Covenant.

I should be glad if you would circulate this draft report to the Members of the Assembly and inform them that, in virtue of the powers conferred on me by the last paragraph of the said resolution of March 11th, I request the Assembly to meet at Geneva on Tuesday, February 21st, 1933, at 3.30 p.m.

(Signed) Paul HYMANS,
President of the Assembly.

DRAFT REPORT.

The Assembly, in view of the failure of the efforts which, under Article 15, paragraph 3, of the Covenant, it was its duty to make with a view to effecting a settlement of the dispute submitted for its consideration under paragraph 9 of the said article, adopts, in virtue of paragraph 4 of that article, the following report containing a statement of the facts of the dispute and the recommendations which are deemed just and proper in regard thereto.

Part I.

**EVENTS IN THE FAR EAST. — ADOPTION OF THE FIRST EIGHT CHAPTERS
OF THE REPORT OF THE COMMISSION OF ENQUIRY. — PLAN OF THE REPORT.**

The underlying causes of the dispute between China and Japan are of considerable complexity. The Commission of Enquiry sent by the Council to study the situation on the spot expresses the view that the " issues involved in this conflict are not as simple as they are often represented to be. They are, on the contrary, exceedingly complicated, and only an

intimate knowledge of all the facts, as well as of their historical background, should entitle anyone to express a definite opinion upon them.”¹

The first eight chapters of the report of the Commission of Enquiry present a balanced, impartial and detailed statement of the historical background of the dispute and of the main facts in so far as they relate to events in Manchuria. It would be both impracticable and superfluous either to summarise or to recapitulate the report of the Commission of Enquiry, which has been published separately; after examining the observations communicated by the Chinese and Japanese Governments, the Assembly adopts as part of its own report the first eight chapters of the report of the Commission of Enquiry.

It is necessary, however, to complete the statement of the Commission of Enquiry by describing the measures taken by the Council and the Assembly in connection with the various phases of the dispute, as well as certain events which do not appear in the report of the Commission, more particularly those relating to the origin of the hostilities which occurred at Shanghai at the beginning of 1932. In regard to these events, the Assembly adopts as part of its own report the reports addressed to it by the Consular Commission of Enquiry. These reports have been published separately.² The story of what happened in Manchuria since the beginning of September 1932 must also be related, since the report of the Commission of Enquiry does not go beyond that date.

This brief historical summary of the development of the dispute will be found in Part II of the present report. It should be read in connection with the narrative of events given in the report of the Commission of Enquiry.

Part III describes the chief characteristics of the dispute and the conclusions drawn by the Assembly from the essential facts.

Part IV contains the recommendations which the Assembly deems to be just and proper in regard to the dispute.

Part II.

DEVELOPMENT OF THE DISPUTE BEFORE THE LEAGUE OF NATIONS.

I. SUMMARY OF THE DEVELOPMENT OF THE DISPUTE.

The decisions of the Council and of the Assembly in the long period which has elapsed since the dispute was first brought before the League of Nations were determined by the evolution of the conflict in the Far East.

At the outset, the incidents with which the Council was called upon to deal when the dispute was submitted to it by China under Article 11 occurred at Mukden and in some other places in Manchuria; the Council received repeated assurances from Japan that she had no territorial designs in Manchuria and that she would withdraw her troops within the South Manchuria Railway zone, subject to the sole condition that the safety of the lives and property of Japanese nationals were assured. Such was the purport of the resolution of September 30th and of the draft resolution of October 24th, 1931. The latter, which was agreed to by all the Members of the Council except Japan, enabled the Council once again to secure pledges from the Japanese delegation.

After the rejection of this draft resolution, Japan's insistence on the need of a settlement of the fundamental questions which divided the two countries led the Council, without prejudice to the execution of the undertakings embodied in the resolution of September 30th, to put forward measures with a view to a final and fundamental solution by the two parties of the questions at issue between them. On December 10th, 1931, the Council, acting on a proposal made by Japan, decided to appoint a Commission of five members with instructions to make an enquiry on the spot and to report to the Council on "any circumstance which, affecting international relations, threatens to disturb peace between China and Japan, or the good understanding between them upon which peace depends".

Between December and March, however, there was a considerable change for the worse in the situation in the Far East. Japanese troops completed the occupation of South Manchuria and began to occupy North Manchuria. Outside Manchuria a severe conflict, involving Chinese and Japanese regular forces, was begun and carried on at Shanghai. At the same time, the re-organisation of the civil administration in those parts of Manchuria occupied by the Japanese troops resulted in the formation of an "independent State" styled "Manchukuo", which did not recognise Chinese sovereignty. The Council was henceforth asked by China to deal with the dispute, not only under Article 11, but also under Articles 10 and 15 of the Covenant. On February 19th, 1932, as the result of a request by China submitted under the terms of Article 15, paragraph 9, the Council referred the dispute to the Assembly.

From January onwards, pending the receipt of the report of the Commission of Enquiry, without which the substance of the dispute could not be thoroughly examined, the chief concern of the Council, and subsequently of the Assembly, was to do everything in its power to stop hostilities and prevent an aggravation of the situation, while preserving the rights

¹ Report of the Commission of Enquiry (document C.663.1932, page 126).

² The first three reports of the Consular Commission, with their supplements, are given in document A(Extr.).3.1932 and the fourth report in document A(Extr.).15.1932. They are also reproduced in the Special Supplement to the *Official Journal* No. 101, page 194 *et seq.*

of the parties and the principles of the Covenant from suffering prejudice by reason of any *fait accompli*. The Assembly, by its resolution of March 11th, defined the attitude of the League of Nations towards the dispute. It declared that, pending a settlement in conformity with the Covenant, it was incumbent upon the Members of the League not to recognise any situation, treaty or agreement which might be brought about by means contrary to the Covenant of the League of Nations or to the Pact of Paris.

The hostilities at Shanghai were brought to an end, but fighting continued in Manchuria between Japanese forces or forces of the "Manchukuo" Government and irregular Chinese forces. In September 1932, some days after the signing at Peiping of the report of the Commission of Enquiry, there was a further fundamental change in the situation: the Japanese Government recognised the "Manchukuo" Government.

The report of the Commission of Enquiry could not reach Geneva before the end of September—namely, after the expiry of the time-limit of six months laid down in the Covenant for the report of the Assembly under Article 15. The Assembly, therefore, with the assent of the parties, decided on July 1st to extend the time-limit for as long as might be strictly necessary, on the understanding that such extension should not constitute a precedent. The Commission of Enquiry was thus able to complete its report on the spot, the parties to submit their observations on the report, and the Council and Assembly to examine all the material thus collected.

The examination of this material and the exchanges of views with the parties continued from the middle of November 1932 to the beginning of February 1933. After the discussions by the Council, the Assembly endeavoured, but without success, to bring about a settlement of the dispute by negotiation between the parties under paragraph 3 of Article 15, on the basis of the information and conclusions contained in the report of the Commission of Enquiry. It has therefore adopted the present report in conformity with paragraph 4 of that article.

2. ORIGIN OF THE DISPUTE BEFORE THE LEAGUE OF NATIONS. — EVENTS OF SEPTEMBER 18TH-19TH, 1931, IN SOUTH MANCHURIA. — FIRST DISCUSSIONS OF THE COUNCIL.

China's request to the Council arose out of the action taken by the Japanese troops in Manchuria on the night of September 18th-19th, 1931.

In consequence of an incident near Mukden,¹ in the South Manchuria Railway zone, which is guarded by Japanese troops, the Japanese command, on the ground that military precautions were necessary, sent troops outside the railway zone, more especially to the Chinese towns in the neighbourhood of the zone and to the Chinese railway lines terminating at Mukden. The Chinese towns of Mukden, Changchun, Antung, Yingkow and others were occupied and the Chinese troops dispersed or disarmed.

On September 21st, China appealed under Article 11 of the Covenant and asked the Council to take immediate steps to prevent the further development of a situation endangering the peace of nations, to re-establish the *status quo ante* and to determine the amount and character of such reparations as might be found due to the Republic of China.

On September 22nd, the Council authorised its President (the representative of Spain, M. Lerroux): (1) to address an urgent appeal to the two Governments to refrain from any act which might aggravate the situation or prejudice the peaceful settlement of the problem; (2) to seek, in consultation with the Chinese and Japanese representatives, adequate means whereby the two countries might proceed immediately to the withdrawal of their respective troops, without compromising the safety of the lives and property of their nationals.

On September 29th, the President-in-Office of the Council, explaining the situation to the Assembly then in ordinary session, on the basis of information supplied by the two parties, stated that "the withdrawal of the Japanese forces to within the South Manchuria Railway zone was being carried out" and that on September 28th "the Japanese representative had announced to the Council that the withdrawal was proceeding . . . Outside the railway zone, there only remained, apart from Kirin and Mukden, small detachments at Hsinmin and Chengchiatun for the protection of Japanese nationals against the attacks of bands of Chinese soldiers and brigands which at the same time were ravaging those districts".

Such was the position when, on September 30th, the Council adopted the following resolution:

"The Council,

"(1) Notes the replies of the Chinese and Japanese Governments to the urgent appeal addressed to them by its President, and the steps that have already been taken in response to that appeal;

¹ According to the appeal addressed by the Chinese Government to the Council on September 21st, 1931, "beginning from ten o'clock on the night of September 18th, regular troops of Japanese soldiers, without provocation of any kind, opened rifle and artillery fire upon Chinese soldiers at or near the city of Mukden, bombarded the arsenal and barracks, . . . set fire to the ammunition depot" and "disarmed the Chinese troops in Changchun, Kwanchengtze, and other places" (*Official Journal*, December 1931, page 2453).

According to the version given by the Japanese army, communicated to the Council on September 26th, a patrol of seven men under a lieutenant were making reconnaissances in the railway zone north of Mukden when they heard behind them, about 10.30 p.m., a violent explosion. They turned about and some 500 metres northwards, near the place at which the explosion had occurred, they perceived Chinese soldiers in flight. The patrol at first pursued them, but found themselves under fire from soldiers under cover and then from a force of some 400 or 500 Chinese troops. The Japanese company commander promptly came up with 120 men, pursued the Chinese troops and occupied part of the Mukden North Barracks (document C.621.1931; *Official Journal*, December 1931, page 2478).

Chapter IV of the report of the Commission of Enquiry sets out in detail the events that occurred during the night of September 18th-19th, 1931, and gives the Commission's opinion on these events, accompanied by a statement of the reasons on which it is based (page 70).

" (2) Recognises the importance of the Japanese Government's statement that it has no territorial designs in Manchuria;

" (3) Notes the Japanese representative's statement that his Government will continue, as rapidly as possible, the withdrawal of its troops, which has already been begun, into the railway zone in proportion as the safety of the lives and property of Japanese nationals is effectively assured and that it hopes to carry out this intention in full as speedily as may be;

" (4) Notes the Chinese representative's statement that his Government will assume responsibility for the safety of the lives and property of Japanese nationals outside that zone as the withdrawal of the Japanese troops continues and the Chinese local authorities and police forces are re-established;

" (5) Being convinced that both Governments are anxious to avoid taking any action which might disturb the peace and good understanding between the two nations, notes that the Chinese and Japanese representatives have given assurances that their respective Governments will take all necessary steps to prevent any extension of the scope of the incident or any aggravation of the situation;

" (6) Requests both parties to do all in their power to hasten the restoration of normal relations between them and, for that purpose, to continue and speedily complete the execution of the above-mentioned undertakings;

" (7) Requests both parties to furnish the Council at frequent intervals with full information as to the development of the situation;

" (8) Decides, in the absence of any unforeseen occurrence which might render an immediate meeting essential, to meet again at Geneva on Wednesday, October 14th, 1931, to consider the situation as it then stands;

" (9) Authorises its President to cancel the meeting of the Council fixed for October 14th should he decide, after consulting his colleagues, and more particularly the representatives of the two parties, that, in view of such information as he may have received from the parties or from other members of the Council as to the development of the situation, the meeting is no longer necessary."

The hopes of the Council were not fulfilled. On October 9th, the Chinese delegation asked for an urgent meeting of the Council on the ground that Japanese troops had begun further "aggressive military operations". The reference was primarily to the aerial bombardment of Chinchow,¹ where, after the capture of Mukden, the provincial Government had temporarily established itself.

The Council, at its meeting in September, had decided to forward to the Government of the United States of America the Minutes of its meeting and the documents relating to the Sino-Japanese dispute, and the Government of the United States had affirmed its whole-hearted sympathy with the attitude of the League of Nations.

On October 16th, it was determined to continue to co-operate with the Government of the United States of America, which was invited to send a representative to sit at the Council table. The representative of the United States was authorised by his Government "to consider with the Council the relationship between the provisions of the Pact of Paris and the present unfortunate situation in Manchuria and, at the same time, to follow the deliberations of the Council with regard to other aspects of the problem with which it is now confronted".

On October 17th, a certain number of the Governments represented on the Council (the United Kingdom, France, Germany, the Irish Free State, Italy, Norway and Spain) decided, as signatories of the Pact of Paris, to address an identical note to the Governments of China and Japan, calling their attention to the provisions of that Pact and more especially to the terms of Article 2, whereby "the Contracting Parties agree that the settlement or solution of all disputes or conflicts of whatever nature or whatever origin they may be, which may arise among them, shall never be sought except by pacific means".

The United States Government sent a similar note to the two Governments.

On October 22nd, the President of the Council (the representative of France, M. Briand), submitted a draft resolution upon which the members of the Council, other than the parties, had unanimously agreed.

The draft resolution, after referring to the undertakings entered into by the Governments of China and Japan in the resolution of September 30th and to the declaration of the Japanese representative that this country had no territorial designs in Manchuria, called upon the Japanese Government immediately to begin the withdrawal of its troops into the railway zone and proceed therewith so that the whole of the troops might be withdrawn before the next meeting of the Council. It called upon the Chinese Government to make such arrangements for taking over the territory thus evacuated as would ensure there the safety of the lives and property of Japanese subjects, and indicated certain measures of detail to be adopted for this purpose.

Recommendations were also made to the two Governments that, as soon as the evacuation was completed, they should open direct negotiations on all the questions outstanding between them, in particular in respect of those arising out of the recent incidents and of those relating to the difficulties caused by the railway situation in Manchuria. For this purpose, the Council suggested that the two parties should set up a conciliation committee or some such permanent machinery. Finally, it was proposed that the Council should meet again on November 16th.

¹ The bombardment of Chinchow (October 8th, 1931) is described on page 72 of the Report of the Commission of Enquiry.

On October 23rd, the representative of China accepted the draft resolution as a "bare minimum". The representative of Japan submitted a counter-draft and explained that his Government, in view of the tension in Manchuria and the state of disorder prevailing there, did not deem it possible to fix a definite date by which the evacuation could be completed. His Government regarded it as absolutely indispensable that a calmer frame of mind should be restored and, with this object in view, had determined a number of fundamental points which should be the basis for normal relations between China and Japan. He was not authorised to set out these fundamental points in a resolution or to discuss their details at the Council table; they could better be made the subject of direct negotiations between the parties.

The Council considered that it was impossible to refer to "fundamental points" in a draft resolution without knowing what they were.

The draft resolution was not adopted, the Japanese representative voting against it (October 24th, 1931). The Council, after taking the vote, adjourned until November 16th.

The Chinese representative, after the meeting of October 24th, made the following declaration to the President of the Council on behalf of his Government:

"China, like every Member of the League of Nations, is bound by the Covenant to 'a scrupulous respect for all treaty obligations'. The Chinese Government for its part is determined loyally to fulfil *all* its obligations under the Covenant. It is prepared to give proofs of this intention by undertaking to settle all disputes with Japan as to treaty interpretation by arbitration or judicial settlement, as provided in Article 13 of the Covenant.

"In pursuance of this purpose, the Chinese Government is willing to conclude with Japan a treaty of arbitration similar to that recently concluded between China and the United States of America, or to those concluded of recent years in increasing numbers between Members of the League."¹

3. DEVELOPMENT OF JAPANESE MILITARY OPERATIONS IN NORTH MANCHURIA.

After the Council meeting in October, further Japanese military operations took place in Manchuria in the neighbourhood of the bridges carrying the Taonan-Angangchi railway over the River Nonni. These bridges had been destroyed in October by the Chinese troops of the President of the Heilungkiang provincial government, General Ma Chan-shan, in order to stop the advance of General Chang Hai-peng who, according to the Chinese, had taken the offensive at the instigation of the Japanese. To justify Japanese intervention for the repair of these bridges, the Tokio Government had represented to the Chinese Government² that the Taonan-Angangchi Railway had been built by the South Manchuria Company under a contract; that the Chinese authorities had not yet paid their debt; that they had refused to convert that debt into a loan, and that the railway might therefore be regarded as belonging to the South Manchuria Company, which had a great interest in preserving the property and in maintaining traffic on the line.

On November 2nd, the Japanese Government stated that, at the request of the South Manchuria and the Taonan-Angangchi Railway Administration, a company of sappers had been sent on that day to repair the railway bridge under the protection of troops (infantry, artillery and air forces).³

The Japanese troops came into contact with the Chinese forces, which refused to retire and were driven back.⁴ In November, the Japanese troops reached and even crossed the Chinese Eastern Railway, and took Angangchi and subsequently Tsitsihar (November 19th).

4. MEASURES FOR THE RE-ORGANISATION OF THE CIVIL ADMINISTRATION IN MANCHURIA.

While military operations were thus spreading towards the North of Manchuria, progress was made with the re-organisation of the civil administration. At Mukden, in particular, after the disorganisation caused by the incident of September 18th, the administration of the municipality was first entrusted to the Japanese Colonel Doihara and later, on October 20th, to a Chinese Mayor, Dr. Chao Hsin-po, Doctor of Law of the University of Tokio. Efforts were also made to organise a Liaoning provincial administration in opposition to the former administration which had taken refuge at Chinchow. The "Committee for the Maintenance of Peace and Order", constituted on September 24th, became in October the office of the autonomous Government of the Province of Liaoning. The latter in turn was converted, on November 7th, into an acting Provincial Government of Liaoning, which announced that it was breaking off relations with the former North-Eastern Government and with the nationalist Government at Nanking. At the same time, a Supreme Advisory Council was established, whose duties included those of directing and supervising the Provincial Government and encouraging the development of local autonomy. All the new authorities, as also the banks of issue, had received Japanese advisers, who were, in many cases, influential officials of the South Manchuria Railway.⁵

¹ Document C.671.VII; *Official Journal*, December 1931, page 2513.

² Document C.864.1931; *Official Journal*, December 1931, page 2576.

³ Document C.788.1931; *Official Journal*, December 1931, page 2565.

⁴ These operations are described in the report of the Commission of Enquiry (page 72 *et seq.*).

⁵ Document C.752.1931; *Official Journal*, December 1931, page 2486.

The representative of China insisted that the Japanese army was responsible for setting up and maintaining, at Mukden, Kirin and other points in its occupation, these new authorities, who were the "puppets and creatures of the Japanese Army Command".¹

The representative of Japan replied that the "Japanese authorities had no alternative but to encourage the formation by the Chinese themselves of bodies responsible for the maintenance of order. . . . The efficient performance of their duties by those bodies would make much easier the rapid withdrawal of troops, which was desired by the Japanese Government, as had been formally stated on several occasions."²

Moreover, several reports from Dr. Frederick A. Cleveland, Associate Chief Inspector of the Salt Revenue, were communicated to the Council in November 1931 by the Chinese delegation. These reports stated that the Japanese military authorities were forcibly seizing the salt revenues in the Manchurian towns. It was urged in a Japanese communication that the "action of the military authorities in intervening to transfer the surplus revenues of the Chinese Salt Tax Office to another Chinese body (the local Committee for the Maintenance of Order) could not be regarded as unjustifiable".³

5. SESSION OF THE COUNCIL IN NOVEMBER-DECEMBER 1931. — CONSTITUTION OF A COMMISSION OF ENQUIRY.

Meanwhile, the Council met in Paris on November 16th, 1931, and, on November 21st, a Japanese proposal for a Commission of Enquiry to be sent to the Far East was put forward, "the creation and despatch of this Commission in no way modifying the Japanese Government's sincere desire to withdraw its troops as quickly as possible within the South Manchuria Railway zone in pursuance of the resolution of September 30th".

This proposal was considered, and, on December 10th, the Council adopted the following resolution:

"The Council,

"(1) Reaffirms the resolution passed unanimously by it on September 30th, 1931, by which the two parties declare that they are solemnly bound; it therefore calls upon the Chinese and Japanese Governments to take all steps necessary to assure its execution, so that the withdrawal of the Japanese troops within the railway zone may be effected as speedily as possible under the conditions set forth in the said resolution;

"(2) Considering that events have assumed an even more serious aspect since the Council meeting of October 24th:

"Notes that the two parties undertake to adopt all measures necessary to avoid any further aggravation of the situation and to refrain from any initiative which may lead to further fighting and loss of life;

"(3) Invites the two parties to continue to keep the Council informed as to the development of the situation;

"(4) Invites the other Members of the Council to furnish the Council with any information received from their representatives on the spot;

"(5) Without prejudice to the carrying out of the above-mentioned measures,

"Desiring, in view of the special circumstances of the case, to contribute towards a final and fundamental solution by the two Governments of the questions at issue between them:

"Decides to appoint a Commission of five members to study on the spot and to report to the Council on any circumstance which, affecting international relations, threatens to disturb peace between China and Japan, or the good understanding between them, upon which peace depends.

"The Governments of China and of Japan will each have the right to nominate one assessor to assist the Commission.

"The two Governments will afford the Commission all facilities to obtain on the spot whatever information it may require.

"It is understood that, should the two parties initiate any negotiations, these would not fall within the scope of the terms of reference of the Commission, nor would it be within the competence of the Commission to interfere with the military arrangements of either party.

"The appointment and deliberations of the Commission shall not prejudice in any way the undertaking given by the Japanese Government in the resolution of September 30th as regards the withdrawal of the Japanese troops within the railway zone.

"(6) Between now and its next ordinary session, which will be held on January 25th, 1932, the Council, which remains seized of the matter, invites its President to follow the question and to summon it afresh if necessary."

¹ Document C.812, of November 7th, 1931; *Official Journal*, December 1931, page 2544.

² Document C.854, of November 12th, 1931; *Official Journal*, December 1931, page 2572.

³ Document C.863.1931; *Official Journal*, December 1931, page 2525.

The President (the French representative, M. Briand) emphasised, when he submitted the resolution, the great importance which the Council attached to its resolution of September 30th, 1931, and its conviction that the two Governments would carry out to the full the engagements which they had assumed under it. He further stated that it was indispensable and urgent that the two parties should abstain from any initiative which might lead to further fighting and from any other action likely to aggravate the situation.

The Government of the United States, on the adoption of the resolution of December 10th, expressed its gratification that definite progress had been made.

6. JAPANESE OPERATIONS AGAINST CHINCHOW. — DISAPPEARANCE OF THE LAST REMAINS OF CHINESE AUTHORITY IN SOUTH MANCHURIA.

While the Council was drawing up the text of this resolution, the two parties repeatedly called its attention to the danger of military operations spreading to South-West Manchuria, and efforts were made to establish a neutral zone between the Japanese troops and those of Marshal Chang Hsueh-liang at Chinchow. These efforts were unsuccessful. The representative of Japan, referring at the time of its adoption to paragraph 2 of the resolution of December 10th, stated that he accepted it "on the understanding that it was not intended to preclude the Japanese forces from taking such action as might be rendered necessary to provide directly for the protection of the lives and property of Japanese subjects against the activities of bandits and lawless elements rampant in various parts of Manchuria. Such action was admittedly an exceptional measure called for by the special situation prevailing in Manchuria, and its necessity would naturally be obviated when normal conditions should have been restored in that region."

On December 23rd, a Japanese offensive was launched in the direction of Chinchow, which was occupied on January 3rd, 1932. The Japanese forces then advanced as far as the Great Wall and established contact with Japanese troops stationed at Shanhaikwan to the south of the Wall. As the result of these operations, Chinese constituted authority disappeared entirely from South Manchuria.

7. THE SHANGHAI HOSTILITIES. — ORIGIN OF THE HOSTILITIES.

Outside Manchuria, from January 1932 onwards, the situation became worse also at Shanghai.

In connection with Shanghai, the League received four reports on events from their beginning up to March 5th from the Consular Commission¹ which was set up on the spot early in February 1932. Later events are described in the report of the Commission of Enquiry, which was constituted as already explained in January 1932 and arrived at Shanghai on March 14th.

In this port, as in other parts of China, the serious anti-Chinese riots which had occurred in Korea, as described in the report of the Commission of Enquiry,² led, from July 1931 onwards, to a boycott of Japanese goods. The occupation of Manchuria by Japanese troops intensified the boycott with, in certain cases, the active support of official organisations and of the Chinese Government. Japanese trade suffered heavy losses. The tension between the nationals of the two countries became acute and serious incidents occurred, as a result of which the Japanese residents in Shanghai requested the despatch of troops and warships to put down the anti-Japanese movement. The Japanese Consul-General then presented five demands to the Chinese Mayor of Greater Shanghai.

The Mayor stated on January 21st that he had difficulty in complying with two of these demands (adequate control of the anti-Japanese movement; immediate dissolution of all anti-Japanese organisations engaged in fostering hostile feelings and anti-Japanese riots and agitation).

On the same day, the Admiral in command of the Japanese naval forces publicly announced that, if the reply of the Chinese mayor were unsatisfactory, he was determined to take such measures as might be necessary to protect Japanese rights and interests. On January 24th, Japanese naval reinforcements arrived off Shanghai. Rumours were current that the Chinese troops in the Chinese quarter of Chapei were also being reinforced. On January 27th, the Japanese Consul-General asked for a satisfactory reply to his demands by 6 o'clock on the following morning. The mayor, who had informed the representatives of the Powers of his intention to make all possible concessions to avoid a clash, succeeded in securing the closing down of the Anti-Japanese Boycott Association, and the Chinese police sealed various offices on the night of January 27th-28th. On the morning of January 28th, the Japanese Admiral notified the other foreign commanders of his intention to act on the following morning if the Chinese had not sent a satisfactory reply. The Municipal Council of the International Settlement met and decided that a state of emergency should be declared as from 4 p.m. on the same day. At 4 p.m. the Japanese Consul-General informed

¹ The Commission consisted of the Consuls of Italy (Chairman), the United Kingdom, France, Norway, Germany and Spain. The Consul of the United States collaborated in the work of the Commission.

² The report of the Commission of Enquiry describes on page 62 *et seq.* the incidents which arose between Chinese and Korean farmers at Wanpaoshan (Manchuria) and how sensational and inaccurate accounts of these incidents provoked a massacre of Chinese in Korea.

the consular body that a Chinese reply accepting all the Japanese demands had been received, that this reply was entirely satisfactory and that, for the moment, no action would be taken.

Meanwhile, the Defence Committee of the International Settlement carrying out the plans called for by a state of emergency assigned to the different foreign forces the sectors they would have to defend. The Japanese sector, as fixed by the Defence Committee, included not only a part of the Settlement but a salient extending beyond it, bounded on the west by the Shanghai-Woosung Railway. The Japanese naval headquarters are situated near the northern extremity of this salient and in normal times there are posts of Japanese marines on two roads—North Szechuen Road and Dixwell Road—which belong to the Shanghai Municipal Council. At 11 p.m., the Japanese Admiral, referring to the state of emergency, announced that the Imperial Navy, anxious as to the situation in Chapei, where numerous Japanese nationals resided, had decided to send troops to this sector and hoped that the Chinese forces stationed at Chapei would be speedily withdrawn to the west of the railway.

One hour later Japanese marines and armed civilians proceeded towards the railway; the last detachment attempted to reach the station by the Honan Road gate leading out of the Settlement and the defence sectors. It was stopped by the Shanghai Volunteer Corps, who were guarding this sector and who had received strict orders based on the principle that the duty of defence forces was to defend and not to attack.

The Japanese troops sent to the Chapei sector in conformity with the plan of defence came into contact with the Chinese troops which, as the first report of the Consular Commission notes, would not have had time to withdraw even had they wished to do so.

8. THE SHANGHAI HOSTILITIES. — DISCUSSIONS OF THE COUNCIL. — REFERENCE TO ARTICLE 10 OF THE COVENANT. — FIRST DISCUSSIONS OF THE ASSEMBLY UNDER ARTICLE 15. —
TERMINATION OF THE SHANGHAI HOSTILITIES.

This was the beginning of the battle of Shanghai, which the Council, then in session at Geneva, and the Powers having special interests in Shanghai repeatedly endeavoured to stop. It was immediately after the serious incidents described above that China, on January 29th, asked that the dispute should be dealt with under Articles 10 and 15.

On February 16th, the Members of the Council other than China and Japan addressed to the Japanese Government an urgent appeal calling attention to Article 10 of the Covenant from which it appeared to them to follow that "no infringement of the territorial integrity and no change in the political independence of any Member of the League brought about in disregard of that article ought to be recognised as valid and effectual by Members of the League".¹

On February 19th, the Council, at the request of China, referred the dispute to the Assembly. The Assembly was convened to meet on March 3rd.

The Council, before the Assembly met, made a last effort to stop the fighting by proposing on February 29th that a round-table conference should be set up in Shanghai, subject to the making of local arrangements for a cessation of hostilities.

The proposal of the Council was not carried into effect. As fighting continued, the Assembly, after hearing the representatives of the two parties on March 3rd, adopted the following resolution on March 4th:

"The Assembly,

"Recalling the suggestions made by the Council on February 29th and without prejudice to the other measures therein envisaged:

"(1) Calls upon the Governments of China and Japan to take immediately the necessary measures to ensure that the orders which, as it has been informed, have been issued by the military commanders on both sides for the cessation of hostilities, shall be made effective;

"(2) Requests the other Powers which have special interests in the Shanghai Settlements to inform the Assembly of the manner in which the invitation set out in the previous paragraph is executed;

"(3) Recommends that negotiations be entered into by the Chinese and Japanese representatives, with the assistance of the military, naval and civilian authorities of the Powers mentioned above, for the conclusion of arrangements which shall render definite the cessation of hostilities and regulate the withdrawal of the Japanese forces. The Assembly will be glad to be kept informed by the Powers mentioned above of the development of these negotiations."

On March 5th, the Government of the United States of America intimated that the American military authorities at Shanghai had been instructed to co-operate.

The proposed negotiations began at Shanghai on March 14th. On two occasions, the Committee of Nineteen set up by the Assembly intervened, at China's request, to smooth away difficulties. An armistice was finally signed at Shanghai on May 5th and the withdrawal of the Japanese troops began on the 6th. By May 31st, the divisions sent from Japan to Shanghai had been re-embarked, one of those divisions—the 14th—being sent to Manchuria. On July 1st, the Assembly was informed that Japanese naval landing troops, with very reduced effectives, were still temporarily stationed, in accordance with the agreement of May 5th, at a small number of

¹ Document C.237.1932; *Official Journal*, March 1932, page 383.

posts adjacent to the Settlement and to the extra-Settlement roads. These detachments were afterwards withdrawn.

The Chinese consider that the Japanese intervention at Shanghai cost them 24,000 soldiers and civilians killed, wounded or missing, and they estimate their material losses at about 1,500 million Mexican dollars.

9. DEVELOPMENT OF THE JAPANESE OCCUPATION IN MANCHURIA. — PROGRESS OF ADMINISTRATIVE RE-ORGANISATION. — THE CONSTITUTION OF "MANCHUKUO".

While the Shanghai affair was progressing, the situation was also developing in Manchuria. Harbin was occupied on February 5th by the Japanese army which, during the succeeding months, continued its operations against the remnants of the former Chinese army, the "volunteers", the "brigands" and other "irregulars". Guerilla warfare continued over a very large part of Manchuria.

Progress was also made with the administrative re-organisation, the first stages of which have already been mentioned above.

On February 17th, 1932, a supreme administrative council was constituted for the whole of Manchuria, and, on February 18th, this Council published a declaration of independence. On February 19th, the Japanese representative explained at a meeting of the Council in Geneva that in Manchuria "independence" was synonymous with "autonomy" and that "Japan had favourably regarded the establishment of this independence". On March 9th, the local administrations were amalgamated as an independent "State" under the name of "Manchukuo". M. Henry Pu-yi (the former Emperor Hsuan Tung) accepted the regency of this State.

The Chinese Government, which had already stated, on November 17th, 1931, that "the ex-Emperor was kidnapped and escorted by the Japanese from the Japanese concession in Tientsin to Mukden for the purpose of establishing a bogus Government with himself proclaimed as Emperor",¹ repeatedly denounced the establishment of the so-called State "which from the very beginning, and at every subsequent stage of its development, had been created and maintained at the instigation and with the assistance of the Japanese military forces in Manchuria".²

10. DISCUSSIONS OF THE ASSEMBLY. — RESOLUTION OF MARCH 11TH. — DECISIONS REGARDING THE TIME-LIMIT FOR THE PREPARATION OF THE REPORT UNDER ARTICLE 15.

Meanwhile the Assembly, continuing its examination of the dispute at Geneva, adopted, on March 11th, 1932, after a full discussion, the following resolution:

" I.

" The Assembly,

" Considering that the provisions of the Covenant are entirely applicable to the present dispute, more particularly as regards:

" (1) The principle of a scrupulous respect for treaties;

" (2) The undertaking entered into by Members of the League of Nations to respect and preserve as against external aggression the territorial integrity and existing political independence of all the Members of the League;

" (3) Their obligation to submit any dispute which may arise between them to procedures for peaceful settlement;

" Adopting the principles laid down by the acting President of the Council, M. Briand, in his declaration of December 10th, 1931;

" Recalling the fact that twelve Members of the Council again invoked those principles in their appeal to the Japanese Government on February 16th, 1932, when they declared ' that no infringement of the territorial integrity and no change in the political independence of any Member of the League brought about in disregard of Article 10 of the Covenant ought to be recognised as valid and effectual by Members of the League of Nations ';

" Considering that the principles governing international relations and the peaceful settlement of disputes between Members of the League above referred to are in full harmony with the Pact of Paris, which is one of the corner-stones of the peace organisation of the world and under Article 2 of which ' the High Contracting Parties agree that the settlement or solution of all disputes or conflicts, of whatever nature and whatever origin they may be, which may arise among them shall never be sought except by pacific means ';

" Pending the steps which it may ultimately take for the settlement of the dispute which has been referred to it:

¹ Document C.868.1931; *Official Journal*, December 1931, page 2550.

² Document A(Extr.).105, of April 21st, 1932; *Official Journal*, Special Supplement No. 101, page 264.

“ Proclaims the binding nature of the principles and provisions referred to above and declares that it is incumbent upon the Members of the League of Nations not to recognise any situation, treaty or agreement which may be brought about by means contrary to the Covenant of the League of Nations or to the Pact of Paris.

“ II.

“ The Assembly,

“ Affirming that it is contrary to the spirit of the Covenant that the settlement of the Sino-Japanese dispute should be sought under the stress of military pressure on the part of either party:

“ Recalls the resolutions adopted by the Council on September 30th, and on December 10th, 1931, in agreement with the parties;

“ Recalls also its own resolution of March 4th, 1932, adopted in agreement with the parties, with a view to the definitive cessation of hostilities and the withdrawal of the Japanese forces; notes that the Powers Members of the League of Nations having special interests in the Shanghai Settlements are prepared to give every assistance to this end, and requests those Powers, if necessary, to co-operate in maintaining order in the evacuated zone.

“ III.

“ The Assembly,

“ In view of the request formulated on January 29th by the Chinese Government, invoking the application to the dispute of the procedure provided for in Article 15 of the Covenant of the League of Nations;

“ In view of the request formulated on February 12th by the Chinese Government that the dispute should be referred to the Assembly in conformity with Article 15, paragraph 9, of the Covenant and in view of the Council's decision of February 19th;

“ Considering that the whole of the dispute which forms the subject of the Chinese Government's request is referred to it and that it is under an obligation to apply the procedure of conciliation provided for in paragraph 3 of Article 15 of the Covenant and, if necessary, the procedure in regard to recommendations provided for in paragraph 4 of the same article:

“ Decides to set up a Committee of nineteen members—namely, the President of the Assembly, who will act as Chairman of the Committee, the Members of the Council other than the parties to the dispute and six other Members to be elected by secret ballot.

“ This Committee, exercising its functions on behalf of and under the supervision of the Assembly, shall be instructed:

“ (1) To report as soon as possible on the cessation of hostilities and the conclusion of arrangements which shall render definitive the said cessation and shall regulate the withdrawal of the Japanese forces in conformity with the Assembly resolution of March 4th, 1932;

“ (2) To follow the execution of the resolutions adopted by the Council on September 30th and December 10th, 1931;

“ (3) To endeavour to prepare the settlement of the dispute in agreement with the parties, in accordance with Article 15, paragraph 3, of the Covenant, and to submit a statement to the Assembly;

“ (4) To propose, if necessary, that the Assembly submit to the Permanent Court of International Justice a request for an advisory opinion;

“ (5) To prepare, if need be, the draft of the report provided for in Article 15, paragraph 4, of the Covenant;

“ (6) To propose any urgent measure which may appear necessary;

“ (7) To submit a first progress report to the Assembly as soon as possible and at latest on May 1st, 1932.

“ The Assembly requests the Council to communicate to the Committee, together with any observations it may have to make, any documentation that it may think fit to transmit to the Assembly.

“ The Assembly shall remain in session and its President may convene it as soon as he may deem this necessary.”

On March 12th, the Government of the United States of America declared that the action of the Assembly would go far towards developing into terms of international law the principles of order and justice which underlay the Paris Pact and the League Covenant. The United States Government was especially gratified that the nations of the world were united on a policy not to recognise the validity of results attained in violation of the treaties in question, and this was a distinct contribution to international law and offered a constructive basis for peace.

On July 1st, 1932, having been informed that the report of the Commission of Enquiry could not be completed before September, the Assembly, after obtaining the consent of the two parties, decided to prolong, to the extent that might be strictly necessary, the time-limit of six months laid down in the Covenant for the preparation of its report.

In the letter addressed on June 24th to the representatives of China and Japan, proposing an extension of the time-limit laid down in the Covenant, the President of the Assembly said:

“ . . . It is my duty to add that I have every confidence that the undertaking not to aggravate the situation entered into by the two parties before the Council and recorded by the latter on September 30th and December 10th (1931) in resolutions which retain their full executory force will be scrupulously observed. I am sure that you will agree with me that these resolutions will continue to be fully valid during the period for which the time-limit of six months may be extended. I would also refer you to the resolution which the Assembly adopted on March 11th, and in which it recalled the two resolutions of the Council.”¹

After the adoption of the extension of the time-limit, the President referred to this passage of his letter and added:

“ Such being the case, the decision just taken by the Assembly authorises me to declare that the parties must abstain from any action that might compromise the success of the work of the Commission of Enquiry or of any efforts the League may make with a view to a settlement.

“ I would remind you also that, on March 11th, the Assembly proclaimed ‘ that it is incumbent upon the Members of the League of Nations not to recognise any situation, treaty or agreement which may be brought about by means contrary to the Covenant of the League of Nations or to the Pact of Paris ’.”²

II. THE ORGANISATION OF “ MANCHUKUO ”. — RECOGNITION OF “ MANCHUKUO ” BY JAPAN.

Meanwhile the process of organising the Government of “ Manchukuo ” continued. The Government created a central bank and undertook the administration of the salt revenue (declaring its willingness to continue to pay an equitable proportion of the sums required for the service of the foreign loans secured on the receipts of the salt revenue), of the Customs (making a similar declaration as regards the loans and indemnities secured on the Customs revenue), of the postal services, etc.

A “ Manchukuo ” army was created with the assistance of Japanese officers engaged as advisers. In a communication dated April 8th, 1932, the Japanese Government announced that “ the Japanese forces are at present providing the forces of the new Government in a friendly spirit with such assistance as they may need to restore and maintain order and tranquillity ”.³

According to the observations of the Japanese Government, dated November 18th, 1932, the presence of the Japanese troops in the country would “ enable the principal bandit units to be wiped out within from two to three years ”.⁴

The relations between Japan and the new State were defined after the dispatch to Changchun, capital of “ Manchukuo ”, of General Muto, who, on August 8th, had been appointed Commander-in-Chief of the Kwantung Army and, at the same time, Ambassador Extraordinary and Plenipotentiary on Special Mission and Governor-General of Kwantung, in order to control the Consular service, the Government of the Leased Territory and all the Japanese forces in Manchuria. The new ambassador carried no credentials and the appointment was made unilaterally by Japan.⁵

On September 15th, General Muto signed with the Prime Minister of “ Manchukuo ” a protocol containing the following provisions:

“ Whereas Japan has recognised the fact that Manchukuo, in accordance with the free will of its inhabitants, has organised and established itself as an independent State, and,

“ Whereas Manchukuo has declared its intention of abiding by all international engagements entered into by China in so far as they are applicable to Manchukuo;

“ Now the Governments of Japan and Manchukuo have, for the purpose of establishing a perpetual relationship of good neighbourhood between Japan and Manchukuo, each respecting the territorial rights of the other, and also in order to secure the peace of the Far East, agreed as follows:

“ (1) Manchukuo shall confirm and respect, in so far as no agreement to the contrary shall be made between Japan and Manchukuo in the future, all rights and interests possessed by Japan or her subjects within the territory of Manchukuo by virtue of Sino-Japanese treaties, agreements or other arrangements or of Sino-Japanese contracts, private as well as public;

“ (2) Japan and Manchukuo, recognising that any threat to the territory or to the peace and order of the High Contracting Parties constitutes, at the same time, a threat to the safety and existence of the other, agree to co-operate in the maintenance of their

¹ *Official Journal*, Special Supplement No. 102, page 35.

² *Official Journal*, Special Supplement No. 102, page 16.

³ Document C.357.1932; *Official Journal*, Special Supplement No. 101, page 208.

⁴ Document C.775.1932.VII, page 32.

⁵ Japanese communication of August 11th; *Official Journal*, Special Supplement No. 102, page 47.

national security, it being understood that such Japanese forces as may be necessary for this purpose shall be stationed in Manchukuo.

“ The present protocol shall come into effect from the date of its signature. . . . ”

“ Manchukuo ” was thus formally recognised by Japan. The Chinese Government protested against this recognition. It represented that, “ following the precedent of her policy in Korea, Japan has established a virtual protectorate over Manchuria as a step towards annexation ”.¹

12. CONSIDERATION BY THE COUNCIL OF THE REPORT OF THE COMMISSION OF ENQUIRY.

The report of the Commission of Enquiry was signed at Peiping on September 4th, 1932, and was communicated to the two Governments and to the Members of the League on October 1st. The Japanese Government asked for a minimum period of six weeks in which to communicate its observations upon it to the Council, and the Council decided on September 24th to begin its consideration of the report at latest on November 21st.

On this occasion, the President of the Council (the representative of the Irish Free State, Mr. de Valera) expressed regret—with which the Special Committee of the Assembly at its public meeting on October 1st associated itself—that, before even the publication of the Commission's report, Japan, not only by recognising but also by signing a treaty with what was known as the “ Manchukuo ” Government, had taken steps which could not but be regarded as calculated to prejudice the settlement of the dispute. “ For almost a year ”, Mr. de Valera said, “ the Council in its collective capacity and the individual Governments which composed it had scrupulously refrained from uttering any word of judgment on the merits of this grave dispute on the grounds that a Commission had been set up to investigate the dispute in all its bearings and that, until that Commission had reported, and its report had been considered by the organs of the League, the whole question was still to be regarded as *sub judice*.”

The Council, at meetings held from November 21st to 28th, 1932, considered the report of the Commission and the observations of the parties. In reply to a question by the President, Lord Lytton stated, on behalf of the Commission of Enquiry, that the latter did not wish to add anything to its report.

As regards the recommendations contained in the report, the Council noted that it was not able to find in the declarations of the Chinese and Japanese representatives any measure of agreement between the parties which would enable it usefully to engage in a discussion and to submit observations or suggestions to the Assembly.

In these circumstances, the Council merely transmitted to the Assembly the report of the Commission of Enquiry, the observations of the parties and the Minutes of its meetings.

13. DISCUSSION OF THE REPORT OF THE COMMISSION OF ENQUIRY BY THE ASSEMBLY. — ATTEMPT TO NEGOTIATE A SETTLEMENT.

The Assembly met on December 6th, 1932. After a general discussion it adopted, on December 9th, the following resolution:

“ The Assembly,

“ Having received the report of the Commission of Enquiry set up under the resolution adopted on December 10th, 1931, by the Council, together with the observations of the parties and the Minutes of the Council meetings held from November 21st to 28th, 1932;

“ In view of the discussions which took place at its meetings from December 6th to 9th, 1932:

“ Requests the Special Committee appointed under its resolution of March 11th, 1932:

“ (1) To study the report of the Commission of Enquiry, the observations of the parties and the opinions and suggestions expressed in the Assembly, in whatever form they were submitted;

“ (2) To draw up proposals with a view to the settlement of the dispute brought before it under the Council resolution dated February 19th, 1932;

“ (3) To submit these proposals to the Assembly at the earliest possible moment.”

The Special Committee of Nineteen drew up two draft resolutions and a statement of reasons indicating generally the basis on which it thought it possible to continue its endeavours to effect a settlement of the dispute.

These texts were as follows:

Draft Resolution No. 1.

“ The Assembly,

“ Recognising that, according to the terms of Article 15 of the Covenant, its first duty is to endeavour to effect a settlement of the dispute, and that consequently it is not at present

¹ Document C.654.1932 (note of the Chinese representative, of September 17th, 1932).

called upon to draw up a report stating the facts of the dispute and its recommendations in regard thereto;

“ Considering that, by its resolution of March 11th, 1932, it laid down the principles determining the attitude of the League of Nations in regard to the settlement of the dispute:

“ Affirms that in such a settlement the provisions of the Covenant of the League of Nations, the Pact of Paris and the Nine-Power Treaty must be respected;

“ Decides to set up a Committee whose duty will be to conduct, in conjunction with the parties, the negotiations with a view to a settlement, on the basis of the principles set out in Chapter IX of the report of the Commission of Enquiry, and having regard to the suggestions made in Chapter X of that report;

“ Appoints, to form a Committee, the Members of the League represented on the Special Committee of Nineteen;

“ Considering it desirable that the United States of America and the Union of Soviet Socialist Republics should consent to take part in the negotiations, entrusts to the above-mentioned Committee the duty of inviting the Governments of the United States of America and the Union of Soviet Socialist Republics to take part in these negotiations;

“ Authorises it to take such measures as it may deem necessary for the successful execution of its mission;

“ Requests the Committee to report on its work before March 1st, 1933.

“ The Committee will have power to fix, in agreement with the two parties, the time-limit referred to in the Assembly resolution of July 1st, 1932; should the two parties fail to agree on the duration of such a time-limit, the Committee will, simultaneously with the presentation of its report, submit proposals to the Assembly on the subject.

“ The Assembly shall remain in session, and its President may convene it as soon as he may deem this necessary.”

Draft Resolution No. 2.

“ The Assembly thanks the Commission of Enquiry appointed in virtue of the Council's resolution of December 10th, 1931, for the valuable assistance it has afforded to the League of Nations and declares that its report will stand as an example of conscientious and impartial work.”

Statement of Reasons.

“ The Assembly, in its resolution of December 9th, 1932, requested its Special Committee:

“ (1) To study the report of the Commission of Enquiry, the observations of the parties, and the opinions and suggestions expressed in the Assembly, in whatever form they were submitted;

“ (2) To draw up proposals with a view to the settlement of the dispute brought before it under the Council resolution dated February 19th, 1932;

“ (3) To submit these proposals to the Assembly at the earliest possible moment.”

“ If the Committee had had to lay before the Assembly a picture of events and an appreciation of the general situation, it would have found all the elements necessary for such a statement in the first eight chapters of the report of the Commission of Enquiry, which, in its opinion, constitute a balanced, impartial and complete statement of the principal facts.

“ But the time has not come for such a statement. In accordance with Article 15, paragraph 3, of the Covenant, the Assembly must first of all endeavour to effect a settlement of the dispute by conciliation, and, if such efforts are successful, it shall publish a statement giving such facts as it may deem appropriate. If it fails, it is its duty, in virtue of paragraph 4 of the same article, to make a statement of the facts of the dispute and recommendations in regard thereto.

“ So long as the efforts on the basis of Article 15, paragraph 3, are continued, a sense of the responsibilities placed on the Assembly in the various contingencies provided for in the Covenant obliges it to maintain a particular reserve. Hence, the Committee has confined itself, in the draft resolution which it is to-day submitting to the Assembly, to making proposals with a view to conciliation.

“ By the Assembly's resolution of March 11th, the Special Committee was instructed to endeavour to prepare the settlement of the dispute in agreement with the parties. Since, on the other hand, it is desirable that the United States of America and the Union of Soviet Socialist Republics should join in the efforts made in collaboration with the representatives of the parties, it is proposed that the Governments of these two countries should be invited to take part in the negotiations.

“ In order to avoid misunderstandings, and to make it plain that what is contemplated at the present stage with the co-operation of two countries not Members of the League is solely the negotiation of a settlement by conciliation, the Special Committee suggests that it should be regarded for this purpose as a new Committee responsible for conducting negotiations and should be authorised in this capacity to invite the Governments of the United States of America and the Union of Soviet Socialist Republics to take part in its meetings.

“ The Negotiations Committee will have all the powers necessary for the execution of its mission. In particular, it may consult experts. It may, if it thinks fit, delegate part of its powers to one or more sub-committees, or to one or more particularly qualified persons.

"The members of the Negotiations Committee will be guided as regards matters of law by Parts I and II of the Assembly resolution of March 11th, 1932, and, as regards matters of fact, by the findings set out in the first eight chapters of the report of the Commission of Enquiry. As regards the solutions to be considered, they will seek them on the basis of the principles set out in Chapter IX of the report of the Commission of Enquiry and having regard to the suggestions made in Chapter X of the said report.

"In this connection, the Committee of Nineteen considers that, in the special circumstances which characterise the dispute, a mere return to the conditions previous to September 1931 would not suffice to ensure a durable settlement, and that the maintenance and recognition of the present regime in Manchuria could not be regarded as a solution."

On December 15th, the two draft resolutions and the statement of reasons were submitted to the parties. The Chinese and Japanese delegations proposed amendments and the President of the Committee and the Secretary-General were authorised to enter into conversations with them. On December 20th, the Committee decided to adjourn until January 16th, 1933, at latest, in order to enable the conversations to continue.

14. JAPANESE MILITARY OPERATIONS AT SHANHAIKWAN WITHIN THE GREAT WALL.

Early in January 1933 occurred the serious incidents at Shanhaikwan. Situated at the extremity of the Great Wall, halfway between Peiping and Mukden, this city has always been regarded as of great strategic importance. It is on the route followed by invaders who, coming from Manchuria, wish to penetrate into what is now the province of Hopei. Moreover, from Hopei is the easiest route into Jehol, a province which Japan regards as forming part of "Manchukuo". It was from the north of Hopei that, according to Japanese communications, Marshal Chang Hsueh-liang was sending considerable forces into Jehol and that, according to Chinese communications, the Japanese army intended to begin large-scale operations in Jehol.

A Japanese communication of December 20th, 1932,¹ reported that during the last few days the mobilisation of Chinese troops directed against Jehol was especially marked. The Japanese delegation further stated on January 4th, 1933,² that the Japanese authorities at Peiping had vainly endeavoured to persuade General Chang to stop this movement of forces, and that in these circumstances of "tension and anxiety" an incident had occurred at Shanhaikwan on the night of January 1st-2nd.

Units of the Japanese army of Kwantung passed the Great Wall and the town was attacked. It was occupied on January 3rd.

The Chinese Government asserts that, during this operation, thousands of peaceful citizens were slaughtered. It addressed a protest on January 11th to the Powers signatories of the Protocol of 1901 against the unlawful advantage taken by Japan of a special privilege claimed under the Protocol. It declared that it could not assume any responsibility for a situation resulting from the exercise by Chinese defensive forces of their legitimate right to resist the aggressive acts of the Japanese troops.³

15. FAILURE OF THE PROCEDURE FOR NEGOTIATING A SETTLEMENT.

The Committee of Nineteen met again on January 16th, 1933. It noted that, though the conversations with the representatives of the parties concerning the draft resolutions and the statement of reasons framed by it had continued, no new proposal had been received apart from the amendments submitted in December by the Chinese and Japanese delegations. The Japanese delegation, however, had stated that it was in communication with its Government regarding new proposals which would be submitted within forty-eight hours.

The Committee received these proposals on January 18th. It noted that they differed in several fundamental points from those which it had communicated to the parties on December 15th. As, however, the Japanese delegation, when submitting the new proposals of its Government, had specially emphasised that the latter attached great importance to the stipulation that the body to be appointed for the settlement of the dispute should include only Members of the League, the Committee of Nineteen felt that, if this were the only objection raised by Japan to the texts which had been communicated, it should not be impossible to settle the question in consultation with the parties. It therefore asked for supplementary information, particularly on the point whether, if this difficulty were overcome, Japan would be prepared to accept the draft resolution No. 1 of December 15th. The Committee thought it should await the Japanese reply on this point before continuing its conversations with the Chinese delegation, whose proposals did not differ so fundamentally as those of Japan from the texts communicated to the two parties.

¹ Document A(Extr.).1.1933.

² Document A(Extr.).3.1933.

³ Document A(Extr.).8.1933.

On January 21st, the Committee noted that the effect of the statements made by the Japanese delegate to its Chairman and to the Secretary-General was that the Japanese Government was not prepared to accept draft resolution No. 1, even if the provision that non-member States be invited to participate in the negotiations for a settlement were eliminated from the draft.

The Japanese delegation, in making these statements, had submitted new proposals on behalf of its Government.

The Committee, after examining these proposals (Annex 1), together with the amendments submitted by the Chinese delegation to the Committee's texts of December 15th (Annex 2), could do no more than note that it was impossible to frame a draft resolution acceptable to the two parties. The importance attached by the Chinese delegation and by the Committee itself to the participation of the United States of America and of the Union of Soviet Socialist Republics in the negotiation of a settlement made it impossible to eliminate at the sole request of Japan the provision concerning the invitation to those States, if the Committee must at the same time modify in the sense of the Japanese proposals the other provisions of draft resolution No. 1.

The Committee further noted that, even if it agreed to transform the statement of reasons into a declaration made by the Chairman on behalf of the Committee, to which the parties would be free to submit reservations, the Japanese Government did not accept the text established by the Committee on December 15th, but asked, in its new proposals, that important amendments to the text should be made which the Committee could not accept.

In view of this situation, the Committee of Nineteen noted that, after endeavouring to prepare, in accordance with the mission entrusted to it, the settlement of the dispute in agreement with the parties, it appeared to it to be impossible to submit proposals to that effect to the Assembly.

The Committee, therefore, in execution of the task entrusted to it under Part III (paragraph 5) of the resolution of March 11th, 1932, has prepared the present draft report as contemplated in Article 15, paragraph 4, of the Covenant.

In deciding to begin the preparation of this draft report, the Committee did not fail to point out that the Assembly was alone competent to apply, after the failure of the negotiations, the provisions of Article 15, paragraph 4. The Committee therefore remained at the disposal of the parties for any further proposals they might desire to communicate to it.

On February 8th, the Japanese representative submitted to the Committee further amendments to the text prepared on December 15th (Annex 3). On February 9th, the Committee, after considering these amendments, deemed it desirable to ask for further information in regard thereto, in particular whether the Japanese Government accepted as one of the bases for the contemplated conciliation Principle 7 in Chapter IX of the report of the Commission of Enquiry regarding the establishment in Manchuria of a large measure of autonomy consistent with the sovereignty and administrative integrity of China. This question was submitted to the Japanese delegation in a letter of the same date (Annex 4).

The Japanese Government replied on February 14th that it was convinced that the maintenance and recognition of the independence of "Manchukuo" were the only guarantee of peace in the Far East, and that the whole question would eventually be solved between Japan and China on that basis (Annex 5). In reply to this communication the Committee, to its deep regret, felt bound to hold that the Japanese proposals put forward on February 8th did not afford an acceptable basis for conciliation. It added that it was, of course, willing to examine up to the date of the final meeting of the Assembly any further proposals which the Japanese Government might wish to make, but that it was sure that the Japanese delegation would realise that any aggravation of the existing situation must render more difficult, if not indeed frustrate, further efforts at conciliation (Annex 6).

On the same date the Committee adopted the draft of the present report.

Part III.

CHIEF CHARACTERISTICS OF THE DISPUTE.

It will be seen from this review that for more than sixteen months the Council or Assembly has continuously tried to find a solution for the Sino-Japanese dispute. Numerous resolutions have been adopted based on various articles of the Covenant and other international agreements. The complexity, to which reference has already been made, of the historical background of the events; the special legal situation of Manchuria, where Japan, as will be noted later, exercised within Chinese territory extensive rights; finally, the involved and delicate relations existing in fact between the Chinese and Japanese authorities in certain parts of Manchuria justified and rendered necessary the prolonged efforts of negotiation and enquiry made by the League. However, the hopes entertained by the Council and the Assembly of an improvement in the situation, arising from the declarations of the parties and the resolutions adopted with their participation, were disappointed. The situation, on the contrary, tended to grow constantly worse. In Manchuria, or other parts of the territory of a Member of the League, military operations, which the report of the Commission of Enquiry has described as "war in disguise", continued and still continue.

Having considered the principal features of the dispute, the Assembly has reached, in particular, the following conclusions and noted the following facts:

1. The dispute between China and Japan which is submitted to the Assembly originated in Manchuria, which China and foreign Powers have always regarded as an integral part of China

under Chinese sovereignty. In its observations on the report of the Commission of Enquiry,¹ the Japanese Government contests the argument that the rights conferred on Russia and subsequently acquired by Japan "in the extremely limited area known as the Southern Manchuria Railway zone" conflict with Chinese sovereignty. "They were, on the contrary, derived from the sovereignty of China."

The rights conferred by China on Russia and subsequently on Japan derive from the sovereignty of China. Under the Treaty of Peking in 1905, "the Imperial Chinese Government consented to all the transfers and assignments made by Russia to Japan" under the Treaty of Portsmouth. In 1915, it was to China that Japan addressed demands for the extension of her rights in Manchuria and it was with the Government of the Chinese Republic that, following on these demands, the Treaty of May 25th, 1915, was concluded concerning South Manchuria and Eastern Inner Mongolia. At the Washington Conference, the Japanese delegation stated, on February 2nd, 1922, that Japan renounced certain preferential rights in South Manchuria and Eastern Inner Mongolia and explained that, "in coming to this decision, Japan had been guided by a spirit of fairness and moderation, having always in view China's sovereign rights and the principle of equal opportunity."² The Nine-Power Treaty, concluded at the Washington Conference, applies to Manchuria as to every other part of China. Finally, during the first phase of the present conflict, Japan never argued that Manchuria was not an integral part of China.

2. Past experience shows that those who control Manchuria exercise a considerable influence on the affairs of the rest of China—at least of North China—and possess unquestionable strategic and political advantages. To cut off these provinces from the rest of China cannot but create a serious irredentist problem likely to endanger peace.

3. The Assembly, in noting these facts, is not unmindful of the tradition of autonomy existing in Manchuria. That tradition, in one extreme case, and in a period of particular weakness on the part of the Central Government of China, made it possible, for instance, for the plenipotentiaries of Marshal Chang Tso-lin to conclude, in the name of the "Government of the autonomous three Eastern Provinces of the Republic of China", the agreement of September 20th, 1924, with the Union of Soviet Socialist Republics concerning the Chinese Eastern Railway, navigation, the delimitation of frontiers, etc. It is obvious from the provisions of that agreement, however, that the Government of the autonomous three Eastern Provinces did not regard itself as the Government of a State independent of China, but believed that it might itself negotiate with the Union of Soviet Socialist Republics on questions affecting the interests of China in the three provinces, though the Central Government had, a few months previously, concluded an agreement on these questions with the self-same Power.

This autonomy of Manchuria was also shown by the fact that, first, Marshal Chang Tso-lin and later Marshal Chang Hsueh-liang were the heads both of the civil and military administration and exercised the effective power in the three provinces through their armies and their officials. The independence proclaimed by Marshal Chang Tso-lin at different times never meant that either he or the people of Manchuria wished to be separated from China. His armies did not invade China as if it were a foreign country but merely as participants in the civil war. Through all its wars and periods of "independence", Manchuria remained an integral part of China. Further, since 1928, Marshal Chang Hsueh-liang has recognised the authority of the Chinese National Government.

4. During the quarter of a century ending in September 1931, the political and economic ties uniting Manchuria with the rest of China grew stronger, while, at the same time, the interests of Japan in Manchuria did not cease to develop. Under the Chinese Republic, the "three Eastern Provinces" constituting Manchuria were thrown wide to the immigration of Chinese from the other provinces who, by taking possession of the land, have made Manchuria in many respects a simple extension of China north of the Great Wall. In a population of about 30 millions, it is estimated that the Chinese or assimilated Manchus number 28 millions. Moreover, under the administration of Marshals Chang Tso-lin and Chang Hsueh-liang, the Chinese population and Chinese interests have played a much more important part than formerly in the development and organisation of the economic resources of Manchuria.

On the other hand, Japan had acquired or claimed in Manchuria rights the effect of which was to restrict the exercise of sovereignty by China in a manner and to a degree quite exceptional. Japan governed the leased territory of Kwantung, exercising therein what amounted in practice to full sovereignty. Through the medium of the South Manchuria Railway, she administered the railway zones, including several towns and important parts of populous cities, such as Mukden and Changchun. In these areas, she had control of the police, taxes, education and public utilities. She maintained armed forces in certain parts of the country: the army of Kwantung in the leased territory; railway guards in the railway zones; consular police in the various districts. Such a state of affairs might perhaps have continued without leading to complications and incessant disputes if it had been freely desired or accepted by both parties and if it had been the expression and manifestation of a well-understood policy of close economic and political co-operation. But, in the absence of such conditions, it was bound to lead to mutual misunderstandings and conflicts. The interconnection of respective rights, the uncertainty at times of the legal situation, the increasing opposition between the conception held by the Japanese of their "special position"

¹ Document C.775.1932, page 18.

² Conference on the Limitation of Armaments, Washington, 1922, page 1512.

in Manchuria and the claims of Chinese nationalism were a further source of numerous incidents and disputes.

5. Before September 18th, 1931, each of the two parties had legitimate grievances against the other in Manchuria, Japan taking advantage of rights open to question and the Chinese authorities putting obstacles in the way of the exercise of rights which could not be contested. During the period immediately preceding the events of September 18th, various efforts were made to settle the questions outstanding between the two parties by the normal method of diplomatic negotiations and pacific means, and these means had not been exhausted. Nevertheless, the tension between Chinese and Japanese in Manchuria increased and a movement of opinion in Japan advocated the settlement of all outstanding questions—if necessary, by force.

6. The present period of transition and national reconstruction in China, despite the efforts of the Central Government and the considerable progress already achieved, necessarily involves political disturbances, social disorder and disruptive tendencies inseparable from a state of transition. It calls for the employment of a policy of international co-operation. One of the methods of that policy would be that the League of Nations would continue to afford China the technical assistance in modernising her institutions which her Government might request with a view to enabling the Chinese people to re-organise and consolidate the Chinese State.

The full application of the policy of international co-operation initiated at the Washington Conference, the principles of which are still valid, has been delayed, chiefly by the violence of the anti-foreign propaganda carried on in China from time to time. In two respects—the use of the economic boycott and anti-foreign teaching in schools—this propaganda has been pushed to such lengths that it has contributed to creating the atmosphere in which the present dispute broke out.

7. The use of the boycott by the Chinese previous to the events of September 18th, 1931, to express their indignation at certain incidents or to support certain claims could not fail to make a situation which was already tense still more tense.

The use of the boycott by China, subsequent to the events of September 18th, 1931, falls under the category of reprisals.

8. The object of the provisions of the Covenant of the League of Nations regarding the settlement of disputes is to prevent the tension between nations becoming such that a rupture appears to be inevitable. The Commission of Enquiry found that each of the issues between China and Japan was in itself capable of settlement by arbitral procedure. It is precisely because the accumulation of these issues increased the tension between the two nations that it was incumbent on the nation which regarded itself as injured to draw the attention of the League of Nations to the situation when diplomatic negotiations were unduly protracted.

Article 12 of the Covenant contains formal obligations as regards the pacific settlement of disputes.

9. Without excluding the possibility that, on the night of September 18th-19th, 1931, the Japanese officers on the spot may have believed that they were acting in self-defence, the Assembly cannot regard as measures of self-defence the military operations carried out on that night by the Japanese troops at Mukden and other places in Manchuria. Nor can the military measures of Japan as a whole, developed in the course of the dispute, be regarded as measures of self-defence. Moreover, the adoption of measures of self-defence does not exempt a State from complying with the provisions of Article 12 of the Covenant.

10. Since September 18th, 1931, the activities of the Japanese military authorities, in civil as well as in military matters, have been marked by essentially political considerations. The progressive military occupation of the Three Eastern Provinces removed in succession all the important towns in Manchuria from the control of the Chinese authorities, and, following each occupation, the civil administration was re-organised. A group of Japanese civil and military officials conceived, organised and carried through the Manchurian independence movement as a solution to the situation in Manchuria as it existed after the events of September 18th, and, with this object, made use of the names and actions of certain Chinese individuals and took advantage of certain minorities and native communities that had grievances against the Chinese administration. This movement, which rapidly received assistance and direction from the Japanese General Staff, could only be carried through owing to the presence of the Japanese troops. It cannot be considered as a spontaneous and genuine independence movement.

11. The main political and administrative power in the "Government" of "Manchukuo", the result of the movement described in the previous paragraph, rests in the hands of Japanese officials and advisers, who are in a position actually to direct and control the administration; in general, the Chinese in Manchuria, who, as already mentioned, form the vast majority of the population, do not support this "Government" and regard it as an instrument of the Japanese. It should also be noted that, after the Commission of Enquiry completed its report and before the report was considered by the Council and the Assembly, "Manchukuo" was recognised by Japan. It has not been recognised by any other State, the Members of the League in particular being of opinion that such recognition was incompatible with the spirit of the resolution of March 11th, 1932.

* * *

The situation which led up to the events of September 18th, 1931, presents certain special features. It was subsequently aggravated by the development of the Japanese military operations, the creation of the "Manchukuo Government" and the recognition of that "Government"

by Japan. Undoubtedly the present case is not that of a country which has declared war on another country without previously exhausting the opportunities for conciliation provided in the Covenant of the League of Nations; neither is it a simple case of the violation of the frontier of one country by the armed forces of a neighbouring country, because in Manchuria, as shown by the circumstances noted above, there are many features without an exact parallel in other parts of the world. It is, however, indisputable that, without any declaration of war, a large part of Chinese territory has been forcibly seized and occupied by Japanese troops and that, in consequence of this operation, it has been separated from and declared independent of the rest of China.

The Council, in its resolution of September 30th, 1931, noted the declaration of the Japanese representative that his Government would continue, as rapidly as possible, the withdrawal of its troops, which had already been begun, into the railway zone in proportion as the safety of the lives and property of Japanese nationals was effectively ensured, and that it hoped to carry out this intention in full as speedily as might be. Further, in its resolution of December 10th, 1931, the Council, re-affirming its resolution of September 30th, noted the undertaking of the two parties to adopt all measures necessary to avoid any further aggravation of the situation and to refrain from any initiative which might lead to further fighting and loss of life.

It should be pointed out in connection with these events that, under Article 10 of the Covenant, the Members of the League undertake to respect the territorial integrity and existing political independence of all Members of the League.

Lastly, under Article 12 of the Covenant, the Members of the League agree that, if there should arise between them any dispute likely to lead to a rupture, they will submit the matter either to arbitration or judicial settlement or to enquiry by the Council.

While at the origin of the state of tension that existed before September 18th, 1931, certain responsibilities would appear to lie on one side and the other, no question of Chinese responsibility can arise for the development of events since September 18th, 1931.

Part IV.

STATEMENT OF THE RECOMMENDATIONS.

This part sets forth the recommendations which the Assembly deems just and proper in regard to the dispute.

SECTION I.

The recommendations of the Assembly take into account the very special circumstances of this case and are based on the following principles, conditions and considerations:

(a) The settlement of the dispute should observe the provisions of the Covenant of the League, the Pact of Paris, and the Nine-Power Treaty of Washington.

Article 10 of the Covenant of the League provides that "the Members of the League undertake to respect and preserve as against external aggression the territorial integrity and existing political independence of all Members of the League".

According to Article II of the Pact of Paris, "the High Contracting Parties agree that the settlement or solution of all disputes or conflicts of whatever nature, or of whatever origin they may be, which may arise among them, shall never be sought except by pacific means".

According to Article 1 of the Nine-Power Treaty of Washington, "the Contracting Powers, other than China, agree to respect the sovereignty, the independence, and the territorial and administrative integrity of China".

(b) The settlement of the dispute should observe the provisions of Parts I and II of the Assembly resolution of March 11th, 1932.

In that resolution, which has already been quoted in this report, the Assembly considered that the provisions of the Covenant were entirely applicable to the present dispute, more particularly as regards:

- (1) The principle of a scrupulous respect for treaties;
- (2) The undertaking entered into by Members of the League of Nations to respect and preserve as against external aggression the territorial integrity and existing political independence of all the Members of the League;
- (3) Their obligation to submit any dispute which may arise between them to procedures for peaceful settlement.

The Assembly has adopted the principles laid down by the President-in-Office of the Council in his declaration of December 10th, 1931, and has recalled the fact that twelve Members of the Council had again invoked those principles in their appeal to the Japanese Government on February 16th, 1932, when they declared that no infringement of the territorial integrity and no change in the political independence of any Member of the League brought about in disregard of Article 10 of the Covenant ought to be recognised as valid and effectual by Members of the League.

The Assembly has stated its opinion that the principles governing international relations and the peaceful settlement of disputes between Members of the League above referred to are in full harmony with the Pact of Paris. Pending the steps which it might ultimately take for the settlement of the dispute which had been referred to it, it has proclaimed the binding nature of the principles and provisions referred to above and declared that it was incumbent upon the Members of the League not to recognise any situation, treaty or agreement which might be brought about by means contrary to the Covenant of the League of Nations or to the Pact of Paris.

Lastly, the Assembly has affirmed that it is contrary to the spirit of the Covenant that the settlement of the Sino-Japanese dispute should be sought under the stress of military pressure on the part of either party, and has recalled the resolutions adopted by the Council on September 30th and December 10th, 1931, in agreement with the parties.

(c) In order that a lasting understanding may be established between China and Japan on the basis of respect for the international undertakings mentioned above, the settlement of the dispute must conform to the principles and conditions laid down by the Commission of Enquiry in the following terms:

" 1. *Compatibility with the interests of both China and Japan.*

" Both countries are Members of the League and each is entitled to claim the same consideration from the League. A solution from which both did not derive benefit would not be a gain to the cause of peace.

" 2. *Consideration for the interests of the Union of Soviet Socialist Republics.*

" To make peace between two of the neighbouring countries without regard for the interests of the third would be neither just nor wise, nor in the interests of peace.

" 3. *Conformity with existing multilateral treaties.*

" Any solution should conform to the provisions of the Covenant of the League of Nations, the Pact of Paris, and the Nine-Power Treaty of Washington.

" 4. *Recognition of Japan's interests in Manchuria.*

" The rights and interests of Japan in Manchuria are facts which cannot be ignored, and any solution which failed to recognise them and to take into account also the historical associations of Japan with that country would not be satisfactory.

" 5. *The establishment of new treaty relations between China and Japan.*

" A re-statement of the respective rights, interests and responsibilities of both countries in Manchuria in new treaties, which shall be part of the settlement by agreement, is desirable if future friction is to be avoided and mutual confidence and co-operation are to be restored.

" 6. *Effective provision for the settlement of future disputes.*

" As a corollary to the above, it is necessary that provision should be made for facilitating the prompt settlement of minor disputes as they arise.

" 7. *Manchurian autonomy.*

" The Government in Manchuria should be modified in such a way as to secure, consistently with the sovereignty and administrative integrity of China, a large measure of autonomy designed to meet the local conditions and special characteristics of the Three Provinces. The new civil regime must be so constituted and conducted as to satisfy the essential requirements of good government.

" 8. *Internal order and security against external aggression.*

" The internal order of the country should be secured by an effective local gendarmerie force, and security against external aggression should be provided by the withdrawal of all armed forces other than gendarmerie, and by the conclusion of a treaty of non-aggression between the countries interested.

" 9. *Encouragement of an economic rapprochement between China and Japan.*

" For this purpose, a new commercial treaty between the two countries is desirable. Such a treaty should aim at placing on an equitable basis the commercial relations between the two countries and bringing them into conformity with their improved political relations.

" 10. *International co-operation in Chinese reconstruction.*

" Since the present political instability in China is an obstacle to friendship with Japan and an anxiety to the rest of the world (as the maintenance of peace in the Far East is a

matter of international concern), and since the conditions enumerated above cannot be fulfilled without a strong Central Government in China, the final requisite for a satisfactory solution is temporary international co-operation in the internal reconstruction of China, as suggested by the late Dr. Sun Yat-sen."

SECTION II.

The provisions of this section constitute the recommendations of the Assembly under Article 15, paragraph 4, of the Covenant.

Having defined the principles, conditions and considerations applicable to the settlement of the dispute,

THE ASSEMBLY RECOMMENDS AS FOLLOWS:

1. Whereas the sovereignty over Manchuria belongs to China,

A. Considering that the presence of Japanese troops outside the zone of the South Manchuria Railway and their operations outside this zone are incompatible with the legal principles which should govern the settlement of the dispute, and that it is necessary to establish as soon as possible a situation consistent with these principles,

The Assembly recommends the evacuation of these troops. In view of the special circumstances of the case, the first object of the negotiations recommended hereinafter should be to organise this evacuation and to determine the methods, stages and time-limits thereof.

B. Having regard to the local conditions special to Manchuria, the particular rights and interests possessed by Japan therein, and the rights and interests of third States,

The Assembly recommends the establishment in Manchuria, within a reasonable period, of an organisation under the sovereignty of, and compatible with the administrative integrity of, China. This organisation should provide a wide measure of autonomy, should be in harmony with local conditions and should take account of the multilateral treaties in force, the particular rights and interests of Japan, the rights and interests of third States, and, in general, the principles and conditions reproduced in Section I (c) above; the determination of the respective powers of and relations between the Chinese Central Government and the local authorities should be made the subject of a Declaration by the Chinese Government having the force of an international undertaking.

2. Whereas, in addition to the questions dealt with in the two recommendations 1A and 1B, the report of the Commission of Enquiry mentions in the principles and conditions for a settlement of the dispute set out in Section I (c) above certain other questions affecting the good understanding between China and Japan, on which peace in the Far East depends,

The Assembly recommends the parties to settle these questions on the basis of the said principles and conditions.

3. Whereas the negotiations necessary for giving effect to the foregoing recommendations should be carried on by means of a suitable organ,

The Assembly recommends the opening of negotiations between the two parties in accordance with the method specified hereinafter.

Each of the parties is invited to inform the Secretary-General whether it accepts, so far as it is concerned, the recommendations of the Assembly, subject to the sole condition that the other party also accepts them.

The negotiations between the parties should take place with the assistance of a Committee set up by the Assembly as follows: The Assembly hereby invites the Governments of¹ . . . each to appoint a member of the Committee as soon as the Secretary-General shall have informed them that the two parties accept the Assembly's recommendations. The Secretary-General shall also notify the Governments of the United States of America and of the Union of Soviet Socialist Republics of this acceptance and invite each of them to appoint a member of the Committee should it so desire. Within one month after having been informed of the acceptance of the two parties, the Secretary-General shall take all suitable steps for the opening of negotiations.

In order to enable the Members of the League, after the opening of negotiations, to judge whether each of the parties is acting in conformity with the Assembly's recommendations:

(a) The Committee will, whenever it thinks fit, report on the state of the negotiations, and particularly on the negotiations with regard to the carrying out of recommendations 1A and B above; as regards recommendation 1A, the Committee will in any case report within three months of the opening of negotiations. These reports shall be communicated by the Secretary-General to the Members of the League and to the non-member States represented on the Committee;

(b) The Committee may submit to the Assembly all questions relating to the interpretation of Section II of Part IV of the present report. The Assembly shall give this interpretation in the same conditions as those in which the present report is adopted, in conformity with Article 15, paragraph 10, of the Covenant.

¹ Cf. Addendum to this document (A(Extr.).22(a).1933.VII).

SECTION III.

In view of the special circumstances of the case, the recommendations made do not provide for a mere return to the *status quo* existing before September 1931. They likewise exclude the maintenance and recognition of the existing regime in Manchuria, such maintenance and recognition being incompatible with the fundamental principles of existing international obligations and with the good understanding between the two countries on which peace in the Far East depends.

It follows that, in adopting the present report, the Members of the League intend to abstain, particularly as regards the existing regime in Manchuria, from any act which might prejudice or delay the carrying out of the recommendations of the said report. They will continue not to recognise this regime either *de jure* or *de facto*. They intend to abstain from taking any isolated action with regard to the situation in Manchuria and to continue to concert their action among themselves as well as with the interested States not members of the League. As regards the Members of the League who are signatories of the Nine-Power Treaty, it may be recalled that, in accordance with the provisions of that Treaty: "Whenever a situation arises which, in the opinion of any one of them, involves the application of the stipulations of the present Treaty and renders desirable discussion of such application, there shall be full and frank communication between the contracting Powers concerned".

In order to facilitate as far as possible the establishment in the Far East of a situation in conformity with the recommendations of the present report, the Secretary-General is instructed to communicate a copy of this report to the States non-members of the League who are signatories of the Pact of Paris or of the Nine-Power Treaty, informing them of the Assembly's hope that they will associate themselves with the views expressed in the report, and that they will, if necessary, concert their action and their attitude with the Members of the League.

Annex 1.

PROPOSALS MADE BY THE JAPANESE GOVERNMENT ON JANUARY 21ST, 1933.

A. DRAFT RESOLUTION No. 1.

The Assembly,

1. Recalling that, according to the terms of Article 15 of the Covenant, its first duty is to endeavour to effect a settlement of the dispute and that consequently it is not at present called upon to draw up a report stating the facts of the dispute and its recommendations in regard thereto;
2. Considering that, by its resolution of March 11th, 1932, it laid down the principles determining the attitude of the League of Nations in regard to the settlement of the dispute;
3. Considering that the principles set forth in Chapter IX of the report of the Commission of Enquiry constitute the useful basis for effecting such a settlement, and affirming that in such a settlement the provisions of the Covenant of the League of Nations, the Pact of Paris and the Nine-Power Treaty must be respected;
4. Considering that, in the best interest of world peace, it is its duty to determine how these principles can be applied to the development of the situation in the Far East;
5. Decides that for this practical work of settlement the Special Committee of Nineteen shall appoint from among its members a small committee to contribute towards a final and fundamental solution by the two parties of the questions at issue between them;
6. Authorises this small committee to take such measures as it may deem necessary for the successful execution of its mission;
7. Requests this committee to keep the Special Committee of Nineteen informed of its work, in order that the latter may be able to report to the Assembly before March 1st, 1933.
8. The Special Committee of Nineteen will have power to fix, in agreement with the two parties, the time-limit referred to in the Assembly resolution of July 1st, 1932; should the two parties fail to agree on the duration of such a time-limit, the Committee will submit proposals to the Assembly on the subject simultaneously with the presentation of its final report regarding the task entrusted to it by the Assembly under Article 15, paragraph 3.
9. The Assembly shall remain in session and its President may convene it as soon as he may deem necessary.

B. DRAFT RESOLUTION No. 2.

The Assembly thanks the Commission of Enquiry appointed in virtue of the Council's resolution of December 10th, 1931, for the valuable assistance it has afforded to the League of Nations, and declares that its report constitutes an invaluable contribution to the efforts of the League for the maintenance of peace.

C. DRAFT DECLARATION BY THE PRESIDENT.

1. The Assembly, in its resolution of December 9th, 1932, requested its Special Committee:
 - “ (1) To study the report of the Commission of Enquiry, the observations of the parties, and the opinions and suggestions expressed in the Assembly, in whatever form they were submitted;
 - “ (2) To draw up proposals with a view to the settlement of the dispute brought before it under the Council resolution dated February 19th, 1932.
 - “ (3) To submit these proposals to the Assembly at the earliest possible moment.”
2. If the Committee had had to lay before the Assembly a picture of events and an appreciation of the general situation, it would have found the elements necessary for such a statement in the first eight chapters of the report of the Commission of Enquiry.
3. But the time has not come for such a statement. In accordance with Article 15, paragraph 3, of the Covenant, the Assembly must first of all endeavour to effect a settlement of the dispute by conciliation, and, if such efforts are successful, it shall publish a statement giving such facts as it may deem appropriate.
4. So long as the efforts on the basis of Article 15, paragraph 3, are continued, a sense of the responsibilities placed on the Assembly in the various contingencies provided for in the Covenant obliges it to maintain a particular reserve. Hence, the Committee has confined itself, in the draft resolution which it is to-day submitting to the Assembly, to making proposals with a view to the settlement of the dispute.
5. By the Assembly's resolution of March 11th, the Special Committee was instructed to endeavour to prepare the settlement of the dispute in agreement with the parties.
6. For the practical work of settlement it is proposed that the Special Committee should appoint from among its members a small committee to contribute towards a final and fundamental solution by the two parties of the questions at issue between them.
7. The small committee will have all the powers necessary for the execution of its mission. In particular, it may consult experts and utilise their services.
8. The members of the small committee will be guided as regards matters of law by the principles of the Assembly resolution of March 11th, 1932, and, as regards matters of fact, taking into account the observations of the parties, by the findings set out in the first eight chapters of the report of the Commission of Enquiry. As regards the solutions to be considered, they will seek them as laid down in paragraphs 3 and 4 of the resolution according to the principles set out in Chapter IX of the report of the Commission of Enquiry.
9. The report of the Special Committee of Nineteen will be submitted to the Assembly, which will take such decision as may be appropriate thereto. Further, in order that the settlement of the dispute may not be made more difficult, the Committee firmly expects, and I feel sure that the Assembly will agree, that no Member of the League will take action which is not in conformity with the principles contained in the Covenant of the League of Nations, the Pact of Paris, the Nine-Power Treaty, its own resolution of March 11th and the present resolution.

Annex 2.

MEMORANDUM OF THE CHINESE DELEGATION PROPOSING CERTAIN
AMENDMENTS TO THE RESOLUTION AND STATEMENT OF REASONS
DRAWN UP BY THE DRAFTING COMMITTEE.

Geneva, December 26th, 1932.

I.

1. In the conversations which they had the honour to hold with the Acting President of the Drafting Committee on December 16th and with certain members of the Committee on December 17th and 18th, the Chinese delegation drew attention to the basis which they had stated in the Special Assembly to be indispensable for a just settlement and conveyed to them the disappointment of the Chinese Government at the contents of the proposed draft resolution. A few essential modifications were suggested for the draft resolution and the statement of reasons, with a view to safeguarding the indisputable rights of China and the fundamental principles of the Covenant and other peace instruments.
2. In order to facilitate reference and consideration, the Chinese delegation deem it desirable to present their proposed modifications in the form of amendments, with a word of explanation for each. These following amendments are presented with special consideration for the effort at conciliation, and without prejudice to the original requests of the Chinese Government as stated in the Special Assembly, upon which they reserve the right of insisting:

A. That the fourth paragraph in the draft resolution No. 1 be amended to read:

“ Decides to set up a committee whose duty will be to conduct, in conjunction with the parties, the negotiations with a view to a settlement, guided by the findings of essential facts set out in the first eight chapters of the report of the Commission of Enquiry, and on the basis of the principles laid down in its aforesaid resolution of March 11th, 1932, and those set out in Chapter IX of the said report, taking special note that the maintenance and recognition of the present regime in Manchuria cannot be regarded as a solution.”

B. That the ninth paragraph in the same draft be amended to read:

“ The Committee will have power to fix, in agreement with the two parties, the time-limit referred to in the Assembly resolution of July 1st, 1932; should the two parties fail to agree on the duration of such a time-limit the Committee, simultaneously with the presentation of its report, or the Special Committee of Nineteen, will submit proposals to the Assembly for a time-limit which, if it is necessary to make a report as provided for under paragraph 4 of Article 15 of the Covenant, shall not exceed one month from the date of such submission.”

C. That the last paragraph of the “ Statement of Reasons ” be amended to read:

“ In this connection the Committee of Nineteen considers that, in the special circumstances which characterise the dispute, while fully respecting the sovereignty and the territorial and administrative integrity of China, a mere return to the *de facto* condition previous to September 1931 would not suffice to ensure a durable settlement, and that the maintenance and recognition of the present regime in Manchuria could not be regarded as a solution.”

II.

3. The addition of the phrase “ guided by the findings of essential facts set out in the first eight chapters of the report of the Commission of Enquiry ” is intended to preclude a debate on questions of facts relating to the origin, development and present character of the situation in Manchuria. These facts have been authoritatively ascertained by the Commission of Enquiry and want of mention in the draft resolution might give rise to a renewed discussion about them which could not serve any useful purpose. In fact, the League of Nations had deliberately deferred its efforts to effect a final settlement of the Sino-Japanese conflict in order to await an impartial account from the Commission of Enquiry of the relevant facts involved in the Manchurian situation. Now this account is available to the League. If it is to be overlooked or not to be fully utilised as the definitive basis of facts in the present attempt to find a solution, then all the delay in the past, which has entailed upon China a terrible sacrifice in lives lost, property destroyed and more territory invaded, has been meaningless and unwarranted.

4. It is believed, however, that, far from wishing to undermine the value of the essential findings of the report relating to Manchuria, the Drafting Committee's intentions generally correspond with the views of the Chinese delegation, as reference is made to these findings in the Statement of Reasons. For these considerations, therefore, it appears necessary to make specific mention in the text of the draft resolution itself.

5. The inclusion of the principles laid down in the Assembly resolution of March 11th, 1932, in the basis for a settlement of the Sino-Japanese conflict is necessary. The reference to the same resolution in the second paragraph of the draft resolution, while useful, is not sufficiently clear as to its purport. The March 11th resolution of the Assembly, not only enunciates the fundamental principle of non-recognition of any situation, treaty or agreement brought about by means contrary to the Covenant of the League and the Pact of Paris, but also recalls the continuing validity of the Council resolutions of September 30th and December 10th, 1931, to both of which China attaches great importance. In any settlement the execution of these resolutions of the Assembly and the Council, which unquestionably remain in full force, should, in the opinion of the Chinese delegation, constitute an essential and preliminary consideration.

6. The emphasis laid upon the clause that “ the maintenance and recognition of the present regime in Manchuria cannot be regarded as a solution ” is dictated by the fact that it embodies a fundamental principle of the sanctity of international peace instruments. The Covenant of the League and the Pact of Paris both enjoin the peaceful settlement of international disputes, while the Nine-Power Treaty of Washington specifically obligates the signatory parties to respect the sovereignty, the independence, and the territorial and administrative integrity of China. It was clearly in consideration of the paramount importance of preserving the sanctity of these instruments that the Special Assembly enunciated the principle of non-recognition in its resolution of March 11th, 1932, referred to above. The Commission of Enquiry, too, has stressed this point in its report. Any equivocation on this point would be interpreted by the world as a surrender on the part of the League of one of the most fundamental principles of its establishment and existence. The Chinese delegation desire to state clearly that, for their part, an explicit provision for the non-recognition and non-continuation of the present regime in Manchuria is an indispensable condition to their participation in any procedure looking to a final settlement.

7. It is proposed to omit reference to Chapter X of the report of the Commission of Enquiry because the suggestions contained therein, to quote the words of the report, "are intended as an illustration of one way in which the conditions we have laid down in the preceding chapter might be met". They are not necessary or indispensable elements of a fair and practical solution. Besides, in the view of the Chinese Government, several suggestions are objectionable in principle, while others, if adopted, would be difficult of execution in the light of the existing circumstances.

III.

8. The second amendment is proposed with a view to elucidating two points which the Chinese delegation believe to be of importance. The fixing of a time-limit is a constitutional question, proposals for the determination of which it is incumbent upon the League Members alone to submit. For this purpose the Committee of Nineteen would be the competent body to make suggestions, especially as the Special Assembly in July last has expressly entrusted it with this duty. But, according to the text of the draft resolution under consideration, it would appear to be the Special Committee to be set up which would be expected to submit proposals on the subject. A change of wording such as suggested in the amendment under discussion would not only meet the point but also serve to make clear that the creation of the proposed Special Committee does not prejudice the continued existence of the Committee of Nineteen nor affect its functions and duties entrusted to it by the Special Assembly other than those now to be delegated to the Special Committee.

9. The fixing of a definite period of time within which a report under paragraph 4 of Article 15 of the Covenant shall be made is considered especially important for the double purpose of securing an early settlement of the Sino-Japanese conflict and ensuring that this significant safeguard provided in the Covenant may not be further impaired. The Chinese delegation believe that the framers of the Covenant, which is clearly intended to be of universal application, were not unaware of the possible rise of complicated issues, and they provided the maximum period of six months for making a final report with that purpose in view. Only such a safeguard could inspire a sense of security that a breach of this organic law of the League, wherever arising, would be speedily dealt with and redress for the suffering party might be obtained without undue delay.

IV.

10. The amendment to the final paragraph of the Statement of Reasons consists in inserting the clause, "While fully respecting the sovereignty and the territorial and administrative integrity of China", and replacing the word "that" with the phrase "*de facto*". The purpose of this proposal is to emphasise a distinction of which the Drafting Committee has undoubtedly been already aware, between the *de facto* and the *de jure* character of the *status quo ante*. While the Chinese Government has no objection to effecting, of its own accord, desirable changes in the administration of Manchuria as it existed prior to September 1931, it cannot admit or agree that China's legal position in her Three Eastern Provinces should in any way be prejudiced in any settlement of the Sino-Japanese conflict. The proposed addition, it is believed, will help to clarify this point.

11. The Chinese delegation trust that the Committee of Nineteen will see its way to accept and incorporate in the final text of the draft resolution and Statement of Reasons the amendments which are herein above presented and explained and which the Chinese Government deems essential. They also wish to add that they reserve the right of suggesting additional amendments on further study or if other changes are made in the two texts as originally communicated to them.

Annex 3.

PROPOSALS HANDED TO THE SECRETARY-GENERAL BY THE REPRESENTATIVE OF JAPAN ON FEBRUARY 8TH, 1933.¹

I. DRAFT RESOLUTION No. I.

Draft of the Committee of Nineteen.

4. Decides to set up a Committee whose duty will be to conduct, in conjunction with the Parties, the negotiations with a view to a settlement, on the basis of the principles set out in Chapter IX of the report of the Commission of Enquiry, and having regard to the suggestions made in Chapter X of that report.

Amendment proposed.

4. Decides that it shall be the duty of the Committee of Nineteen to endeavour, in conjunction with the two Parties, to secure conciliation with a view to a settlement on the basis of the principles and conclusions set out in Chapter IX of the report of the Commission of Enquiry, "applying them to events which have developed" (page 132 of the Report of the Commission of Enquiry).

¹ Note by the Secretary-General. — These proposals assume that the passages in the resolution and Statement of Reasons (which would become a declaration of the President) regarding the invitation to Powers non-members of the League to participate in the Negotiations Committee are omitted.

2. DRAFT RESOLUTION No. 2.

Draft of the Committee of Nineteen.

Amendment proposed.

The Assembly thanks the Commission of Enquiry appointed in virtue of the Council's resolution of December 10th, 1931, for the valuable assistance it has afforded to the League of Nations and declares that its report

will stand as an example of conscientious and impartial work.

constitutes an invaluable contribution to the efforts of the League for the maintenance of peace.

3. DRAFT DECLARATION BY THE PRESIDENT.

A.

Draft of the Committee of Nineteen.

Amendment proposed.

If the Committee had had to lay before the Assembly a picture of events and an appreciation of the general situation,

it would have found all the elements necessary for such a statement in the first eight chapters of the report of the Commission of Enquiry, which in its opinion constituted a balanced, impartial and complete statement of the principal facts.

it would have found all the elements necessary for such a statement in the first eight chapters of the report of the Commission of Enquiry, which in its opinion constituted an invaluable contribution to the efforts of the League for the maintenance of peace.

B.

Draft of the Committee of Nineteen.

Amendment proposed.

8. The Members of the Negotiations Committee will be guided as regards matters of law by Parts I and II of the Assembly resolution of March 11th, 1932, and as regards matters of fact by the findings set out in the first eight chapters of the report of the Commission of Enquiry. As regards the solutions to be considered, they will seek them on the basis of the principles set out in Chapter IX of the report of the Commission of Enquiry and having regard to the suggestions made in Chapter X of the said report.

8. The Members of the Committee will be guided as regards matters of law by Parts I and II of the Assembly resolution of March 11th, 1932, and as regards matters of fact by the findings set out in the first eight chapters of the report of the Commission of Enquiry. As regards the solutions to be considered, they will seek them, in conformity with paragraph 4 of the Resolution, on the basis of the principles and conclusions set out in Chapter IX of the report of the Commission of Enquiry, applying them to events which have developed.

C.

Draft of the Committee of Nineteen.

Amendment proposed.

9. In this connection the Committee of Nineteen considers that, in the special circumstances which characterise the dispute, a mere return to the conditions previous to September 1931 would not suffice to ensure a durable settlement, and that the maintenance and recognition of the present regime in Manchuria could not be regarded as a solution.

9. In this connection the Committee of Nineteen notes that Japan has recognised the present regime established in Manchuria and that no other Member of the League has done so.

It is to be noted that the report of the Commission of Enquiry states, in Chapter IX, the principles and conclusions of which the Assembly has adopted in paragraph 4 of the Resolution as the basis of the negotiations for a settlement, that a mere return to the conditions previous to September 1931 would not suffice to ensure a durable settlement, and that the maintenance and recognition of the present regime in Manchuria could not be regarded as a solution, and also that a satisfactory regime for the future might be evolved out of the present one without any violent change (page 130).

Annex 4.

LETTER ADDRESSED BY THE SECRETARY-GENERAL TO THE REPRESENTATIVE
OF JAPAN ON BEHALF OF THE COMMITTEE OF NINETEEN.

Geneva, February 9th, 1933.

The Committee of Nineteen considered most carefully the new proposals which Your Excellency submitted to it yesterday. The Committee desired me to express to Your Excellency its sincere appreciation of the efforts made by the Japanese Government to meet the Committee's views.

There is, however, one essential point on which the Committee desires further information. The Japanese Government declares its willingness to accept as the basis of conciliation the principles and conclusions set out in Chapter IX of the Report of the Commission of Enquiry. Principle 7 of that Report is as follows:

" 7. *Manchurian Autonomy*:

" The Government in Manchuria should be modified in such a way as to secure, consistently with the sovereignty and administrative integrity of China, a large measure of autonomy designed to meet the local conditions and special characteristics of the Three Provinces. The new civil regime must be so constituted and conducted as to satisfy the essential requirements of good government."

The Committee therefore assumes that, as by the acceptance of this principle the Japanese Government recognises that the continuance of the existence of the " Manchukuo ", which it has recognised as an independent State, cannot afford a solution of the present dispute, it agrees that when the Committee of Conciliation meets its task will be to find a solution, which, while being neither the continuance of the " Manchukuo ", nor the return to the previously existing state of affairs, will secure, consistently with the sovereignty and administrative integrity of China, good order in Manchuria, and the proper protection of Japanese rights and legitimate interests in Manchuria.

The Committee would be grateful if Your Excellency would inform it at the earliest possible moment if it has correctly interpreted the attitude of the Japanese Government in this vital question.

Annex 5.

LETTER FROM THE REPRESENTATIVE OF JAPAN.

Geneva, February 14th, 1933.

I have the honour to acknowledge receipt of your note of the 9th instant, regarding the proposed resolution and the draft declaration by the President under discussion in the Committee of Nineteen.

In reply I beg to state that the point you raise is one on which the Japanese Government have made repeated and unequivocal declaration, and on which I myself have taken pains to make full explanations to you, to the President of the Committee of Nineteen and to the Council and the Assembly of the League of Nations not only verbally but also in writing.

In my explanations, I laid emphasis on the point that while the Japanese Government were not in a position to have their recognition of the independence of Manchukuo made a subject of contentious discussion, they would nevertheless be able, I was and remain confident, to make the world understand the fairness and unassailable character of their position, provided that ample time were given for the thorough explanation of this and other relevant points. I understood from you that the members of the Committee of Nineteen had been fully apprised of the tenor of our conversations and that there could be no misunderstanding on their part of the Japanese attitude in this matter.

I would further call your attention to the fact that the time when the Committee of Nineteen expressed their agreement to the deletion from the proposed resolution and draft declaration by the President of the portion relating to the invitation of non-member States, while expressing the wish that the Japanese Government would see their way to accepting the rest, you and the President of the Committee of Nineteen made to me, on January 18th last, a suggestion that the Japanese Government might make an *ex-parte* declaration or reservation in elucidation of Japan's attitude in regard to the last paragraph of the draft declaration by the President.

I was then given to understand that the Committee of Nineteen would not object to Japan's taking such a course. The suggestion, I am confident, would never have been made if the Committee

of Nineteen had not acquired a clear conception of Japan's position as regards the question raised by your note under acknowledgment. But it was not only made, but was actually confirmed, by the official *communiqué* of February 4th.

The Japanese Government have no objection to inclusion in the draft Resolution and Declaration of the principles of Chapter IX of the Report of the Commission of Enquiry, on the understanding that they will be applied with due regard to the actual development of events, and with like regard to the principle that the very nature of conciliation involves an impartial abstention from prejudgment of the issues.

In taking this conciliatory stand, the Japanese Government have naturally been acting on the assumption that the Committee of Nineteen were fully aware of their attitude in the matter—namely, that the Japanese Government are convinced that the maintenance and recognition of the independence of Manchukuo are the only guarantee of peace in the Far East and that the whole question will eventually be solved between Japan and China on that basis. They have also entertained throughout a just expectation that the Committee of Conciliation would give ample time to have these and other points fully explained, and that they could finally convince every impartial mind of the justice and moral strength of their position.

I trust that from the above the standpoint of Japan as regards the subject of your enquiry has been made clear and I may add that the Japanese delegation also sincerely appreciate the efforts which you and the Committee of Nineteen are exerting in the matter.

Annex 6.

LETTER ADDRESSED BY THE SECRETARY-GENERAL TO THE REPRESENTATIVE
OF JAPAN ON BEHALF OF THE COMMITTEE OF NINETEEN.

Geneva, February 14th, 1933.

The Committee of Nineteen desire me to acknowledge the receipt of your letter of February 14th.

The Committee is grateful for the statements contained in that letter, which indicate the attitude of your Government as to the "Manchukuo".

Your communication makes it clear that the Japanese delegation, in accepting as a basis for the settlement of the dispute the ten principles and conclusions set out in Chapter IX of the Report of the Commission of Enquiry, intended that the additional words proposed by the delegation, "applying such principles and conclusions to the events which have developed", should modify the scope of Principle 7. The Committee understands that, if a Committee of Conciliation had been constituted, the Japanese representative at such a Committee would not, in fact, have been prepared to accept, as part of the basis of its work, that, as stated in the Report of the Commission of Enquiry, the maintenance and recognition of the existing regime would not afford a satisfactory solution of the Manchurian problem. This being so, the Committee, to its deep regret, feels bound to hold that the Japanese proposals put forward on February 8th do not afford an acceptable basis for conciliation. The Committee has given full consideration to the various points raised in your letter, but in the circumstances it does not feel that to enter into a discussion of them could lead to any fruitful result. The Committee is, of course, willing to examine with the greatest care, up to the date of the final meeting of the Assembly, any further proposals which your Government may wish to make, but the Committee feels sure that your Excellency will realise that any aggravation of the existing situation must render more difficult, if not indeed frustrate, fresh efforts at conciliation.

[Communicated to the Council
and the Members of the League.]

Official No.: **C. 194. M. 91.** 1933. VII.

Geneva, March 16th, 1933.

LEAGUE OF NATIONS

19

Dispute between Colombia and Peru :
COLOMBIA'S APPEAL UNDER ARTICLE 15 OF THE
COVENANT

LETTER FROM THE PRESIDENT OF THE COMMITTEE
OF THE COUNCIL TO THE ACTING PRESIDENT
OF THE COUNCIL

Geneva, March 16th, 1933.

Sir,

On March 1st, your Committee submitted to the Council, in accordance with its instructions, a statement regarding the dispute between Colombia and Peru, and the terms of settlement thereof as provided in Article 15, paragraph 3, of the Covenant.

The Council adopted the statement together with the terms of settlement of the dispute.

The representative of the Colombian Government informed the Council that he also accepted them. The representative of the Peruvian Government asked for a few days' delay before giving his final reply.

The representative of the Peruvian Government has not since then definitely rejected the proposals put forward by the Council, but has made a series of counter-proposals which have been communicated to the Council together with the comments of the Committee thereon.

On March 8th, the Committee informed the Council that it did not consider that the counter-proposals of the Peruvian Government offered a basis of solution to the dispute which it could recommend to the Council and the Colombian Government for adoption. It therefore very reluctantly suggested that it should be authorised to prepare the draft report for submission to the Council, in accordance with paragraph 4 of Article 15. The Council gave its approbation to this course.

In the same report of March 8th, the Committee stated that it felt sure that both the Council and the Governments Parties to the dispute would understand that the possibilities of a settlement under paragraph 3 of Article 15 would not come to an end until the very moment of the adoption of the report by the Council under paragraph 4.

The Committee profoundly regrets that the settlement which the Council had proposed to the Parties under paragraph 3 of Article 15 has not met with the approval of one of them.

In accordance with the instructions of the Council, it now has the honour to submit the present draft report, containing, as provided in Article 15, paragraph 4, of the Covenant, a statement of the facts of the dispute and the recommendations which are deemed just and proper in regard thereto

(Signed) Sean LESTER,

President of the Committee of the Council.

**DRAFT REPORT OF THE COUNCIL PROVIDED
FOR IN ARTICLE 15, PARAGRAPH 4, OF THE COVENANT,
SUBMITTED BY THE COMMITTEE OF THE COUNCIL.**

The Council, in view of the failure of the efforts which, under Article 15, paragraph 3, of the Covenant, it was its duty to make with a view to effecting a settlement of the dispute submitted for its consideration, adopts, in virtue of paragraph 4 of that Article, the following report, containing:

- I. A Statement of the Facts of the Dispute;
- II. The Recommendations which are deemed just and proper in regard thereto.*

I. FACTS OF THE DISPUTE.

- (a) Summary of events.
- (b) Contractual provisions by which the two Parties are bound.
- (c) Endeavours to secure a friendly settlement prior to the appeal to the Council.
- (d) Cases of the two Parties.
- (e) Action taken by the Council for the settlement of the dispute.
- (f) Conclusions relating to the facts of the dispute, established by the Council.

(a) SUMMARY OF EVENTS.

On the night of August 31st-September 1st, 1932, a group of armed individuals of Peruvian nationality occupied the river-port of Leticia, the capital of the Colombian district of the Amazon. The population of Leticia is understood to number about 300.

The assailants subsequently occupied the territory known as the "trapezium of Leticia", situated between the Putumayo and the Amazon, and fortified in that territory positions on both rivers.

The inhabitants of Colombian nationality had to take refuge in Brazilian territory.

The Colombian Government, with a view to restoring public order in its invaded territory, armed a small flotilla, which proceeded towards this territory first by sea and then by river. It called at various Brazilian ports on the Amazon and one part ascended that river in order to reach, via the Putumayo, the north of the trapezium; the other part of the flotilla proceeding south via the Amazon. The expedition consisted of about 1,500 men and six vessels. It arrived in Colombian waters on or about February 12th, 1933.

Further expeditions by land and air were organised in connection with the military operations contemplated by the Colombian Government.

The Peruvian invaders of the Colombian territory were supported in their action by the Commandant-General of the Fifth Peruvian Military Area, who, on January 6th, 1933, sent a communication to the Colombian Consul-General at Belem do Para, Brazil, and to the Chief of the Colombian Expeditionary Forces.¹

The Peruvian Commander ended this communication as follows:

"I have taken all military measures to prevent the entry of your expedition into Leticia and to guarantee our security in the Peruvian basin of the Amazon, in order to prevent any acts of hostility against my compatriots, who are legitimately occupying the Leticia zone in virtue of the professed principles of the free determination of nationality."

On February 12th, the Colombian flotilla arrived near the frontier line between Brazil and Colombia. It was attacked by Peruvian aircraft, which in their turn were counter-attacked by Colombian aeroplanes. It has not been established whether or not these attacks took place on Brazilian territory.

* *Annex I*, — Telegrams exchanged on January 11th and 14th, 1933, between the Ministers for Foreign Affairs of Columbia and Peru.

Annex II. — Map showing the Southern Frontiers of Columbia with Brazil and Peru.

¹ See Annex I: telegrams from the Colombian and Peruvian Governments dated January 11th and 14th, 1933.

On February 14th, the chief of the Colombian expedition sent an ultimatum to a Peruvian post established at Tarapaca in Colombian territory, which was attacked on the 15th and occupied by Colombian troops. According to the Colombian Government, a considerable quantity of military stores was taken by the Colombian troops on the occupation of this post. As a result of these incidents, diplomatic relations were severed on February 15th between the Colombian and Peruvian Governments.

On February 23rd, the Colombian Government reported that Peruvian military aircraft had dropped bombs on vessels of the Colombian expedition.

Lastly, by letter dated February 27th, the Colombian representative stated that the Colombian forces were constantly being molested by Peruvian garrisons in the Upper Putumayo, which in that region forms the frontier between the two countries.

Since then no act of hostility has been brought to the notice of the Council.

The present situation is that the post of Tarapaca is again in the hands of the Colombian authorities, but that the township of Leticia is still in the hands of Peruvians.

(b) CONTRACTUAL PROVISIONS BY WHICH THE TWO PARTIES ARE BOUND.

It is the Treaty between Colombia and Peru signed at Lima on March 24th, 1922, which fixes the frontiers between the two countries and provides for free river navigation.

The exchange of ratifications of this Treaty took place at Bogota on March 19th, 1928. It was registered with the Secretariat of the League of Nations on May 29th, 1928, and was published as No. 1726 of the *Treaty Series*.

Although this Treaty has been communicated to the Council in document C.20.M.5.1933.VII, it would seem desirable to reproduce some of its articles here.

Article 1 fixes as follows the frontier between the Republics of Colombia and Peru:

“ The frontier line between the Republic of Colombia and the Peruvian Republic is agreed upon, settled and fixed on the terms set forth below.

“ From the point at which the meridian passing through the confluence of the River Cuhimbé with the Putumayo cuts the River San Miguel or Sucumbios and continues along this same meridian to the said confluence of the Cuhimbé; thence along the ‘thalweg’ of the River Putumayo to its confluence with the River Yaguas, whence it follows a straight line running from this confluence to that of the River Atacuari with the Amazon, and thence along the ‘thalweg’ of the River Amazon to the boundary between Peru and Brazil established in the Treaty between those Republics dated October 23rd, 1851.

“ Colombia declares that, in virtue of the present Treaty, the territory included between the right bank of the River Putumayo, east of the confluence of the Cuhimbé, and the line established and marked out as the frontier between Colombia and Ecuador, in the basins of the Putumayo and Napo, by the Boundary Treaty drawn up between both Republics on July 15th, 1916, shall belong to Peru.

“ Colombia hereby declares that, as regards Brazil, she reserves her rights to the territories situated east of the Tabatinga-Apaporis line, as agreed between Peru and Brazil under the Treaty of October 23rd, 1851.

“ The High Contracting Parties declare that all disputes which have arisen in the past with reference to the boundaries between Colombia and Peru are hereby finally and irrevocably settled and that the boundary line fixed by the present Treaty shall remain unaffected by any future dispute.”

The fixing of these frontiers was entrusted to a Commission as provided in Article 2; this article, together with Articles 3, 4, 5, 6 and 7, lays down the procedure to be followed for the fixing of the frontier. Freedom of transit between the two Parties is defined as follows in Article 8 of the Treaty:

“ Colombia and Peru shall grant each other in perpetuity full freedom of transit by land and the right of navigation on their common rivers and the tributaries and confluences of those rivers, subject to the laws and fiscal, river and police regulations, but without prejudice to their right to accord each other extensive Customs franchises and such other privileges as may serve to promote the interests of the two States. The fiscal and police regulations shall be as uniform in their provisions and as favourable to trade and navigation as possible.”

Article 9 refers to the respect of concessions obtained by the nationals of one party in the territory of the other party, while Article 10 deals with the nationality of the inhabitants as a result of the fixing of the new boundary line.

The Brazilian Government having submitted friendly observations concerning the Treaty of March 24th, 1922, an official record of an agreement was drawn up on March 4th, 1925, at the State Department, Washington, between the Secretary of State of the United States of America and the representatives of Brazil, Colombia and Peru. The following solutions proposed by the Secretary of State on March 4th, 1925, were accepted at this meeting:

“ 1. The withdrawal by the Government of Brazil of its observations regarding the Boundary Treaty between Colombia and Peru;

" 2. The ratification by Colombia and Peru of the above-mentioned Boundary Treaty;

" 3. The signing of a convention between Brazil and Colombia by which the boundary between those countries would be agreed to on the Apaporis-Tabatinga line, Brazil agreeing to establish in perpetuity, in favour of Colombia, freedom of navigation on the Amazon and other rivers common to both countries."

In the letter in which he transmitted this agreement to the representative of Colombia, the Secretary of State of the United States of America said:

¹ " . . . Concerning my third suggestion—namely, that Brazil and Colombia should sign an agreement by which the frontier between these countries would be fixed by the Apaporis-Tabatinga line, with an undertaking on the part of Brazil to establish perpetual freedom of navigation on behalf of Colombia on the Amazon and the other rivers common to the two countries—I have the honour to inform you that naturally it is understood that the signature of this agreement will follow the ratification of Colombia and Peru of the Frontier Treaty of March 24th, 1922, between these two countries.

" In this connection, I have the honour to inform you that your communication of to-day's date has been duly noted, in which you renew the affirmation given at to-day's meeting that your Government will conclude the above-mentioned Treaty with Brazil immediately after Peru has ratified the Colombo-Peruvian Frontier Treaty. I am now informing the Peruvian Ambassador and the Brazilian Chargé d'Affaires *ad interim* of this in a note similar to the present one."

On November 15th, 1928, a Treaty regarding frontier delimitation and river navigation between Brazil and Colombia was signed at Rio de Janeiro—*i.e.*, after the coming into force of the Treaty between Colombia and Peru. The ratifications of this Treaty were exchanged at Bogota on January 9th, 1930. Registered with the League Secretariat on March 17th, 1930, it may be found in the League of Nations *Treaty Series*, Volume C, page 123.

The Parties also referred in their statements to the agreement concerning internal disorders and neutrality concluded at Caracas on July 18th, 1911, between Ecuador, Bolivia, Peru, Colombia and Venezuela, the Convention of Santiago de Chile of May 3rd, 1923,² and the General Convention of Inter-American Conciliation signed at Washington on January 5th, 1929.³

Peru has deposited the instrument of the ratification of this latter Convention. This deposit has, however, not yet been effected by Colombia, although the Treaty has been ratified by the Constitutional Powers of this State.

(c) ENDEAVOUR TO SECURE A FRIENDLY SETTLEMENT PRIOR TO THE APPEAL TO THE COUNCIL.

In a note dated September 30th, 1932, the Peruvian Minister for Foreign Affairs informed the Colombian Minister at Lima that the Peruvian Government had laid the dispute before the Washington Permanent International Conciliation Commission in conformity with the Convention signed in that city on January 5th, 1929, and had asked that a commission of conciliation should be appointed.

The Colombian Government opposed this procedure on the ground that the question was one solely of occurrences which had taken place within Colombian territory.

On its side, the Colombian Government, on January 22nd, 1933, called for the intervention of the signatories of the Pact of Paris, and on January 24th of the League of Nations.

In the meantime, the Brazilian Government had offered to the two contending Governments to mediate on the following bases: ⁴

" 1. The Peruvian Government, although it had nothing to do with the origin of the uprising of September 1st in Leticia, will give its entire moral support and will use its persuasive influence with its nationals residing in that region so that the territory in question may be confided to the keeping of the Brazilian Government, which will administer it provisionally through a delegate or delegates in whom it has confidence.

" 2. As soon as possible, the Brazilian authorities will replace in their positions the Colombian officials deposed by the insurrectionists.

" 3. In compensation,⁵ the Colombian Government agrees that immediately afterwards delegates from the two countries shall meet in Rio de Janeiro with the technicians they deem necessary for the purpose of considering the Salamon-Lozano Treaty in a broad spirit of conciliation for the purpose of finding a formula susceptible to reciprocal acceptance and which shall include economic, commercial, and cultural measures which may constitute a closer moral bond in the form of territorial statute adequate for such purpose and peculiar to that region."

¹ Translation from the French text supplied by the Colombian delegation.

² League of Nations *Treaty Series*, Volume XXXIII, page 25.

³ League of Nations *Treaty Series*, Volume C, page 399.

⁴ Documents C.71.M.28.1933.VII, C.87.M.31.1933.VII, C.97.M.36.1933.VII: these bases, set out in the communication of January 27th from the Government of the United States of America to the Secretary-General, are the same as those given in the other two documents above mentioned from the representative of the Colombian Government.

⁵ With regard to the expression "in compensation", the Brazilian Government gave, on February 11th last, to the Colombian Government the following explanation: The Brazilian Government states that "the expression *in compensation* means *in consequence of the two previous clauses or in turn or even moreover*".

These bases of negotiation were accepted by the Colombian Government without reservation. The Peruvian Government¹ accepted the mediation of Brazil, provided certain alterations were made in the procedure proposed by the Brazilian Government.²

The Peruvian Government asked that the Brazilian Government should be jointly authorised by the Peruvian and Colombian Governments to administer the territory of Leticia provisionally. The Colombian authorities would only return to Leticia in a private capacity. If the negotiations failed, Leticia would revert to the administration of Peruvians.

Colombia rejected this interpretation of the Brazilian proposal for mediation.³

On January 25th, 1933, the Secretary of State of the United States of America wrote to the Peruvian Government, at the request of the Colombian Government as a signatory of the Paris Pact. After expressing his own views with regard to the dispute, he supported the Brazilian proposal for mediation. The Government of the United States of America made another effort in this direction on January 30th.

Nevertheless, mediation was declared by the Brazilian Minister for Foreign Affairs on February 3rd to be at an end.

(d) CASES OF THE TWO PARTIES.⁴

1. *The Colombian Government's Case.*

On the night of August 31st-September 1st, 1932, the Colombian authorities of the township of Leticia were assaulted and imprisoned by a group of armed persons, including soldiers and officers of the Peruvian army. Other acts of aggression were committed against Colombian territory. They were committed by Peruvian military forces from the Department of Loreto (Peru). Those forces entrenched themselves in the invaded area, and likewise at Tarapaca, on the River Putumayo, also in Colombian territory. They brought guns and machine-guns, and had gunboats belonging to the Peruvian Government, as well as military aircraft.

The Peruvian forces expressed the intention of resisting any steps the Colombian Government might take to restore the Colombian authorities and put an end to the occupation.

The Colombian Government, which had demanded the withdrawal of the Peruvian military forces from Colombian territory, armed a flotilla with the sole object of re-occupying its own territory. These forces were to avoid conflicts with the Peruvian military forces unless the latter offered resistance.

The situation created by the occupation of Leticia is of an exclusively internal nature and cannot afford a basis or pretext for any other State to dispute the effectiveness of an established legal order.⁵

The Colombian Government declares that the Boundary Treaty of 1922 is valid and, accordingly, that Leticia belongs to Colombia.

On no previous occasion has the Peruvian Government made any observation as to the 1922 Treaty or any of its consequences or reactions. This Treaty was accepted by the Peruvian Administration which concluded it, and by the latter's successors, as the basis of the relations between the two countries. It has thus been explicitly recognised by all Peruvian Governments from 1928 when the Treaty came into force down to the present date. It is a legally perfect instrument concluded in a loyal and sincere manner by the Governments, which, in doing so, had in mind the permanent interest of the two countries, and aimed at establishing a regime of friendship and collaboration in the Amazon basin.

Once Colombian sovereignty is restored at Leticia and in the adjacent territory, if there is then any other question that the Peruvian Government desires to discuss, the Colombian Government will be prepared to do so in a genuine spirit of conciliation. It would then be possible to reach an agreement by direct diplomatic negotiations, or through the good offices of some third Government, or by the means provided by the treaties in force between the two countries.

2. *The Peruvian Government's Case.*⁶

Neither soldiers nor officers on the active list of the Peruvian army took any part in the events at Leticia: the occupation arose merely from action undertaken by private individuals who endeavoured by their own initiative to realise an irrepressible patriotic aspiration of the Department of Loreto. It was not the Government of Peru that occupied the town of Leticia and still retains it.

These Peruvians, however, could not be abandoned to the uncertainty which threatened them as the result of the despatch of Colombian military forces. This explains the precautionary measures subsequently taken by the military authorities of Loreto.

The Peruvian Government has not increased its river fleet, which is on the same peace footing as it was on September 1st, whereas the Colombian Government has improvised a large naval division, whose advance constitutes not merely a provocation, but a preliminary measure of

¹ Document C.89.M.33.1933.VII.

² Document C.104.M.39.1933.VII.

³ Document C.97.M.36.1933.VII.

⁴ See, in Annex I, the telegrams exchanged on January 11th and 14th, 1933, between the Ministers for Foreign Affairs of Colombia and Peru, giving an outline of their respective cases.

⁵ Document C.20.M.5.1933.VII.

⁶ See Annex I.

aggression. The Peruvian Government has refrained from mobilising all or any of its naval forces from the Pacific towards the Amazon.

In its anxiety to arrive at a peaceful settlement, the Peruvian Government requested the Colombian Government not to proceed to military mobilisation for the purpose of subduing the agitation at Leticia. From the same motives, it endeavoured to reach an amicable arrangement through the Conciliation Commission at Washington.

The Peruvian Government recognises the validity of the Boundary Treaty of 1922 and expresses its determination to abide by that Treaty. Its sole endeavour is to modify the frontier-line set up thereby and not to abolish or cancel the Treaty itself.

Under the Treaty, inhabited areas were ceded without the desires of the inhabitants being consulted. The Treaty was concluded at a time when the dictatorship had abolished the fundamental liberties in Peru.¹

In order to repair the serious injustice committed in separating Leticia from Peru, states the Minister for Foreign Affairs, the Peruvian Government is prepared to offer adequate territorial compensations.

To these arguments the Peruvian delegate, in his note to the Secretary-General dated January 20th,² adds, *inter alia*, " that the Leticia incident has an international significance exceeding the interests of any one country. . . . The Treaty was not executed in full, as Colombia was unable to effect the transfer of the zone of San Miguel or Sucumbios to Peru ".

(e) ACTION TAKEN BY THE COUNCIL FOR THE SETTLEMENT OF THE DISPUTE.

I. *Before the Appeal in Accordance with Article 15 of the Covenant.*

On January 2nd, the Secretary-General was informed by the Colombian representative " of incidents which have occurred as a result of the disturbances of order in a part of Colombian territory on the Amazon " and was also notified of the facts which had given rise to the Leticia incident.

The information received by the League of Nations showed that the question was more and more likely to lead to a serious conflict between the two countries. On January 14th, therefore, the President in Office of the Council asked the Parties for information and at the same time expressed the conviction that the two Members to the dispute would refrain from any action not in conformity with the Covenant. The two Parties replied on January 16th, Colombia pointing out in particular that the sole object of her Government was to restore public order which had been transgressed in part of her territory, while the Peruvian Government claimed, *inter alia*, that its attitude was exclusively defensive, that it would take no action contrary to the League Covenant, and that appropriate territorial compensations could be accorded for the modification of those points of the 1922 Treaty which had proved inapplicable. Both Governments recognised the validity of this Treaty.

In a telegram dated January 23rd, the Peruvian Government requested the Council to order the suspension of all measures of force.

In view of this telegram, the Council placed the dispute on its agenda and discussed it on January 24th, 1933. The Council was informed of the steps taken before its meeting, and its attention was called to the communication made by the Secretary-General to Members on November 21st, 1932, containing a statement by the Chancellor of Ecuador to the American Chancelleries regarding certain difficulties that had arisen between Colombia and Peru. The object of that statement was to confirm the rights claimed by Ecuador in the Amazon basin.

The Council entrusted the study of the dispute to a Committee consisting of the representatives of the Irish Free State, Spain and Guatemala.

At its meeting on January 26th, the Council approved the text of the following two telegrams to the Parties which had been submitted to it by its Committee:³

To Peru. — " The Council thanks you for your telegrams and expresses its appreciation of the assurances to the effect that Peru will not take any action contrary to the Covenant of the League. The Council having studied the documents submitted to it on the subject and, in particular, the telegram addressed to you by M. Urdaneta on January 11th, and your reply dated January 14th, feels bound to draw the attention of the Peruvian Government to the fact that it is the duty of Peru, as a Member of the League, to refrain from any intervention by force on Colombian territory and to ensure that all necessary instructions are given to the Peruvian commanders concerned to the effect that the military forces of Peru should take no action beyond the defence of Peruvian territory and should not hinder Colombian authorities from the exercise of full sovereignty and jurisdiction in territory recognised by treaty to belong to Colombia. I have to-day communicated to the Colombian Government a copy of this telegram with the following message from the Council." [Text below.]

¹ Minutes of the Council, seventieth session, P.V.2(1).

² Document C.58.M.23.1933.VII.

³ Document C.69.1933.VII.

To Colombia. — “ I have to-day addressed the following telegram to the Foreign Minister of Peru [text given above]. The Council trusts that, in the exercise of their legitimate rights, the Colombian Government will take strictest precautions, not only to avoid the violation of Peruvian territory, but also to make clear to the Peruvian Government that it is not the intention of the Colombian Government to commit any such violation. The Council further trusts that, in the act of restoring order, the Colombian authorities will exercise all possible clemency and limit their action strictly to the preservation of order in their own territory.”

The Committee of the Council devoted itself, meanwhile, to studying various documents submitted to it by the representatives of the two Parties. In reporting progress on February 3rd, the Committee submitted to the Council a further telegram addressed to the Peruvian Government, which was adopted by the Council. The latter reiterated the view set out in the telegram of January 26th, as the telegram of February 2nd from the Peruvian Minister for Foreign Affairs merely confirmed the attitude taken up from the outset by that Government in voicing the sentiments of the Department of Loreto and asking for a rectification of the frontier. The Peruvian Government was informed that the Colombian Government had given assurances that it would strictly conform to the recommendations contained in the Council's telegram of January 26th. The Council asked to be kept informed of the result of the Brazilian Government's proposals for mediation, which it trusted would be successful.

The Council authorised its Committee to take all necessary action in the interval between meetings.

After the Council session had closed, the Committee kept in touch with both Governments. On the approach of the Colombian forces sent to restore order in the territory of Leticia, the Committee on February 16th felt it its duty to apply to the Peruvian Government and ask for information about the incidents notified by the Colombian Government, and on February 17th about the presence of Peruvian military posts at Tarapaca—*i.e.*, on Colombian territory.

The Peruvian Government replied on February 16th to the first telegram that the serious events which were taking place were due to the aggression of the Colombian forces against the Peruvians occupying Tarapaca. The Peruvian Government denounced the action of the Colombian Government to the Members of the League of Nations for the application of the Covenant.

The Peruvian Government replied to the second telegram on February 17th and stated, amongst other things, that Tarapaca and Leticia belonged to the same territorial zone; against the unjustified cession of which to Colombia the Department of Loreto protested and decided to recover it, occupying it on its own account.

2. *After the Appeal in accordance with the Terms of Article 15.*

On February 17th, the representative of the Colombian Government requested the Secretary-General, in the name of his Government, to summon an extraordinary meeting of the Council in virtue of Article 15 of the Covenant for the purpose of examining the situation set up by the aggression of which Colombia complained.

The Council met in extraordinary session on Tuesday, February 21st. In calling this meeting together, the President had also in view the last paragraph of the Peruvian Government's telegram of February 16th. At this meeting, the Council heard the representative of the Colombian Government make his statement. This statement and the notes and other statements referred to in document C.139.M.63.1933.VII constitute the statement provided for in paragraph 2 of Article 15 of the Covenant. The Council also took cognisance of the action taken by the Secretary-General in accordance with paragraph 1 of that Article. At the same time, the Secretary-General informed the Council that, according to a telegram received from the Peruvian delegate, the memoranda and statements presented by him to the Council constituted the substance of the Peruvian statement according to paragraph 2 of Article 15. The Secretary-General also communicated to the Council a telegram from the Peruvian representative regretting his inability to be present at the meeting of the Council. The President of the Council regretted the absence of the representative of the Peruvian Government, but this could not interrupt the Council's proceedings. The Council accordingly decided to entrust to the members of the Committee of the Council, assisted by the representatives of Colombia and Peru, the task of endeavouring to secure a settlement of the dispute in the manner provided for in paragraph 3 of Article 15 of the Covenant.

On March 1st, the Committee of the Council submitted a report, which was adopted by the Council at its meeting on that date. The report explained in detail the efforts made by the Committee in compliance with the instructions given to it by the Council: ¹

“ The Committee noted the agreement of the Parties that the territory was under the absolute sovereignty of Colombia in virtue of a treaty. This territory having been occupied by Peruvian subjects, the question arose what action should be taken in order to secure an agreement between the Parties which would be in harmony with the Covenant of the League and with the principles set out above.

¹ Document C.158.M.78.1933.VII.

“ The Committee wished to recall to the Parties the statements made by the Peruvian delegate at the Council meeting of December 10th, 1931, when he said that:

“ (1) No State has the right to effect the military occupation of the territory of another in order to ensure the execution of certain treaties;

“ (2) No State is entitled to oblige another—having invaded its territory—to enter upon direct negotiations on the bearing and legal value of treaties previously existing between the two States;

“ (3) The exercise of the right possessed by each State to ensure the protection of the lives and property of its nationals must be limited by respect for the sovereignty of the other State; no State being entitled, in order to provide such protection, to authorise its military forces to penetrate into the territory of the other for the purpose of carrying out police operations;

“ (4) The fact that a State has certain rights, claims, economic concessions, etc., in regard to another State does not entitle the former to effect the military occupation of the territory or to seize the property of the debtor State. Any recovery of debts by compulsion is illicit, in accordance with the principles accepted by the Second Peace Conference (The Hague, 1907).’

“ The Committee agreed that the Peruvian Government should apply these principles in the case at issue.”

The report contained a chapter placing on record the support which the Governments of the United States of America and of Brazil had given the League throughout its efforts to find a solution for this dispute. The attempts at mediation by Brazil were referred to above.

The United States Government made a point of supporting both the mediation of Brazil and the efforts of the League.

The Council placed before the Parties the following proposals, which had already been communicated to them officially by its Committee on February 25th: ¹

“ 1. The Council's previous resolutions remain intact.

“ The proposals hereunder, however, are formulated with a view to the settlement provided for in Article 15, paragraph 3, of the Covenant.

“ 2. A League Commission to take charge of the territory.

“ The territory to be completely evacuated by the Peruvian forces.

“ 3. Colombia to place forces at the disposal of the League Commission; these to become international forces for the duration of the negotiations.

“ The Commission to have power to attach to the international forces any other personnel it may think necessary.

“ 4. These forces and personnel to be responsible for maintaining order in the territory during the negotiations.

“ 5. The details of the execution of this programme to be settled by the Commission mentioned in No. 2.

“ 6. The two Parties shall decide as to the method of carrying on the negotiations, which will be undertaken for the purpose of studying in a conciliatory atmosphere the whole of the problems outstanding, and the best manner of reaching a solution of them which shall be just, lasting and satisfactory.

“ The negotiations shall be begun and carried out with all expedition.

“ The Council is ready, at the request of either of the Parties, to give its good offices in case of disagreement, whether as to the method of negotiation or as to any point of substance which may arise.”

The letter in which these proposals were sent to the representative of Peru contained the following paragraph:

“ The Committee understands that your Government equally agrees that, if Peruvian military elements and material are on Colombian territory, they should be withdrawn as speedily as possible, subject to the necessary arrangements regarding modalities of such withdrawal, and all attacks on that territory discouraged.”

These proposals, though accepted on February 27th by the representative of Colombia, have not so far been approved by the Peruvian Government. In reply to a letter from the Peruvian representative of March 2nd, the Committee gave the following interpretation of these clauses: ²

“ 1. The Colombian delegate has given assurances that the Colombian troops which are in far-distant posts have received instructions to take no action which can be considered as an act of provocation or hostility towards the Peruvian garrisons.

“ The Peruvian Government, on the other hand, has undertaken to cease hostilities pending the present negotiations.

¹ Document C.158.M.78.1933.VII.

² Document C.168.1933.VII.

“ The Committee understands that Peru binds herself to take no act of hostility or provocation against the forces of Colombia in Colombian territory; and that Colombia binds herself to take no act of hostility or provocation against the forces of Peru in Peruvian territory.

“ It further understands that each side will strictly respect the legitimate rights of navigation on the River Putumayo possessed by the other.

“ The Committee cannot formally require the Government of Colombia to refrain from enforcing its authority in its own territory unless and until the proposals for settlement have been accepted. It has reason to believe that, as a matter of fact, no contact between the Colombian forces in the region of Leticia and any Peruvian forces which may be on that territory is likely while the procedure of conciliation is in course.

“ If and when the proposals made by the Committee are accepted by the two Parties, the Colombian forces will remain outside Leticia until the International Commission draws upon them for the maintenance of order in the territory.

“ 2. The Committee considers that international forces are forces placed under the sole authority and control of the Commission.

“ 3 and 4. Subject to the third condition laid down in the Committee's proposals to the Parties of February 25th, the question of the elements which may be attached to the international forces thus constituted is left entirely to the discretion of the Commission.

“ The word ‘ elements ’ does not imply the use of additional forces, but will allow the Commission to utilise the services of a certain number of military or other experts should it so desire.

“ The Committee desires to point out that this exchange of letters must not in any way be regarded as affording a ground for a further extension of the few days' delay requested by the Peruvian Government on March 1st and agreed to by the Council.”

The representative of Colombia accepted this interpretation, as may be seen from his letter dated March 3rd, 1933:¹

“ The Colombian Government has always considered and understood that ‘ the international forces ’ referred to in paragraph 3 of the conciliation formula submitted to the two Parties by the Committee on February 25th would be those forces which Colombia would ‘ place at the disposal of the League and which would become international forces for the duration of the negotiations ’. The ‘ third condition ’ mentioned by the Chairman of the Committee in his letter to the Peruvian delegate is indeed precisely that the international forces should be ‘ the forces which Colombia would place at the disposal of the League ’.

“ As regards the powers of the Commission ‘ to attach to the international forces any other elements it may think necessary ’, Mr. Lester states: ‘ The word “ elements ” does not imply the use of additional forces, but will allow the Commission to utilise the services of a certain number of military or other experts should it so desire ’. This explanation is entirely in conformity with the point of view of my Government.

“ My Government notes with satisfaction that the sense of the formula of settlement proposed by the Committee and accepted by Colombia is entirely clear and leaves no room for any misunderstanding. The note from the delegate of Peru which you have been good enough to communicate to me is a complete justification of the explanations which I gave before the Council with the object of defining clearly the attitude of my Government.

“ You are aware, as are also the members of the Committee, that the acceptance by Colombia of the Committee's proposal is not, as stated by the Peruvian delegate, ‘ a purely outward and verbal one ’. We have accepted precisely what was proposed to us by the Committee. There is not the slightest difference of opinion between the Committee and the Colombian delegation as regards the interpretation of the suggested formula, and, during the discussions which I have had the honour to have with the Committee, it has been made abundantly clear that my statements as to the interpretation of this formula were in perfect agreement with the exact and clear meaning which the Committee itself gave to the wording of its proposal.

“ I have therefore the honour to inform you in conclusion that my Government accepts in every particular the explanations given in the letter sent by Mr. Lester to the Peruvian delegate on March 2nd.”

On March 6th, the representative of Peru informed the Chairman of the Committee of a few modifications which his Government desired to introduce into the formula recommended by the Committee to the two Parties on February 25th. The representative of Peru wrote:²

“ . . . The presence of Colombian troops in the territory, even under the name of international forces, would be likely to prevent pacification in the district in question. Such troops would indeed be an element likely to produce further trouble. They would be tempted to carry out reprisals against the population which has revolted and which has

¹ Document C.169.1933.VII.

² Document C.174.M.86.1933.VII.

expelled the Colombian authorities. Furthermore, the international forces appointed for the maintenance of order do not in reality possess this character. They are Colombian forces to which the Commission will be entitled to attach military or other experts. The Commission may, or may not, avail itself of this right.

"Furthermore, a breakdown in the negotiations is to be feared if the formula itself does not prescribe definite rules with regard to the negotiations which are to be opened. Such a failure might create doubts as to the sincerity of the procedure of conciliation and as to the very meaning of any future settlement of the conflict."

The Chairman of the Committee replied to the representative of Peru, on the same day, that the Committee was not prepared to alter the proposals of February 25th unless by mutual agreement between the two Parties. He continued: ¹

". . . It desires, however, to call Your Excellency's attention to its letter of March 2nd, in which it gave a formal interpretation of certain points which Your Excellency considered as insufficiently clear.

"Your Government, while expressing its appreciation of the good-will and impartiality of the Committee—an appreciation for which the Committee is grateful—now asks for further modifications. Although these modifications go considerably beyond those mentioned in the first paragraphs of Your Excellency's letter, the Committee has nevertheless given them careful consideration.

"The Colombian forces to which you refer will be placed under the strict control and authority of an International Commission appointed by and responsible to the League of Nations. They will be international forces constituted for the sole purpose of maintaining order. They cannot, therefore, be an element which will produce further trouble, nor can they be used to exercise reprisals against Peruvian inhabitants complying with the injunctions of the Commission.

"Further, the Committee is unable to admit that such forces are not international, whether or not the Commission makes use of the right conferred upon it to add military or other experts."

With regard to the other point raised by the representative of Peru, the Committee called his attention to paragraph 6 of the report adopted by the Council on March 1st.

On March 7th, the representative of Peru communicated to the Secretary-General the following new proposals made by his Government: ²

"1. That order be maintained in the territory by the population itself, the Commission selecting for that purpose such personnel as it may think necessary;

"2. That the success of the negotiations be ensured by a suitable procedure."

On the same day, the Secretary-General replied to the representative of Peru, on behalf of the Committee: ³

". . . This letter has apparently crossed that which the President of the Committee addressed to you yesterday, which contains replies to the various points raised therein, except as regards the proposal that order should be maintained in the territory by the population itself, the International Commission choosing for this purpose such elements as it may consider necessary.

"In this connection, the Committee desires me to point out to Your Excellency that, in the memorandum sent to you by it on March 2nd, it is stated that 'the Colombian forces will remain outside Leticia until the International Commission draws upon them for the maintenance of order in the territory', and the Committee does not feel able to add anything to this statement. The Committee has, however, at once transmitted Your Excellency's letter to the Colombian representative and invited an expression of his views thereon."

These proposals were rejected by the delegate of Colombia at the Council meeting on March 8th.

On the same day, the Council adopted the Committee's report, ⁴ in which it was stated that the Committee did not consider that the counter-proposals of the Peruvian Government offered a basis of solution of the dispute which they could recommend to the Council and the Colombian Government for adoption.

After the adoption of that report, the Peruvian Government, ⁵ through its representative, proposed on March 8th that the whole subject-matter of the dispute between Colombia and Peru should be submitted to arbitration, as it regarded that dispute "as coming within the category of disputes suitable for submission to arbitration". It therefore requested the application of Article 13 of the Covenant.

¹ Document C.174.M.86.1933.VII.

² Document C.175.1933.VII.

³ Document C.176.1933.VII.

⁴ Document C.179.1933.VII.

⁵ Document C.177.M.87.1933.VII.

The Peruvian Government's request having been laid before the Committee of the Council, the Secretary-General replied to its representative on March 9th by the following letter: ¹

" . . . The Committee of the Council has given particularly careful consideration to that communication and has elucidated the legal aspect of the question.

" The Committee has unanimously concluded that the arbitration provided for in the Article referred to would not be possible unless Colombia agreed to it. This conclusion is strengthened by the considerations that prevailed at the second session of the Assembly, which was called upon to pronounce upon proposals for the amendment of Article 13.

" Moreover, the Committee could not but recognise that, in this particular case, Colombia has submitted the dispute to the Council, thus pursuing one of the lines of conduct open to her under Article 12, paragraph 1, of the Covenant"

Such is the present position. The Council has been unable to bring one of the Parties to accept the solutions proposed for the settlement of the dispute in accordance with paragraph 3 of Article 15 of the Covenant.

(f) CONCLUSIONS RELATING TO THE DISPUTE.

The Council reaches the following conclusions:

1. That both Parties agree:
 - (a) That the Treaty of March 24th, 1922, between Colombia and Peru is in force;
 - (b) That, in virtue of that Treaty, the territory known as the "Leticia Trapezium" forms part of the territory of the Republic of Colombia.
2. That that territory has been invaded by Peruvians, who ejected the Colombian authorities from their posts.
3. That those Peruvians have been supported by the military authorities of the Department of Loreto (Peru).
4. That a Peruvian post had been established at Tarapaca on Colombian territory; that this post was later captured by Colombian forces.
5. That the township of Leticia is still in the hands of the Peruvians.
6. That the Peruvian Minister for Foreign Affairs, in his telegram of February 17th, states that the Department of Loreto has decided to re-claim that territorial zone by occupying it on its own account.
7. That the Peruvian Minister for Foreign Affairs has stated, in his telegram of February 2nd, "that it cannot be an obligation upon Peru not to interfere with the attack on Leticia, where there are Peruvians who, voicing the sentiments of the whole Department of Loreto, have gone there to protest against the iniquity which separated them from their country of origin regardless of the will of the inhabitants of the territory that was being dismembered and of their rights as a political minority".
8. That the terms of settlement of the dispute proposed by the Council in accordance with paragraph 3 of Article 15 have been accepted by the Colombian Government and rejected by the Peruvian Government.

In view of these conclusions, and it having proved impossible to settle the dispute as provided in Article 15, paragraph 3, of the Covenant, the Council makes the following recommendations, which it deems just and proper in regard thereto:

II. RECOMMENDATIONS WHICH THE COUNCIL DEEMS JUST AND PROPER
IN REGARD TO THE DISPUTE.

The provisions hereunder constitute the recommendations made by the Council in accordance with Article 15, paragraph 4, of the Covenant:

THE COUNCIL,

I. Seeing that the situation resulting from the presence of Peruvian forces in Colombian territory is incompatible with the principles of international law, with those of the Covenant of the League of Nations and of the Pact of Paris, which are binding on the two Parties, and to which the settlement of the dispute must conform;

And that it is necessary to establish as speedily as possible a situation in harmony with those principles;

¹ Document C.186.M.90.1933.VII.

And that, moreover, the Government of Colombia has accepted the proposals made by the Council in its telegram dated January 26th, 1933, to the effect that the strictest precautions should be taken to avoid any violation of Peruvian territory and, in proceeding to the re-establishment of order, the Colombian authorities should show the requisite moderation:

RECOMMENDS THE COMPLETE EVACUATION BY THE PERUVIAN FORCES OF THE TERRITORY CONTAINED IN THE LETICIA TRAPEZIUM, AND THE WITHDRAWAL OF ALL SUPPORT FROM THE PERUVIANS WHO HAVE OCCUPIED THAT AREA.

2. Seeing that the Council has recognised the necessity for negotiations on the basis of the Treaties in force between the Parties for the purpose of discussing all the problems outstanding and the best manner of reaching a solution of them which shall be just, lasting and satisfactory;

And that the discussion of these problems will include the examination of any legitimate Peruvian interests:

RECOMMENDS THAT THE NEGOTIATIONS BE BEGUN AND CARRIED OUT WITH ALL EXPEDITION, AS SOON AS SUITABLE MEASURES SHALL HAVE BEEN TAKEN TO CARRY OUT THE FIRST RECOMMENDATION.

* * *

The Council declares that, once the two Parties have stated their intention to comply with the above recommendations, it will be ready, at the request of either Party, to lend its good offices in case of disagreement as to any point either of procedure or of substance which may arise.

* * *

Each of the Parties is requested to inform the Secretary-General of the action it may take in compliance with the recommendations of this report.

* * *

The Council is confident that the Members of the League of Nations will refrain from any act that might prejudice the execution or delay the application of these recommendations.

The Council recalls that, at its meeting of March 11th, 1932, the Assembly of the League of Nations declared that it is incumbent upon the Members of the League of Nations not to recognise any situation, treaty or agreement which may be brought about by means contrary to the Covenant of the League of Nations or to the Pact of Paris.

It also recalls the provisions signed at Washington on August 3rd, 1932, by nineteen American States, including Colombia and Peru, whereby the signatory States declared themselves opposed to force and renounced it both for the settlement of their differences and as an instrument of national policy in the relations between American States.

The American nations declared in the same document that they would not recognise the validity of any territorial acquisitions that might be obtained by an occupation or conquest effected by force of arms.

* * *

The Secretary-General is requested to send a copy of this report to the Members of the League and the Governments of the United States of America, the United States of Brazil, Costa Rica, and Ecuador.

Annex I.

I. TELEGRAM TO THE MINISTER FOR FOREIGN AFFAIRS OF PERU FROM THE MINISTER FOR FOREIGN AFFAIRS OF COLOMBIA.

Bogota, January 11th, 1933.

The Government of the Republic of Colombia considers it indispensable and urgent, in order to safeguard friendly relations with the Government of the Republic of Peru, to announce in the most formal and solemn manner the following facts:

Since the night of August 31st-September 1st, 1932, when the Colombian authorities of the town of Leticia were assaulted, imprisoned and deported by a group of armed persons, including soldiers and officers of the Peruvian army, acts of aggression against the territory, which is under

the dominion of Colombia in virtue of public treaties now in force, have repeatedly been committed by the Peruvian military forces of the Department of Loreto. Those forces have constructed trenches in the invaded area, not only in the Colombian town of Leticia and its environs, but also at Tarapaca on the River Putumayo, in territory which is also indisputably Colombian. They have brought guns and machine-guns into both these places; they have organised armed resistance with military vedettes belonging to the Peruvian Government; they have brought their military aircraft into Colombian territory, and the military authorities of the base at of Iquitos have communicated with the Peruvian garrisons of the area, informing them that their Government will hold the town of Leticia by force and will similarly prevent those who have attacked it from being dislodged from it. In short, the military forces of Peru have organised an invasion and have aggravated it by repeated acts of war, evincing an intention to oppose resistance to the measures taken by the Colombian Government to restore the lawful authorities and put an end to a violent occupation which nothing can justify or excuse.

On the 6th instant, the Commandant-General of the Fifth Division of the Peruvian Army at Iquitos, Colonel Victor Ramos, sent to General Alfredo Vasquez Cobo at Manaus (Brazil) and the Colombian Consul-General at Belem do Para the following communication:

“ Iquitos, January 6th, 1933.

“ I, the Commandant-General of the Fifth Division in Eastern Peru, noting the march of the expedition under your command towards the Amazon, am in duty bound to inform you that hitherto the Division under my command has confidently hoped for a pacific solution, for which my Government has been negotiating since the incident of September 1st, 1932; but the entry of the Colombian expedition into the Amazon region and its march on Leticia can only mean the outbreak of hostilities which we have been trying to prevent. In consequence, I have taken all military measures to prevent the entry of your expedition into Leticia and to guarantee our security in the Peruvian basin of the Amazon, in order to prevent any acts of hostility against my compatriots, who are legitimately occupying the Leticia zone in virtue of the professed principles of the free determination of nationality.

“ Victor RAMOS, Colonel, Commandant-General of the Fifth Division.”

The acts I have just mentioned are contrary to the Frontier Treaty between the two Republics and to other Conventions in force between them. Since the illegal invasion of Leticia, the Peruvian Government, by a note to the Colombian Government dated September 30th, has admitted the validity of the Frontier Treaty of 1922 and in consequence the fact that Leticia belongs to Colombia. Further, the acts of the Peruvian forces and the telegram from the Commandant-General of the Fifth Division of Eastern Peru to the Colombian Consul and to General Vasquez Cobo constitute a clear violation of the Treaty condemning war as an instrument of national policy (the Briand-Kellogg Pact). The Colombian Government takes note of this fact by the present communication and, in the exercise of its sovereign right and its duty, it will take all necessary measures to restore public order in its territory, to re-establish the lawful authorities and to maintain its sovereignty in the territory, which belongs to it and which has been recognised by Peru as belonging to Colombia.

My Government, sincerely desirous of maintaining peace with the Government of Peru, is to-day addressing to it by the present communication a request to withdraw the Peruvian military forces from Colombian territory in order to enable the lawful authorities to be restored there without violence.

The Colombian Government declares that, in any action that might prove necessary in the Leticia area, its forces will simply be re-occupying Colombian territory and will prevent the continuance in that area of the scandalous violence which has caused a breakdown of law and order there in breach of public treaties.

The Colombian forces which will be used for that purpose will avoid conflicts with the Peruvian military forces unless the latter oppose the Colombian forces in their work of restoring the lawful authorities of Colombia.

The Colombian Government requests the Peruvian Government, on the basis of the friendly relations which have existed between them for so long, to take all necessary measures to ensure that the Peruvian officials, forces or other agents will not oppose these legitimate operations on the part of the Colombian forces, which are necessary for the rightful maintenance of Colombian sovereignty.

The Colombian Government, in making the above declaration, is dealing with a question in regard to which there is no dispute between the Governments of Colombia and Peru—namely, the title and legal authority of Leticia. My Government reiterates the assurances already given that, once Colombian sovereignty is restored at Leticia and in the adjacent territory, if there is then any other question which the Peruvian Government desires to discuss, the Colombian Government will be prepared to do so in a genuine spirit of conciliation. It would then be possible to reach an agreement by direct diplomatic negotiations or through the good offices of some third Government or by the means provided by the treaties in force between the two countries.

A certified correct copy of the present cable has been sent to the Peruvian Legation at Bogota.

R. URDANETA ARBELAEZ,

Colombian Minister for Foreign Affairs.

2. TELEGRAM SENT TO THE MINISTER FOR FOREIGN AFFAIRS OF COLOMBIA BY THE MINISTER FOR FOREIGN AFFAIRS OF PERU.

Lima, January 14th, 1933.

During the night of Wednesday, January 11th, I had the honour to receive the important telegram from Your Excellency in which you refer to the circumstances preceding the occupation of Leticia on September 1st last by a group of armed individuals, who turned out the Colombian authorities of that place. After reproducing a communication addressed on January 6th by the General commanding the Fifth Division at Iquitos to the Chief of the Colombian Expedition, General Vasquez Cobo, and the Consul-General of Colombia at Belem do Para, Your Excellency states that these acts are contrary to the Boundary Treaty between Peru and Colombia of March 24th, 1922, and to the Paris Pact of Non-Aggression and requests, in the name of your Government, that the Government of Peru shall withdraw the Peruvian military forces from Colombian territory in order that the lawful authorities may be re-established there without any disturbance. Your Excellency's Government declares in this connection that, in the course of the action which it will be necessary to take in the Leticia area, its forces will merely re-occupy Colombian territory and prevent the continuance of the scandalous situation of violence which has developed there and that, further, the Colombian forces will avoid any conflict with those of Peru unless resistance is offered by the latter. The Colombian Government concludes by requesting my Government, on the basis of the friendly relations which have so long existed between them, to take such steps as may be necessary to ensure that the Peruvian officials, forces and all other representatives shall not in any way oppose the legitimate operations of the Colombian forces in the just maintenance of its sovereignty; on the assumption that there is no dispute between our respective Governments as regards the title to and legal authority over Leticia, Your Excellency's Government repeats the assurances already given that, when once Colombian authority has been re-established at Leticia and in the adjacent territory, the Colombian Government would be prepared to deal in the widest spirit of conciliation with any other matter which my Government might desire to discuss, and that it would then be possible to reach this agreement by direct diplomatic negotiations, or by the good offices of a third Government, or, finally, by the methods provided for in the treaties in force between the two countries.

I note that an authentic copy of this telegram has been forwarded to the Peruvian Legation at Bogota, and I have the honour to give the following reply to Your Excellency.

As has been explained on more than one occasion in the communications from my predecessor to the Colombian Legation at Lima, the events at Leticia on September 1st surprised my Government as well as that of Your Excellency, and it has been proved that neither soldiers nor officers on the active list of the Peruvian army took any part in these events, which arose merely from action undertaken by private individuals, who endeavoured by their own initiative to realise an irrepressible patriotic aspiration of the Department of Loreto.

The precautionary measures which the military authorities of Loreto were subsequently obliged to adopt were the consequence of the large-scale preparations made by Colombia for forcibly overcoming the occupants of Leticia, who, in view of the fact that they were Peruvians and had been actuated by the desire to regain national territory, could not be abandoned to the uncertainty which threatened them as a result of the despatch of Colombian military forces with instructions to reduce them to submission.

The attitude of the military officers at Loreto was entirely defensive: its object was to avoid surprise and to give to our nationals the protection due to them; and it may be remarked that, whereas the Peruvian river fleet has remained and is at present upon the same peace footing as was the case previous to September 1st, without the addition of a single unit, the Colombian Government has on the contrary at considerable expense made purchases which have enabled it to improvise a large naval division, whose advance constitutes, not merely a provocation, but a preliminary measure of aggression, and which is advancing with numerous troops on board in the direction of the waters of the Peruvian Amazon.

The determination of my Government to come to a peaceful settlement of the difficulty is evidenced, not merely in theory by its unvarying support of international peace and American brotherhood, but also in practice by its definite action towards the strengthening of peace in the continent; this spirit has led us to request Your Excellency's Government not to proceed to military mobilisation for the purpose of subduing the agitation at Leticia. From the same motives, my Government has endeavoured to reach at Washington by means of the Conciliation Commission an amicable arrangement, though such an arrangement could not be realised owing to a deliberate distortion of the dispute by conferring upon it a non-existent domestic character; the same motives have led my Government to abstain from mobilising all or any of its naval forces from the Pacific towards the Amazon, and even from making any increase in its naval forces.

I was not aware of the declarations which Your Excellency assures me have been made by the authorities of the Iquitos barracks to the Peruvian garrisons in this military area, to the effect that my Government would retain Leticia by force and would offer the same resistance to any attempt to dislodge those who have occupied it, or, further, that, in the opinion of Your Excellency and your Government, the only declarations of any official authority are those made by this Ministry or its authorised representatives; I feel bound to draw Your Excellency's attention to the fact that it is not possible to speak of a forced retention of Leticia by my Government in view of the fact that it is not my Government which has occupied this town and which still remains in possession of it. Neither is it possible to rely upon communications such as that of the General commanding the Fifth Military Area—which were perhaps due to excess of zeal, and were in any case preventive and defensive acts, in no respect provocative—such communications being sent

without the knowledge, authority or approval of the Government, which had declared once more its views regarding the validity of the Boundary Treaty of 1922 and its determination to abide by it as also by all the other treaties at present in force, among which is the Paris Pact of Non-Aggression mentioned by Your Excellency. So much is this the case that my Government's sole endeavour is to modify the frontier line set up by the Treaty of 1922 and not in any way to abolish or cancel the Treaty itself, and, furthermore, in order to repair the serious injustice committed in separating Leticia from Peru, my Government is prepared to offer adequate territorial compensations.

The urgent desire of Your Excellency's Government to maintain peace is identical with that felt so strongly by the Government of Peru, and we will leave no stone unturned to bring about the realisation of this desire; we believe, however, that it would show a lamentable misapprehension as to the best methods to be adopted if improper measures of violence were preferred to the quiet and reasonable discussion of a generous and satisfactory agreement, which would remove an avoidable injustice and bind the friendship of the two countries on the unshakable bases of their respective rights and interests. Such a policy would be in entire harmony with the assurances repeated by Your Excellency in the name of your Government—assurances which as a representative of my Government I both welcome and share—that you will be prepared to discuss with the Government of Peru in the fullest spirit of conciliation any matter on which discussion is desired. All that is necessary is to abstain from irregular preliminary action which makes more difficult instead of facilitating that agreement which we are so anxious to reach for the consolidation of brotherly friendship between Peru and Colombia; such action also nullifies the unselfish efforts made by the Government of a great nation which is our friend and neighbour and whose intervention, already accepted by our two countries, may bring to a friendly understanding the differences which separate us.

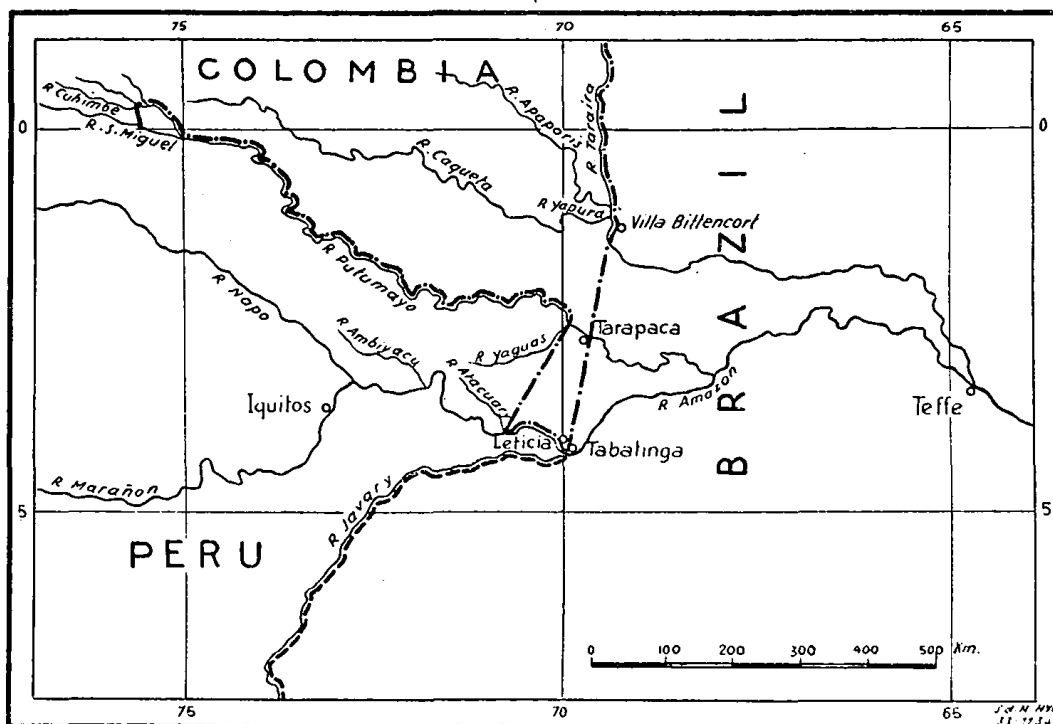
In return for the courtesy of Your Excellency, I have not failed to forward to the Colombian Legation at Lima a copy of the present telegram.

J. M. MANZANILLA,

Minister for Foreign Affairs of Peru.

Annex II.

SOUTHERN FRONTIERS OF COLOMBIA WITH BRAZIL AND PERU.



LEAGUE OF NATIONS

Geneva, March 29th, 1933.

COMMISSION OF ENQUIRY FOR EUROPEAN UNION

**Report by the Committee instructed to examine
the Problem of Eastern European Tobacco**

I.

The Committee instructed to make a practical examination of the problem of Eastern European tobacco met at Geneva from March 21st to 25th, 1933.¹

The Stresa Conference in September 1932 found² that the situation — already critical — of the countries producing oriental tobacco, had become very much worse and had assumed an extremely urgent character, owing to serious monetary and financial difficulties, particularly in Greece and Bulgaria.

The Conference therefore reconsidered a report submitted to the Commission of Enquiry for European Union by a Special Committee³ which met at Geneva on October 30th and 31st, 1931, and dealt principally with the tobacco question, which the Greek Government had brought to the notice of the Commission of Enquiry in the spring of 1931. The Stresa Conference expressed the conviction that it would be extremely useful, as a means of assisting the countries affected by this crisis, to apply the recommendations made by the special Committee in so far as they had not yet been put into effect.

On October 1st, 1932, the States Members of the Commission of Enquiry for European Union decided⁴ to request the Council "to undertake, with the help of the competent organs of the League of Nations and other qualified experts, a practical examination of the problem of tobacco which concerns three countries of Eastern Europe and with regard to which the Stresa Conference adopted a recommendation". On October 15th, 1932, the Council requested the Bureau of the Economic Committee of the League of Nations to lay proposals before it with regard to the composition of the Committee which was to undertake the practical examination of this problem. On January 23rd, 1933, on a report by the German representative, it adopted these proposals, under which the delegations of the following countries were convened: Austria, Belgium, United Kingdom, Bulgaria, Czechoslovakia, France, Germany, Greece, Hungary, Italy, Poland, Sweden, Switzerland, Turkey, Yugoslavia.

Belgium and Sweden were not represented at the meeting which the Committee has just held under the Chairmanship of M. Bacalbassis (Greece), former Minister of Agriculture, but they sent notes describing the position of the tobacco trade in their countries.

In view of the abundant information on the problem of oriental tobacco collected by the Secretariat since the question was brought before the League of Nations, it was unnecessary for the Committee to make a detailed examination of all the aspects of the problem.

¹ List of Experts:

Chairman:

M. BACALBASSIS (Greece), former Minister.

Members:

Austria: Dr. GLÜCKLICH, Aulic Counsellor in the Directorate of the Austrian Tobacco Monopoly;

United Kingdom: Mr. H. PATTESON, British Consul at Geneva;

Bulgaria: M. PALAEFF, Government Expert;

Czechoslovakia: Dr. HLADKY, President of the Financial Administration of Slovakia, Member of the Board of the Czechoslovak Tobacco Monopoly;

France: M. BLONDEAUX, Director-General of State Manufactures; M. DAUDIER, Inspector-General of State Manufactures;

Germany: M. A. SCHROEDER, President of Customs and Taxes, Dresden;

Greece: M. RODOPOULOS, Member of Chamber of Deputies; M. SIMONIDE, Member of the Higher Economic Council of Greece;

Hungary: M. Zoltan BARANYAI, Counsellor of Legation;

Italy: M. PANTOLI, Chief Inspector of the Italian Monopoly;

Poland: M. S. ROSCISZEWSKI, Delegate of the Polish State Monopolies;

Switzerland: M. F. REINHARD, Inspector at the General Swiss Customs Directorate;

Turkey: MITHAT Bey, Assistant Director-General of the Turkish Monopolies;

Yugoslavia: M. Jovan ALEXANDROVIC, Head of Section in the Tobacco Monopoly.

² See the report of the Conference (document C.666.M.321.1932.VII).

³ See the Committee's report (document C.784.M.379.1931.VII).

⁴ See document C.724.M.342.1932.VII.

Its work was greatly facilitated by a preliminary study undertaken at Athens by the Greek, Bulgarian and Turkish delegates, who agreed to submit suggestions which, in their opinion, would be likely to mitigate the crisis from which oriental tobacco was suffering.

II.

The report by the Special Committee of 1931¹ defined the three main directions in which the Committee could make a practical examination :

“ The Commission might recommend Governments possessing monopolies to consider technical conditions of purchase likely to ensure the better marketing of tobacco coming from European countries which are faced with special difficulties in tobacco growing and exportation.

“ It might also recommend Governments having no monopoly to amend, in the course of bilateral negotiations with the same countries, certain fiscal or Customs provisions which, although without any discriminatory intention, have the consequence of placing their exports in a less favourable situation than those of their principal competitors.

“ Lastly, the Special Committee, having been informed that certain producing countries have already concluded agreements with a view to co-ordinating their action in regard to tobacco production and trade, expresses the hope that these efforts will succeed in mitigating the effects of the agricultural crisis in these countries.”

These three points were successively given special attention by the Committee :

- (1) Extension of the marketing of oriental tobacco ;
- (2) Amendment of fiscal or Customs provisions affecting it ;
- (3) Measures of organisation in producing countries.

1. *Extension of the Marketing of Oriental Tobacco.*

Since 1928, exports of oriental tobacco have considerably declined in quantity and value. The consumption of tobacco has been somewhat reduced in almost all countries by the general economic depression. The consumption crisis has taken the form, not only of a decrease in the quantities bought, but also of the purchase of cheaper cigarettes ; this has brought about a decline in the sale of the more expensive kinds of oriental tobacco as compared with the cheaper kinds and has greatly reduced the receipts from exports of the three countries in question.

The exporting countries request the European importing countries — whether they possess monopolies or freedom of trade — to increase to a considerable extent the proportion of oriental tobacco in the blends supplied for consumption. In this way, the stocks of oriental tobacco would be reduced and the exporting countries would obtain real relief.

But it should be noted that both monopolies and the free tobacco trade are obliged to follow the tastes of the consumer and have difficulty in changing their blends in one way or another.

There would, however, seem to be certain possibilities in this direction. For instance, one country where the consumer has remained faithful to dark tobacco has introduced 5 per cent of cheap oriental tobacco, even in the manufacture of cigarettes of ordinary quality. But this change has been made cautiously and was only rendered possible by the relatively low prices.

The exporting countries, however, point out that the crisis affects in particular the better qualities of oriental tobacco, the growing and handling of which involve considerable expenditure.

2. *Amendment of Fiscal or Customs Provisions affecting Oriental Tobacco.*

A. In addition to measures for extending the marketing of oriental tobacco, the efficacy of which, though not negligible, would appear to be limited, it would be advisable, either autonomously or as a result of bilateral negotiations, to amend certain fiscal or Customs provisions relating to this tobacco. Oriental tobacco is subject in the consuming countries to various Customs or fiscal charges by which it is often seriously affected, and the exporting countries desire a favourable modification of these duties in the interest of their exports.

The exports are affected by the fact that the duties are heavier (a) on tobacco used for making cigarettes and (b) on high-priced tobacco, such as oriental tobacco.

Without wishing to place a heavier charge on tobacco of inferior quality, which would affect the poorer consumers, the Eastern countries ask that a real effort should be made to modify Customs duties, consumption taxes, etc., so as to favour more than hitherto the consumption of cigarettes, especially those containing oriental tobacco. The Committee is not unaware that proposals to this effect are connected with general fiscal problems which are outside its competence, and are particularly difficult as tobacco plays a very important part in the budgetary equilibrium of the various countries.

¹ See document C.784.M.379.1931.VII.

The Committee has, however, learnt that certain measures in this direction have been taken, or are proposed, in various countries. One country proposes to decrease the difference between the duty on dark and on light tobacco. In another country, where the consumption taxes are at present not only proportional but progressive and increase with the value of the articles, these taxes will shortly cease to be progressive but will be collected at the same rate on all kinds of tobacco and will be considerably less for the high-priced products than the existing rates; this will bring about a decrease in price which will principally benefit oriental tobacco. The Committee notes that the extension of such measures would obviously be to the advantage of the exporting countries in question.

B. There are a number of technical reasons why oriental tobacco suffers more even from the same duties than other tobaccos, and the Eastern countries therefore desire that this inequality should be counterbalanced by a special Customs regime in favour of oriental tobacco, which, as a matter of fact, only forms 3 or 4 per cent of the world production.

But the establishment of such preferential treatment would, in the opinion of certain members of the Committee, meet with considerable difficulty for the following reasons :

(a) Duties on tobacco are mostly revenue duties. The State obtains considerable revenue from them and could not think of giving up a part of that revenue at a time when fresh taxes are being imposed in order to balance the budget ;

(b) In view of the most-favoured-nation clause, any reduction in the duty on oriental tobacco must also be applied to overseas tobacco and would thus fail in its object.

In reply to the latter observation, the producing countries argue that oriental tobacco is a special article distinct from other products and may form the subject of a special tariff provision as it already does in certain countries. The possibility of a special Customs item for "*oriental tobacco*" should be considered, since this name is applied to a well-known article which possesses specific, well-defined qualities.

3. *Measures of Organisation in Producing Countries.*

The Committee also devoted its attention to certain measures of organisation which appear calculated to improve the conditions of production and sale of oriental tobacco in the producing countries. It noted with great interest the statements made by the Bulgarian, Greek and Turkish delegates regarding existing organisations in these countries which appear capable of further development. It learnt that the cultivation of tobacco in Bulgaria, Greece and Turkey is subject to minutely detailed regulations and is definitely limited to districts of which the natural conditions are suitable.

The Committee noted with satisfaction the progress recently made by the exporting countries in the organisation of their tobacco exports. The efforts made by the three countries for effective co-operation are to be crowned by the creation of an Inter-Balkan Oriental Tobacco Office. This plan was considered by the Tobacco Conference held at Istanbul in May 1932 and is shortly to be put into effect. This office will not confine itself to co-ordinating the efforts of the three countries for the marketing of oriental tobacco, but will also endeavour to safeguard and improve quality by the selection and choice of types, by the standardisation, as far as possible, of the Bulgarian, Greek and Turkish tobacco legislation, and by the systematic co-operation of the scientific institutes of the three countries.

The Committee can only hope that both the national and the combined efforts of the three producing countries will be continued.

The Committee dealt with a joint proposal from the countries exporting oriental tobacco with regard to a better organisation of their tobacco sales abroad. While considering this problem from the purely technical point of view and making it clear that its opinion on this subject can in no way prejudice the attitude of the countries or industrial purchasers concerned, the Committee thinks it advisable to reproduce in its report the ideas expressed and in general to endorse them, since their successful realisation might appreciably mitigate the present distress.

In order to lessen the disastrous fluctuations in price, the creation of a regulating stock might be contemplated in each of the three countries in the interest both of the producer and of the purchaser. This stock must not be too small, as in that case it would fail to regulate prices; it must also not be too large, as it would then encourage overproduction and the locking up of capital in excess of the object proposed. The countries concerned consider that a stock of 10 to 15 per cent of the normal production would fulfil both requirements.

The Inter-Balkan Oriental Tobacco Office might be requested to co-ordinate the activity of the three regulating stocks.

The regulating stock could not, however, have the expected effect and avoid the dangers often connected with such enterprises unless two fundamental conditions were fulfilled — first, the regulation of production in the countries themselves, and, secondly, the possibility of selling the stocked goods within a fixed period not exceeding two years.

The first of these conditions seems likely to be achieved in each of the countries under consideration. It is desirable that further progress should be made in this direction while the

efforts of the three countries should also be co-ordinated on certain agreed lines, in order, if possible, to maintain production within the limits of the normal requirements of oriental tobacco.

The second condition, which can indeed only apply when the execution of the first condition is ensured, is no doubt more difficult of achievement. Nevertheless, co-operation between buyers and sellers seems to be possible in the interests of all. If the principal importing countries, either through their monopolies or by the free decision of their industry, could buy even a small part of their requirements from the regulating stock, a great step would have been taken towards the realisation of this essential condition.

This plan, in spite of its modest proportions, might indeed involve certain technical disadvantages for the monopoly or purchasing industry and might even entail a certain loss, but this would be compensated by the advantage of a stable and regulated market.

Moreover certain difficulties regarding quality, to which allusion was made in the discussion, might be overcome by suitable arrangements and by direct negotiations between the buyers and the organisation, since it is in the latter's interest to give satisfaction to buyers as far as possible. If annual programmes could be agreed upon, their regulating effect would be considerable.

It should be added that the regulation of tobacco growing might take place in a more rational, and consequently more beneficial, manner if the purchasing countries could standardise their purchases — that is to say, if the quantities exported by the Balkan countries only underwent small fluctuations from year to year.

The regulating stock should be maintained as such and should not be used for commercial operations. Tobacco taken from the stock would therefore be sold at cost price.

A small capital would be sufficient to start the regulating stock of the three Balkan countries, in view of the above-mentioned fact that the maximum quantity would be 10 or 15 per cent of the normal production. Under present conditions of production it may be mentioned, as an indication, that the amount required would be about 30 million Swiss francs.

The Committee is not competent to settle the question of the subscription of this capital. Under normal conditions, this would fall on the three producing countries. In the present state of distress, however, there might be some question of participation by certain countries which take a particular interest in the economic restoration of the three countries. But the Committee formally notes that this matter can only be usefully discussed by other bodies.

If the regulating stock is to fulfil its purpose under the above-mentioned conditions, it would be desirable that it should pay little or no interest on its capital, in order to avoid any appearance of commercial management and in order not to be obliged to increase the sale prices of tobacco in stock.

As the creation of a limited regulating stock should not result in the suppression of any stocks held by merchants, it would be necessary to prevent those stocks from having any harmful effect on price regulation. For this purpose, the three countries administering the regulating stocks would consider the possibility of arranging for the bodies in charge of the regulating stocks to warrant a part of the merchants' stocks — that is to say, they would pay the merchants the equivalent of the tobacco warranted either at the purchase price or at a price fixed by experts, on condition that the merchants repaid the banks without delay. In this manner, the warranted tobacco would be freed from interest charges, so that, on the one hand, the merchants would be able to effect sales more easily and, on the other hand, the purchasers would be able to acquire the tobacco at a more favourable price.

The organisation outlined above presupposes the co-operation both of the producing countries and of the purchasers, whether the latter are monopolies or private firms. Consequently, this organisation should, in its own interest, take the greatest care to avoid disturbing in any way the normal activity of the existing undertakings, which are admittedly rendering valuable services.

III.

The Committee kept strictly to the technical subjects which formed the terms of reference of the experts. But it is aware of the dangers represented by the oriental tobacco crisis in the three countries where this problem is of vital importance.

It therefore felt that it should support ideas which presuppose a desire, even in other countries, to contribute to the economic recovery of the three countries in question in the spirit of the Commission of Enquiry for European Union and of the Stresa Conference.

Without wishing to express an opinion on questions which are outside its competence, the Committee could not fail to approve the idea expressed on many occasions by the Financial Committee, especially with regard to Greece and Bulgaria — and the same applies to Turkey — that the creditor countries have a prime interest in the development of exports from the debtor countries. They must therefore be also interested in the development of exports of oriental tobacco, which might play a considerable part in enabling those countries to meet their financial commitments.

The Committee would be glad if the present report could be brought to the knowledge of the Economic Committee and of the Financial Committee.

IV.

At the end of the discussion, the Committee noted the statements of certain delegates, and it was agreed to add these statements to the text of this report :

(a) Statement by the delegates of the *United Kingdom, Germany and Switzerland* :

“ Subject to domestic legislation, it is agreed that no restriction whatever (on price, export or payment) shall be imposed by the selling countries (Greece, Bulgaria and Turkey) on the freedom of industry and trade to make purchases in the countries not possessing a tobacco monopoly.”

(b) The *Italian* delegate pointed out that he took part in the meeting as representative of a monopoly purchasing oriental tobacco, but that Italy produced and exported tobacco.

(c) The *Hungarian* delegate made the same statement.

(d) Statement by the *Yugoslav* delegate :

“ In accordance with the decision of the Stresa Conference, the meeting of tobacco experts has dealt with the marketing of oriental tobacco produced by Greece, Bulgaria and Turkey. The meeting of experts has considered several possibilities : increase in the consumption of oriental tobacco in the purchasing countries, reduction of the Customs import duties, creation of a tobacco office for the three countries, the stocking of oriental tobacco, international financial assistance for such stocks and certain guarantees on the part of purchasing countries to buy regularly a percentage of such stocks.

“ As delegate of the Kingdom of Yugoslavia, while accepting in principle all the facilities for the marketing of the tobacco in question, I have the honour to state that Yugoslavia produces oriental tobacco, identical both in respect of its origin and biological characteristics and of its value in use and in trade. The fact that oriental tobacco is grown in Yugoslavia is universally recognised. Moreover, the Turkish Empire formerly placed on the international market oriental tobacco produced both in Turkey proper and in her Balkan territories ; the Austrian monopoly which took over the Ottoman monopoly in Herzegovina sold a special quality of oriental tobacco from Herzegovina which was exported even to Egypt. I wish to point out that the Yugoslav monopoly has made scientific experiments with a view to maintaining and improving all the qualities of its oriental tobacco.

“ In addition, I wish to state that the expression ‘ oriental tobaccos ’ cannot be exclusively applied, for any reason, to tobacco coming from Turkey, Bulgaria and Greece, since the characteristics of oriental tobacco have never been either fixed or recognised by any competent body. The name is purely relative and was introduced on the European market by the former Turkish Empire. Consequently, Yugoslavia will resist any attempt to monopolise this name.

“ The tobacco producers in Yugoslavia are also suffering from the present crisis, since both internal consumption and exportation have decreased. They therefore hope to find some relief in the decisions which may subsequently be taken with a view to improving the economic position of oriental tobacco producers in Turkey, Bulgaria and Greece.

“ Having described the position of Yugoslavia as a producer of oriental tobacco, I hope that any future efforts made in this direction under the auspices of the League of Nations and any measures contemplated will also be applied to Yugoslavia, which is always prepared to co-operate in any work of international solidarity.”

London, June 27th, 1933.

LEAGUE OF NATIONS

**COMMITTEE OF THE COUNCIL APPOINTED
TO EXAMINE THE PROBLEM RAISED BY THE
LIBERIAN GOVERNMENT'S REQUEST FOR ASSISTANCE**



REPORT OF THE COMMITTEE TO THE COUNCIL

Adopted on June 27th, 1933.

1. The Council will remember that, in October 1932, its Committee presented the general principles of a plan of assistance for Liberia which had been unanimously agreed upon by the members of the Committee and accepted by the Liberian Government (document C.720.1932.VII).

2. The entrance into force of the plan, however, was conditional on a satisfactory outcome of negotiations to be undertaken between the Liberian Government and the Finance Corporation of America.

3. These negotiations have now taken place and have resulted in certain proposed modifications in the Loan Agreement of 1926, some of a permanent nature, others of a temporary character applicable only during the operation of the proposed plan.

4. The principal features of these permanent modifications are a reduction of the rate of interest on the loan, the priority over the interest and amortisation of the loan granted for the ordinary running expenses of the Government, and the settlement of interest arrears on the loan by means of the issue of new bonds. These questions have been dealt with by direct negotiation in Monrovia and elsewhere between the Liberian Government and the Finance Corporation. The concessions made by the Finance Corporation will result in a present annual saving to Liberia of about U.S. \$62,000.

5. The temporary modifications relate to the correlation of the Loan Agreement as modified with the operation of the plan of assistance. Mr. Th. Lighthart, financial expert to the Committee, with the assistance of the Secretariat, has been in charge of these negotiations.

6. The proposed temporary arrangements provide that the revenues of Liberia shall be utilised in accordance with the following scheme of priority:

| | |
|---|---------------------------------|
| (a) Ordinary running expenses of the Government | Lib. \$300,000 |
| (b) Cost of the plan of assistance, salaries and expenses of loan officials, Bank Commission charges | U.S. \$78,000 Lib. \$124,000 |
| (c) Interest on loan | U.S. \$125,000 |
| (d) Remaining balance: | |

One-half to be proportionately allocated:

| | |
|---|---------------|
| To amortisation of arrears of internal debt to an amount not exceeding | Lib. \$40,000 |
| And to amortisation of the loan | U.S. \$66,000 |

The other half to be devoted to the development of the
country.

The Finance Corporation is to institute a working capital fund of \$150,000, and guarantee, moreover, that this fund shall always be sufficient to pay the salaries and travelling expenses of the foreign experts provided for in the plan of assistance, which total \$78,000 annually. The

Corporation is to renounce annually interest that cannot be met out of the revenues of the corresponding fiscal year, which sacrifice may involve a loss to the Corporation of about U.S. \$125,000 a year.

7. The members of the Committee, other than the Liberian representative, are in full agreement with the recommendations of its financial expert and approve his proposals. Under the present circumstances, these appear to them to be the best solution for promoting the development of Liberia. The Liberian representative put in a memorandum, a copy of which is annexed (Appendix I), making certain reservations. The American representative is not in agreement with certain of the points raised in this memorandum, but considered that this is neither the time nor the place to comment upon them.

8. The Committee now submits to the Council the plan of assistance in the form of a Protocol to be accepted by the Council of the League and the Liberian Government (Appendix II). Certain modifications have been introduced in the original plan in order to provide further for its effective working.

9. The Liberian representative has promised to refer the Protocol to his Government, and the Finance Corporation of America has provisionally accepted the arrangements provided for in this document.

10. The plan as it stands appears to the Committee, with the exception of the Liberian representative, to be fair and practical and, in fact, to constitute the only way in which to comply with the request for assistance of the Liberian Government. Consequently, the Committee strongly recommends it to the Council and the Liberian Government. The Committee emphasises the necessity for the acceptance by the Liberian Government of the plan as a whole, if it desires the assistance of the League.

11. Finally, the Committee would draw attention to the danger of further procrastination in putting the plan into force. The Committee has had the question under consideration for over two years, and, in these circumstances, has asked the Liberian Government to reach a decision before the meeting of the Council in September 1933. The Committee is informed that, for this purpose, it will be necessary for a special session of the Legislature of Liberia to be convened before this date.

Appendix I.

MEMORANDUM BY THE LIBERIAN REPRESENTATIVE.

Confirming our memorandum submitted to the Committee on June 19th (document C./Liberia/38), the Liberian delegation is not in agreement with the financial expert, and regrets that it finds it impossible to concur with the views of those members of the Committee who approve of the proposals he has made, for the reasons following:

1. According to a document already submitted to the League of Nations (see document C./Liberia/33), it has been shown that the Government of Liberia accepted the 7 per cent Gold Loan of 1926 with extreme reluctance, and even then made that acceptance conditional upon the understanding that the loan should not be floated by Firestone, as "to obtain a loan from a private concern operating in the country under grants from the Government carried *ipso facto* elements of future misunderstandings". In spite of this, it was discovered five years later that the principal, if not the only, shareholder in the company that floated the loan was the same Mr. Firestone of the Firestone Plantations Company.

2. That, according to a further document filed with the League of Nations (see document C./Liberia/38), a large proportion of the amount of the loan was misspent and even thrown away, without any benefit to Liberia, by agents appointed to serve as Financial Adviser and under the Financial Adviser, in accordance with the terms of the said loan contract, without any reference whatever to the Liberian Government or any of its officials.

3. That, because of the foregoing, the Liberian delegation was of opinion that the Government of Liberia may continue to adhere to the policy expressed in document C./Liberia/13, page 60, to refuse to contract further obligations of a financial character to the said institution, and also to refuse to accept another loan. This would prevent the issue of the bonds to the amount of \$150,000 approximately provided for in the report with its annexes.

4. As pointed out to the Committee from time to time, especially in the *procès-verbal* numbered respectively 12 and 17 of 1932, the salaries of Liberian officials have been reduced to the point that they are no longer receiving a living wage, and, as the adoption of the said report would involve reducing the amounts available for appropriation for the Liberian personnel of the civil establishment from approximately \$400,000 to \$300,000, it would be impossible to avoid further retrenchments of salaries, elimination of officials, and consolidation of offices, as the report itself recommends, thus resulting in a great deal more work for each remaining official and employee with considerably reduced pay.

5. That the "introductory note" prefixed by Mr. Lighthart to the "Standard Minimum Budget for the Running Expenses of the Liberian Government", which was appended to the Protocol to be adopted *en bloc*, recommends that the Liberian Government abandon appropriating money for the prosecution of educational work, and leave all education in the hands of sundry missionary organisations operating in Liberia.

6. That the adoption of the report would impose upon the Legislature of Liberia the duty of readjusting salaries of officials who, according to the Constitution of Liberia, enjoy an immunity from interference with their salaries during their term of office, and dispense with certain other officials without the constitutional amendment which is necessary to dispose of such offices, thus striking a vital blow at the Constitution of Liberia and the general framework of its Government.

7. That the "introductory note" recommends, and the adoption of the Protocol would give effect to, a proposal to pay the Chief Adviser a salary higher than that of the President of the Republic.

8. That the professed reason for making the aforesaid and other vital cuts in the present budget of Liberia is to obtain money for the execution of the plan of assistance, and certain improvements contemplated out of proportion to the revenues presently available or envisaged in the near future, and out of all proportion to their expected increase while the staple articles of export from Liberia remain at the low level of prices obtainable in world markets to-day.

9. That the adoption of the report would result in placing the Liberian officials, as compared with the loan officials and those functioning under the plan, in a very disparaging position financially, militate against the Government's being able to guarantee their integrity, lower their prestige and eventually produce an inferiority complex not compatible with the leaders of any country.

10. To pay such huge salaries as those contemplated in the report to foreign officials and such parsimonious salaries to the Liberian officials and employees will disturb the balance of circulation of money and cause a steady drain of money out of the country that will ultimately increase rather than relieve the present distress.

11. That it was by the experts that the terms of the loan contract were pronounced as onerous and not good for Liberia (see document C.469.M.238.1932.VII, "Report of the

Experts", discussed in the Committee in January 1932). Some members held, and the Committee reported to the Council, that the loan and planting agreements "created a symbiosis neither good for the welfare of the country (Liberia) nor the general welfare of the world, all countries being interdependent" (see *Official Journal*, March 1932, Part II, page 526); and the Committee, following this, subsequently recommended in the plan of assistance submitted to Liberia in May 1932 radical modifications of the said contracts. But, at the present time, the Committee is asked to adopt a recommendation that the merits of the said loan contract are beyond the jurisdiction of the Committee to interfere with.

12. That Mr. Firestone has conditioned his co-operation with the plan on the appointment of an American citizen as Chief Adviser; but, inasmuch as by the terms of the loan contract the Financial Adviser will be a citizen of America, and one of the principal duties of the Chief Adviser will be to arbitrate between the Government of Liberia and the Financial Adviser in case of a dispute, it does not appear to the Liberian delegation that such an appointment would inspire in the rank and file of Liberian citizens that confidence necessary to ensure belief and trust in the impartiality of his decisions, nor that the League was being adequately represented by having as its principal *officier de liaison* a citizen of a non-member State.

Appendix II.

DRAFT PROTOCOL ESTABLISHING A PLAN OF ASSISTANCE FOR LIBERIA.

WHEREAS, the Liberian Government has requested assistance from the League of Nations in the establishment of reforms in the administration and finances of the Republic of Liberia.

AND WHEREAS, the Council of the League of Nations, after examination of the administration and financial situation of Liberia, in collaboration with representatives of the Government of Liberia, by a Committee appointed by the Council and a Committee of Experts, has agreed to the plan of assistance established by the present Protocol and the Annex thereto, which were approved by the Council by its resolution of 1933;

The undersigned, duly authorised, accepts on behalf of the Government of Liberia the following provisions:

CHAPTER I. — ADMINISTRATION.

Article 1.

1. For administrative purposes, the territory of the Republic of Liberia shall be divided into three provinces.
2. It is understood that the whole territory of the Republic is to be included within the three provinces.
3. Unless otherwise fixed by the Liberian Government in agreement with the Chief Adviser, whose appointment is provided for in Chapter IV:

(a) The Western Province shall extend from the Anglo-Liberian boundary on the north-west to the St. Paul River, and from the Atlantic Ocean to the Franco-Liberian boundary;

(b) The Central Province shall extend from the St. Paul River to the Cestos or Nuon River, and from the Atlantic Ocean to the Franco-Liberian boundary; and

(c) The Eastern Province shall extend from the Cestos or Nuon River to the Cavalla River, and from the Atlantic Ocean to the Franco-Liberian boundary.

Article 2.

1. Each province shall be administered by a Provincial Commissioner assisted by a Deputy Commissioner.
2. The Provincial Commissioner is responsible to the Chief Adviser and, as representative of the executive power, to the President of the Republic of Liberia, through the intermediary of the Secretary of the Interior, with the understanding that no instructions, regulations or orders shall be issued to the Provincial Commissioner except after consultation with and approval of the Chief Adviser. This shall not be interpreted as intended to limit in any way the authority of the Chief Adviser, as to this or any other Department of the Government.
3. It shall be his duty to see that the laws and regulations are carried out, and he shall be responsible for public peace and order.

Article 3.

1. To ensure public order, the Commissioners will have under their direct orders a corps of messengers, the numbers of which be settled by the Liberian Government in consultation with the Chief Adviser. The Chief Adviser will decide, in collaboration with the Government of Liberia, whether the messengers are to be armed or not.
2. Neither the "Frontier Force" nor any other military organisation of Liberia may intervene in the provinces, except at the request of the Provincial Commissioner, and then only within what the latter considers to be the necessities of the case.

Article 4.

1. The Government of Liberia will engage three foreign specialists as Commissioners of the three provinces, and three other persons as deputies of the said Commissioners. They shall be designated by the Council of the League of Nations and approved by the President of the Republic of Liberia and appointed by him.

2. Only the three Provincial Commissioners will be appointed immediately, in order to proceed to Liberia with the Chief Adviser. The Deputy Commissioners will be appointed later, as provided for in Chapter IV.

3. With the approval of the Chief Adviser, any or all of the three deputies may be Liberians. In such case, their appointment shall be made by the President of the Republic, on the proposal of the Chief Adviser.

4. The foreign specialists who act as Provincial Commissioners will watch over the administrative training of the Liberian officials by whom they will be succeeded on the expiration of their contracts if the Chief Adviser considers the said Liberians to be able to perform their duties satisfactorily.

CHAPTER II. — HEALTH.

Article 5.

1. The Liberian Government agrees in principle to engage two whole-time medical officers for hospital and health work. They shall carry out all the ordinarily accepted duties of a medical officer of health in a tropical country.

2. They will be designated by the Council of the League of Nations and approved by the President of the Republic of Liberia and appointed by him. One will be appointed immediately and the other as soon as the Chief Adviser thinks it opportune.

3. They will be responsible to the Chief Adviser and to the President of Liberia.

4. As regards the appointment of the second medical officer, the Chief Adviser will have regard to the financial resources available.

CHAPTER III. — FINANCE.

Article 6.

1. The Liberian Government shall continue to appoint to its service a Financial Adviser, together with a certain number of assistants, as provided for in the Loan Agreement of September 1st, 1926, and any contractual modification thereof by and between the Republic of Liberia, the Finance Corporation of America and the National City Bank of New York.

Article 7.

It shall be the duty of the Financial Adviser and his collaborators to ensure the efficient organisation and functioning of the Liberian fiscal services and also the regular payment of the service of the loan advanced by the Finance Corporation of America, and they shall have all the powers necessary for their purposes.

Article 8.

The Financial Adviser shall have the right of supervision over all questions within the financial sphere and shall have the right, more particularly, to make sure that the credits allocated are being judiciously applied for the purposes stipulated.

Article 9.

All revenues and receipts of the Liberian Government (including import and export duties of every description, poll-tax, and all other imposts, taxes and receipts of the Republic) shall be collected under the supervision and direction of the Financial Adviser and his collaborators, who shall co-operate with the officials responsible for collection and, as regards provincial revenues and receipts, with the Provincial Commissioners.

Article 10.

All revenues and receipts of the Government shall be deposited in a bank designated as the official depository in accordance with Article XVIII of the Loan Agreement of 1926, or any agreement supplementary thereto.

Article 11.

No commitment in respect of expenditure shall be entered into and no sum shall be withdrawn from the Government funds deposited in the bank without the approval of the Financial Adviser.

Article 12.

Any disagreement between the Liberian Government or any official thereof and the Financial Adviser shall be submitted to the Chief Adviser, who will arbitrate thereon and will report to the Council of the League of Nations and to the Government of the United States of America. This shall in no way modify or restrict the provision for arbitration between the parties to the Loan Agreement of 1926, as provided in Article XXV of that Agreement, or any contractual modification thereof.

CHAPTER IV. — CO-ORDINATION OF MEASURES OF REFORM AND LIAISON
WITH THE LEAGUE OF NATIONS.

Article 13.

1. A Chief Adviser shall be appointed by the Council of the League of Nations with the acceptance (*agrément*) of the President of the Republic of Liberia. This adviser shall be responsible to and removable by the Council of the League of Nations. He shall be attached to the Central Government, in order to give it the benefit of his advice, to supervise the execution of the plan of assistance and to co-ordinate the work of the foreign experts.

2. The Chief Adviser shall proceed with the three Provincial Commissioners as soon as possible to Liberia and assume his activities. He will prepare, in collaboration with the President of the Republic of Liberia and with the assistance of the advisers provided in the preceding chapters, the progressive details of the plan of assistance upon the principles agreed to in this Protocol, and taking account of the draft plan drawn up by the experts and of the discussions that have taken place in the Committee referred to in the Preamble.

3. The Liberian Government undertakes to collaborate with the Chief Adviser, and, subject to the reservation hereafter provided in the following article, to act in accordance with his advice and recommendations, and grant him all facilities for the performance of his duties throughout his term of office. It hereby agrees to grant to the Chief Adviser ample and sufficient authority for the effective execution of the plan of assistance in accordance with his powers defined in the first two paragraphs of the present article. The Chief Adviser may, in particular, ask for any documents and official reports he may require, and may make such investigations as he may think fit in the country.

Article 14.

1. The Liberian Government may, if it considers necessary, refer any question to the Council of the League of Nations.

2. Should it consider that the recommendations made by the Chief Adviser are in violation of the existing constitution of the Republic, it may ask the Council to refer the question to the Permanent Court of International Justice for an advisory opinion.

3. Until a decision has been given by the Council, the Liberian Government undertakes to comply with the recommendations made by the Chief Adviser, provided that, on the application of the Liberian Government, the Council of the League of Nations, or the acting President thereof, may decide that the execution of these recommendations shall be suspended pending the final decision of the Council.

4. The Chief Adviser shall make such communications as he may think fit to the Council of the League of Nations, provided he shall report at least every quarter upon the progress of his work and the execution of the plan of reforms, and will file a copy of the report with the Government of Liberia, to be kept in the archives of the Republic.

5. Should the Council consider that the Liberian Government has disregarded the undertakings given in the present Protocol, it may declare that the present Protocol has lapsed and that consequently the arrangements entered into with the Finance Corporation of America for the execution of the plan of assistance are no longer binding on this company. In such case, compensation to be fixed by the Council shall be paid to the Chief Adviser and other specialists appointed or designated by the Council, and any balance of the working capital provided for in the report of Mr. Lighthart reproduced in the Annex shall be applied to immediate amortisation of bonds issued under the Loan Agreement of 1926 or any agreement supplementary thereto.

6. In urgent cases, the acting President of the Council may act on behalf of the Council, provided that he refers the matter to the Council as soon as possible.

Article 15.

1. The Chief Adviser shall receive a salary not exceeding U.S. \$12,000.
2. If it is found possible to fix the Chief Adviser's salary at a figure lower than U.S. \$12,000, this will be done.

CHAPTER V. — DURATION OF THE PLAN OF ASSISTANCE.

Article 16.

The plan of assistance will terminate and the present Protocol will cease to be in force after a period of five years from the date of nomination of the Chief Adviser by the Council of the League of Nations, unless the Liberian Government intimates its desire that it should continue. In the latter case, the Council of the League of Nations may reconsider whether it desires to continue its co-operation and under what conditions.

CHAPTER VI. — GENERAL PROVISIONS.

Article 17.

1. All the powers exercisable by the Council of the League of Nations under the provisions of the present Protocol, except under Chapter IV (Article 14, paragraph 5) and Chapter V, may, unless otherwise decided by the Council, be exercised, and final decisions may be taken, by a standing committee which will be appointed by the Council.
2. The powers given to the President-in-office of the Council cannot be delegated to the President of the committee mentioned above.

Article 18.

1. For the purposes of Chapter IV, Article 14, paragraph 5, the Council of the League of Nations shall take all decisions by a unanimous vote, Liberia's vote not counting in the calculation of such unanimity.
2. Subject to the provisions of Article 18, paragraph 1, and with the exception of the action proposed under Chapter V, all decisions to be taken in virtue of the present Protocol by the Council or the committee appointed by the Council shall be taken by a two-thirds majority.

Article 19.

1. The salaries of the foreign specialists will be fixed by the Council of the League of Nations, on the basis of the salaries of the similar officials of neighbouring colonies.
2. Account will be taken of the special conditions which should be granted to officials of international status, and also, of course, of the financial resources available.

Article 20.

The foreign specialists mentioned in Chapters I and II may be replaced for adequate reasons with the consent of the Council of the League of Nations.

Article 21.

Liberia accepts and undertakes, so far as it is concerned, to give effect to the report of Mr. Lighthart, which is reproduced in the Annex to the present Protocol.

Article 22.

Liberia shall, not later than one month after the entry into force of the present Protocol, enact whatever legislation may be necessary to enable full force and effect to be given to all the provisions of the Protocol and its Annex.

Article 23.

In the event of any discrepancy between the English and French texts of the present Protocol or the Annex, the English text shall prevail.

Article 24.

1. The present Protocol shall be ratified by Liberia and the instrument of ratification shall be deposited with the Secretariat of the League of Nations as soon as possible.
2. The present Protocol shall not enter into force until the Chairman of the Committee referred to in the Preamble is satisfied that there has been concluded between the Government of Liberia and the Finance Corporation of America an adequate arrangement for financing the plan of assistance on the lines indicated in the annexed report of Mr. Lighthart.
3. In order that the present Protocol may enter into force, the instrument of ratification must be deposited or a notification that the measures necessary for ratification under the constitution of Liberia have been taken must be received by the Secretary-General of the League of Nations not later than
4. Subject to the conditions laid down in paragraphs 2 and 3 above, the present Protocol shall enter into force when it has been ratified by Liberia.

DONE at on 1933, in a single copy which shall remain deposited in the archives of the League of Nations and of which a certified true copy shall be delivered by the Secretary-General to the Government of Liberia. In faith whereof the undersigned has signed the present Protocol,

Annex to the Draft Protocol establishing a Plan of Assistance for Liberia.

MR. TH. LIGTHART'S REPORT REFERRED TO IN THE PROTOCOL.¹

1. At its meeting on May 19th, 1933, the Council Committee decided to take advantage of the presence in Europe of special representatives of the Liberian Government, the Finance Corporation of America, and the Firestone Plantations Company, in order to settle the financial questions left open in the scheme drawn up by the Committee (document C.720.1932.VII). It was suggested that the delegate of the Liberian Government and the representatives of the American groups concerned should begin negotiations as soon as possible, and I was asked to take charge of these negotiations, in collaboration with the Secretariat of the League of Nations.

2. We met in London from June 8th to June 23rd, 1933. The Liberian Government was represented by Mr. Grimes, Secretary of State, and Baron de Lynden, Chargé d'Affaires in London; the Finance Corporation of America by its Vice-President, Mr. L. T. Lyle, and the Firestone Interests by Mr. Harvey Firestone, Jr.

The special representative of the United States Government, General Blanton Winship, has closely followed our proceedings throughout.

I was greatly helped by the presence of Dr. Mackenzie, with whom M. Brunot and I visited Liberia in 1931 and who went there again in 1932.

In drawing up the present report, I have had the opportunity of consulting the Financial Section of the Secretariat of the League of Nations from time to time.

3. In the first instance, we dealt with the *minimum budget* required by the Liberian Government for its ordinary running expenses. In this connection we discussed the actual budget in application in Liberia for 1933, although this budget is not one sanctioned by the Financial Adviser. This budget totals Lib. \$367,800,² whereas the estimates worked out by the Finance Corporation provide only for Lib. \$281,500.²

After careful consideration, I came to the conclusion that the figure of Lib. \$300,000² a year is sufficient to defray the running expenses of the Liberian Government. My figure is rather higher than that proposed by the Finance Corporation and that suggested in the experts' report (document C.469.M.238.1932, page 26). This is on the assumption that every possible saving in the budget will, of course, be made.

4. Salaries and expenses for *loan officials* total about Lib. \$44,500, as given by the Finance Corporation, and Bank of Commission charges Lib. \$7,500.

5. We have also considered the *cost of the plan of assistance*, and I have reached the conclusion that about \$150,000 a year are needed in order to carry out the plan of assistance. This sum includes salaries and travelling expenses to Europe to the amount of U.S. \$78,000, the balance being for roads, bridges, public health, etc. (for further particulars, see paragraph 19).

The salaries and conditions of service of the foreign League officials are to be those obtaining for white officials of similar rank serving in West Africa, and making allowance for the temporary character of the appointment.

6. We then took up the questions of *arrears apart from the loan*. In view of the difficult financial position of Liberia, I think that the creditors must make a sacrifice at least of interest on their claims. The first step is to fix the amount of the outstanding claims. I estimate that these total about Lib. \$500,000. It seems to me that a provision of a sum not exceeding Lib. \$40,000 per annum in the Liberian budget would be a fair settlement for the amortisation of these claims. The details of the funding arrangements to be made with the creditors on these lines should be left to the Liberian Government and the Chief Adviser in consultation with the Financial Adviser.

7. With regard to the *interest rate on the loan*, the Finance Corporation is prepared to reduce this from 7 per cent to 5 per cent. The interest charge would therefore be in future about U.S. \$125,000³ per annum instead of U.S. \$175,000. Amortisation will require an additional U.S. \$66,000 per annum. Outstanding interest on the loan amounted, on January 1st, 1933, to U.S. \$133,000. The Finance Corporation proposes to take up this amount in additional bonds.

¹ This report reproduces the essential conclusions reached by Mr. Lighthart in the more comprehensive report on his investigations which he presented to the Committee appointed by the Council to examine the problem raised by the Liberian Government's request for assistance (document C./Liberia 39 and C./Liberia 39 (1)).

² Exclusive of salaries and expenses for loan officials and of arrears.

³ Anticipating the issue of further bonds.

8. Funds for the following items have therefore to be provided:

| | \$ | \$ | \$ |
|--|-----------------|---------|------------------|
| (1) Running Government expenses | | 300,000 | |
| (2) Execution of plan of assistance | 150,000 | | |
| Salaries and expenses for loan officials | 44,500 | | |
| Bank Commission charges | 7,500 | | |
| | <hr/> | 202,000 | |
| (3) Interest on loan | | 125,000 | |
| | | <hr/> | 627,000 |
| (4) Amortisation of arrears | | 40,000 | |
| (5) Amortisation of loan | | 66,000 | |
| | | <hr/> | 106,000 |
| | Total | | <hr/> \$ 733,000 |

9. Estimates for *revenues* of the fiscal year 1933 total about Lib. \$456,500.

I am confident that this amount will be increased considerably by the application of the plan and by a proper administration, as this will lead to a speedy development of the country and its resources.

For the time being we have, however, to face an adverse balance in the budget and to make the necessary provisions to meet this. In this connection it should be borne in mind that the cost of the plan of assistance for the first year will be less than that estimated, as it is proposed that the plan should come into operation gradually.

10. First of all, it is necessary to guarantee that sufficient funds for the salaries of the foreign officials, and other expenses provided for in the plan of assistance, will be available.

I therefore propose that the Finance Corporation, by the issue of fresh bonds, should provide an initial fund of \$150,000 as *working capital* for the operation of the plan; that the amounts withdrawn from this fund should, if possible, be repaid to it out of the Liberian budget; and that, if such replenishment is not possible, the Finance Corporation should in any event by the issue of bonds ensure that the fund shall always be in a position to pay salaries and travelling expenses to Europe of the foreign experts provided for in the plan, estimated at \$78,000 per annum.

Out of this fund should be paid the cost of the plan of assistance, and, in the first place, the salaries of the new foreign officials.

The fund will be paid in a special blocked account of the Liberian Government into a bank to be determined later by the Council committee. The Council committee will equally have to decide the conditions under which the fund has to be administered.

11. Under my scheme *priority* is therefore as follows:

| | |
|---|----------------|
| (a) Ordinary running expenses of the Government | Lib. \$300,000 |
| (b) Cost of the plan of assistance, salaries and expenses of loan officials | U.S. \$78,000 |
| Bank commission charges | Lib. \$124,000 |
| (c) Interest on loan | U.S. \$125,000 |
| (d) Remaining balance: | |
| One-half to be proportionately allocated: | |
| To amortisation of arrears of internal debt to an amount not exceeding | Lib. \$40,000 |
| To amortisation of the loan | U.S. \$66,000 |
| The other half to be devoted to the development of the country. | |

If the *annual interest* on the loan cannot be met out of revenue, it is to be renounced at the end of the corresponding fiscal year.

12. The question of *transferring funds* from Liberia abroad will probably only arise in respect to a portion of the foreign officials' salaries, but it will clearly be the duty of the Government of Liberia, the Chief Adviser, and the Financial Adviser to maintain sufficient bullion in the country for the proper operation of the currency.

13. The figures upon which the plan of assistance are based must be subject to reconsideration, at the moment when the plan is brought into force, in the light of the relative values of the currencies concerned at that time and possibly their future prospects. In particular, it is essential that the arrangements made as regards providing and replenishing the working capital fund should be adequate to permit offering conditions of service sufficient to enable suitable foreign experts to be engaged. At present, it is impossible to say what, at any particular moment in the future, will be the relation between the United States dollar and the Liberian dollar, or the gold value of either currency. Accordingly, wherever in the present report a table had to be drawn up showing expenditure both in United States dollars and Liberian dollars, I have treated the United States dollar and the Liberian dollar as equivalent to one another, as they originally were.

14. I have not thought it my duty to consider the merits of the existing loan contract, but have contented myself to find within the given limits of the situation the best solutions for all parties concerned.

Permanent modifications in the Loan Agreement have been discussed independently by the Liberian Government and the Finance Corporation.

A special arrangement is also being made to modify the new loan contract temporarily, so as to bring its provisions into line with the plan of assistance.

15. The conditions on which the Finance Corporation is willing to accept my proposals, including the renunciation of interest and the provision of fresh capital, as stated to the Council Committee at its meeting on June 27th, 1933, are as follows:

“(a) That Liberia accept and approve by legislative action the proposed supplementary agreement to the Loan Agreement of 1926¹ and remove all legislative acts and executive orders in contravention of the Loan Agreement of 1926.

“(b) That Liberia accept and approve, by legislative action where necessary, the programme of assistance as recommended by the Council Committee on Liberia to the Council of the League of Nations, including the recommendations contained in Mr. Lighthart's report to the Committee.

“(c) That Liberia recognise the existing Depository Agreement between the Liberian Government and the United States Trading Company Banking Department, and function in accordance with this agreement.

“(d) That Liberia concur in Mr. Lighthart's recommendation that the floating indebtedness be gradually amortised from current revenues without recourse to the issuance of 3 per cent internal bonds.”

16. In regard to the Plantation Contract, I understand from the Firestone Plantations Company's representative that it is prepared to make the utmost possible allowance for the general interests of Liberia, and that it would be perfectly ready, in consideration of the well-being of the population, to take account of competent opinions. In particular, I understand that the Firestone Plantations Company, during the operation of the plan, will be glad to consult with the Chief Adviser and the Provincial Commissioner concerned in the selection of additional land.

17. If the plan is adopted, I must emphasise the importance of having an undertaking from the Liberian Government that it will not grant any further concessions or monopolies to foreigners, except after consultation with the Chief Adviser.

18. As a preliminary stage it was necessary to fix the amount of the Liberian budget, and for convenience only I have considered the items of the separate departments of the Government. It is clear, however, that, broadly speaking, the total sum of the budget in proportion to the revenues of Liberia is of more importance than the detailed application of the sums available for the various departments. I anticipate that the details of the amount to be allocated to the individual departments will be considered by the Chief Adviser in consultation with the Liberian Government and the Financial Adviser.

19. A detailed estimate for the plan of assistance is given below. It will be seen that the number of staff proposed is that agreed to by the Liberian Government and the Committee. It should be noted, however, that provision is made for two doctors, whereas it was decided that, in the first instance, one doctor only should be appointed, the second post being filled when, in the opinion of the Chief Adviser, funds permitted of this.

It is clear that it is impossible to define a figure for the first year of the working of the plan. My figure represents, therefore, the cost of the plan as adopted when all the appointments have been made.

| | | |
|---|---------|-----------|
| | U.S. \$ | |
| Chief Adviser | 12,000 | |
| Three Commissioners at \$8,000 each | 24,000 | |
| Three assistants at \$6,000 each | 18,000 | |
| Two doctors at \$8,000 each | 16,000 | |
| Travelling expenses | 8,000 | |
| | ————— | \$78,000 |
| | Lib. \$ | |
| Sanitation | 10,000 | |
| Road construction | 54,000 | |
| Education medical assistants | 3,000 | |
| Unforeseen | 5,000 | |
| | ————— | \$72,000 |
| Approximate total | | \$150,000 |

(Signed) Th. LIGTHART.

¹ The text of this agreement is reproduced at the end of the present document.

PROPOSED AGREEMENT SUPPLEMENTARY TO THE "LOAN AGREEMENT"
BETWEEN THE GOVERNMENT OF THE REPUBLIC OF LIBERIA AND THE FINANCE
CORPORATION OF AMERICA, DATED AS OF THE FIRST DAY OF SEPTEMBER 1926.

AGREEMENT, dated, for convenience, as of the _____ day of _____, 1933, by and between the Government of the Republic of Liberia, of the first part (hereinafter referred to as the Government); Finance Corporation of America, a corporation organised and existing under and by virtue of the laws of the State of Delaware, United States of America, of the second part (hereinafter referred to as the Corporation); and the National City Bank of New York, a national banking association organised and existing under the laws of the United States of America, of the third part (hereinafter referred to as the Fiscal Agent);

WHEREAS, the Government and the Corporation entered into a "Loan Agreement" as of the first day of September 1926, in which the Fiscal Agent was party of the third part, which Agreement thereafter became effective upon ratification by the Government, and is in effect; and

WHEREAS, the Government represents to the Corporation that it finds itself unable to fulfil certain of the obligations undertaken by it by virtue of the terms and conditions of said "Loan Agreement"; and

WHEREAS, the Government is desirous of modifying certain of the obligations undertaken by it under and by virtue of the terms of said "Loan Agreement";

NOW, THEREFORE, this Agreement is executed for the purpose of modifying and supplementing said "Loan Agreement" in the following respects only, to wit:

Section I.

Article I of the said "Loan Agreement" is hereby amended so as to provide for a reduction of the basic interest rate from seven per cent (7%) per annum to five per cent (5%) per annum. Effective January 1st, 1933, and continuing until maturity on January 1st, 1966, the "External Forty-Year Sinking Fund Seven Per Cent Gold Bonds" shall bear interest at the rate of five per cent (5%) per annum, payable semi-annually on January first and July first in each year.

Section II.

(a) The Government shall forthwith upon the execution of this Agreement execute and deliver to the Corporation additional bonds provided for under the said Loan Agreement of 1926 in the capital amount of U.S. \$133,000 in liquidation of past due interest as of January 1st, 1933.

(b) It is understood and agreed that, while the Government is obligated for the payment of interest at said five per cent (5%) per annum on all outstanding bonds issued under said "Loan Agreement", the Government shall be relieved from the payment of said interest by cash for any calendar year when the total revenues and receipts of the Government shall be less than \$350,000 (which amount is required for the operating expense of the Government, including salaries and allowance of the fiscal officials), and in this event the said interest shall be liquidated by the execution and delivery by the Government to the Corporation of additional bonds provided for under the said Loan Agreement of 1926 in an amount equivalent to such interest.

(c) For any calendar year when the total revenues and receipts of the Government shall exceed \$350,000, all of such excess to and including such an amount as will equal five per cent (5%) interest for one year on all outstanding bonds issued under the said Loan Agreement of 1926 shall be set apart by the Government and paid over to the Corporation for application against and/or liquidation of the said five per cent (5%) interest for such calendar year. In the event such excess over and above \$350,000 shall not be sufficient to liquidate fully by cash payment such five per cent (5%) interest for such calendar year, then the amount constituting the difference between such excess and the five per cent (5%) interest for such calendar year shall be liquidated by the execution and delivery by the Government to the Corporation of additional bonds provided for under the Loan Agreement of 1926, which bonds can be redeemed by the Liberian Government at any time.

(d) In the event the total revenues and receipts of the Government for any calendar year shall exceed \$350,000 plus the amount necessary to liquidate fully by cash payment such five per cent (5%) interest for such calendar year and until such time as the amortisation requirements of the said Loan Agreement of 1926 are no longer in arrears and are being currently complied with, at least thirty-three per cent (33%) of such excess shall be applied to amortisation of the bonds issued and outstanding under the terms of the Loan Agreement of 1926 and/or under the terms of this Supplementary Agreement, and at least seventeen per cent (17%) of such excess shall be applied towards the liquidation of the principal only of the Government's floating debt existing on December 31st, 1932, which floating debt on that date was in an amount of approximately \$500,000, and in no event to be applied against any floating indebtedness created after

December 31st, 1932. Any payments made by the Government against such floating debt (as of December 31st, 1932) shall be made to creditors on the basis of the priority of the creation of the obligation.

(e) In the event such floating debt shall have been liquidated in full prior to the time that the amortisation requirements of the Loan Agreement of 1926 are no longer in arrears and are being currently complied with, then at least fifty per cent (50%) of the excess of the total revenues and receipts of the Government for each calendar year over and above \$350,000 plus the amount necessary to liquidate fully by cash payment such five per cent (5%) interest for such calendar year shall be applied to amortisation of the bonds issued and outstanding under the terms of the Loan Agreement of 1926 and/or under the terms of this Supplementary Agreement.

(f) The Government will, on or before December 31st, 1933, cause to be paid to the Corporation to apply against the said five per cent (5%) interest for the year 1933 any amount of money remaining of a fund of £16,912 1s. 4d. now on deposit with the United States Trading Company Banking Department, Monrovia, Liberia, and which sum of money has been derived from the collection of revenues designated under the terms of the Loan Agreement of 1926 as "assigned revenues", after having first paid to the Financial Adviser and the other fiscal officials appointed under the terms of the Loan Agreement of 1926 such sums of money as may be due them.

Section III.

Under the provision in Article IX of the "Loan Agreement" for readjustment of salaries of the Financial Adviser and other fiscal officials (in the event of substantial changes in money values), the salary of the Financial Adviser and the salaries of other fiscal officials under the "Loan Agreement" shall be revised as of May 1st, 1933, as follows:

| | U.S. \$ per year |
|---|------------------|
| Financial Adviser | 9,000 |
| Supervisor of Customs | 6,000 |
| Supervisor of Internal Revenues | 5,000 |
| Auditor | 5,000 |
| Assistant Auditor | 4,500 |

It is understood that no Assistant Auditor shall be engaged until such time as the total revenue of the Government shall have exceeded \$650,000 for any calendar year.

Section IV.

Article VII, paragraph 4, shall be amended to read as follows:

"The Government further agrees that, in the event that the above revenues should prove insufficient for the service of the loan, the Government shall, within fifteen days from the receipt of notice of such deficiency from the Financial Adviser, first allocate from its other revenues such sums as shall be sufficient to make up the deficiency."

Section V.

The first sentence of Article VIII shall be amended to read as follows:

"As an additional guarantee of the prompt payment of the loan and to ensure the efficient organisation and functioning of the Liberian Fiscal Service and the administration thereof, the Government covenants and agrees to appoint to its service said Financial Adviser, who shall be designated by the President of the United States of America to the President of the Republic of Liberia, and, subject to his approval, appointed to said office."

Section VI.

Article IX shall be amended by the addition of the following paragraph:

"The number of the employees of the Financial Adviser, the fiscal officers and the fiscal service shall be sufficient for the efficient collection, audit, disbursement and administration of the revenues of the Government. The personnel shall be selected by the Financial Adviser and shall serve under the jurisdiction of the Financial Adviser, who shall bear in mind the desire of the Government for the proper training of Liberian citizens for positions of trust and responsibility. The duties of such personnel, in so far as they may not have been prescribed by law, shall be prescribed by such regulations in pursuance thereof as may be issued from time to time by the Financial Adviser. The property and supplies for the use of such officers and employees shall be under the jurisdiction of the Financial Adviser. The number of employees of the Financial Adviser, the fiscal officers and the fiscal service shall not exceed the average number of employees for the preceding three years, except by agreement between the President of Liberia and the Financial Adviser."

Section VII.

In Article IX, after the sentence:

“ The officers above mentioned shall perform such duties and employ such persons as may be defined by law or prescribed by the Government with or upon the advice of the Financial Adviser, as provided in Article XII ”;

the subsequent sentence shall be amended to read as follows:

“ Such officers in the performance of their duties shall be responsible to the Financial Adviser.”

Section VIII.

Article XII, paragraph numbered 3, shall be amended to read as follows:

“ For the further security of the revenues and receipts, the Government shall maintain a Liberian Frontier Force and shall further maintain patrol service by sea as may be necessary from time to time. The patrol service by sea shall be administered by the Customs Service. The Frontier Force shall be administered by the Commanding Officer. The strength of the Frontier Force shall be fixed by agreement between the President of Liberia and the Financial Adviser and it shall not be increased or decreased in number without the agreement of the Financial Adviser, except temporarily in case of emergency declared to be such by the Government. A duly qualified and experienced officer shall be recommended by the President of the United States to the President of Liberia and shall be by him appointed Commanding Officer of said Frontier Force, with appropriate rank. The salary of said officer shall not exceed the sum of U.S. \$6,000 per annum, provided, however, that said sum may be at any time increased or diminished by agreement between the Government and the Fiscal Agent. Such salary shall include all allowances, except medical care and attendance, travel on duty and quarters suitable for his rank, or compensation therefor on the basis provided for officers of his rank in the United States Army, which shall be furnished by the Government. Such officer shall serve in the Frontier Service during the term of said bonds. Among his duties shall be the preparation and execution of a plan of organisation of the force which shall be based on the idea of creating an efficient constabulary organisation for the purposes aforesaid and which plan shall include the qualification and disciplining of all commissioned and non-commissioned officers and the training of the men in accordance with the best practice now obtaining in similar organisations.”

Section IX.

Article XII, paragraph numbered 6, item designated (c), shall be amended to read:

“ (c) Incorrectness or irregularity of account to be paid.”

Section X.

Article XII, paragraph numbered 6, shall be amended by the addition, after the item designated (d), of the following:

“ (e) Fraud; in which event, the account shall be suspended and shall remain suspended unless or until approved by the Financial Adviser.”

Section XI.

Article XII, paragraph numbered 8, third sentence, shall be amended to read:

“ The Financial Adviser may only refuse to approve the budget when and if the disbursements which should be included therein, as provided in this Agreement or by obligation of law, have not been properly included, or when and if the budget submitted by the Secretary of the Treasury exceeds the estimates of the revenues as prepared by the Supervisor of Customs and Supervisor of Internal Revenue under the supervision of the Financial Adviser.”

Section XII.

Article XII, paragraph numbered 8, shall be amended by the addition thereto, immediately before the last sentence thereof, of the following sentence:

“ No special appropriations shall be passed by the Legislature for the payment of any charge or expense unless such payment shall have been first approved by the Financial Adviser, except in case of a national emergency, so decided by the President.”

Section XIII.

Article XIII, paragraph numbered 1, shall be amended to read:

“ To the payment, as they arise, of all costs and expenses of collection, application, audit and administration of the revenues and receipts, including:

“ (1) The salaries and expenses of the Financial Adviser and his staff;

“ (2) The salaries and expenses of the officers appointed hereunder and the salaries of the employees of the revenue service, both Customs and internal;

“ (3) The salaries of the Auditor's staff;

“ (4) The cost and expense of maintaining a Frontier Force not to exceed a personnel of 300, including officers and men; and,

“ (5) Any and all other legitimate expenses or obligations incurred under this Agreement as may be approved by the Financial Adviser and all amounts incident to the service of the loan, except as to payments on account of principal and interest for which provision is herein made.”

Section XIV.

Article XVIII, paragraph designated (b), shall be amended to read:

“ No unexpended credit to any account provided for in the budget may be transferred to any other account of the budget or to any new account. Any credit to any account remaining unexpended at the end of any fiscal year shall be released and taken into account in the preparation of the budget for the next ensuing year.”

Section XV.

It is understood and agreed that in any fiscal year, after the payment each month of the cost and expenses of the collection, application, audit and administration of the revenues and receipts, as provided in Section XIII hereof, any balance of assigned revenues may be applied to the ordinary expenditures of the Government until such time as the total revenues and receipts of the Government shall exceed \$350,000.

Section XVI.

In any calendar year when the total revenues and receipts of the Government shall be less than \$250,000 for the first six months thereof, the interest on all the outstanding bonds issued under the Loan Agreement of 1926 which is payable as of July first of such year need not be paid on that date and, in lieu thereof, the total interest on such bonds for such year shall be due and payable on January first of the next succeeding year.

Section XVII.

The word “ dollar ” or “ dollars ” wherever used herein, unless otherwise specifically indicated, shall mean Liberian dollars on the basis that Four and Eighty One-Hundredths (\$4.80) Liberian dollars is equivalent to One Pound (£1.) English Sterling.

This Supplementary Agreement shall come into force and effect when approved by the Legislature of the Republic of Liberia, and duly executed on behalf of the Government by the officer or officers thereunto duly authorised.

THE GOVERNMENT OF THE REPUBLIC OF LIBERIA.

by

Attest:

.....

FINANCE CORPORATION OF AMERICA,

by

Attest:

.....

NATIONAL CITY BANK OF NEW YORK,

by

Attest:

.....
