

DIARY

Book 436-A

China

Fox Reports
July 15 - August 29, 1941

- C -

Book Page

China
See War Conditions

- F -

Fox, A. Manuel
See War Conditions: China

- W -

War Conditions

China:

Fox (A. Manuel) reports, July 15--August 29, 1941.... 436-A 1-43

Mr. Cochran:

Since this says "urgent"
we are sending this
much of it on to you,
the rest of the message
has not yet arrived
as yet. The message is from Fox

E. S. Friedman

*The White House
photostated a copy
but no copy of the*

Peninsula Hotel
Kowloon
Hong Kong

July 15, 1941

My dear Mr. Secretary,

I had of course intended to rewrite the attached letter before mailing but find that it must leave at once to make the Clipper. I trust that your confidential secretary will have it typed before submitting it to you and that she will have no difficulty in deciphering it.

Very respectfully,

A. M. Fox

The Secretary of Treasury,
Washington, D. C.

Copy
7/29/41 as

UNITED STATES TREASURY DEPARTMENT

American Consulate General
Hong Kong

Office

De Treasury Representative

July 15, 1941 5 A.M.

My dear Mr. Secretary,

I have been moving so fast and keeping such unusual hours that I haven't had an opportunity to write you a personal letter. I have tried to keep the department fully advised both thru the State Department and thru the offices of the Treasury Representatives. I find two distinct attitudes in these two departments, that, in the Treasury office being the more progressive and more representative of the true situation usually prevailing especially in the economic and financial field. Immediately upon arrival I found a letter from Ambassador Gauss copy of which I enclose and had I followed it I would have seriously marred, if not permanently destroyed, my usefulness here.

There are a number of matters which I would like to call to your personal attention:

(1) I am quite disturbed over the situation I find here regarding the American banking institutions. I have reported, in a general way, in a recent cable regarding them. My particular concern is relative to the National City Bank. A somewhat different attitude seems to prevail there in the Chase Banks where a more sympathetic attitude is to be noticed. The Hong Kong branch of National City is in charge of a Mr. Bitting, a bachelor playboy, if you know what that means in the Far East. The supervisor of the Shanghai area is a Mr. Mackay and the manager of the Shanghai area is a Mr. Reed. Mackay was most anxious to cooperate with us in Shanghai but seemed most uneasy. Reed, next to Huxter of the Mercantile Bank, is reputed to be the slickest exchange operator in Shanghai. I suspect that Huxter and Reed did the greatest damage to Fund A. Neither have any scruples about handling accounts for the Japanese and speculators. My impression too is that the National City is less exacting in handling accounts for speculators and exchange operators than commercial firms. I have received complaints from many sources that American firms have considerable difficulty in obtaining accommodations with the American banks — about this I have reported by cable from Shanghai. American banks are said to be "fair weather friends". The branches in China are created like 53th Branch with little or no discretion left with respect to commercial accounts to local managers in China.

(2) I find a distinct and disturbing disposition on the part of the British businessmen in Shanghai to compromise with the Japanese. A number asserted that they were sure that they would fare as well with the Japanese as they have with the Chinese. They give me the impression of being willing to trim and change sell quickly and are ready to do anything to protect their profits and investments. This makes it all the more important American bankers and others have a clear-cut policy and assume leadership in the Shanghai Municipal Council and elsewhere.

(3) There seems a disposition on the part of the British to force Rogers on the Board. He may know exchange but otherwise he hasn't passed much beyond the diaper stage. At first apparently socky, now whining and complaining that he has been mistreated by Washington, the Chinese, and even his own government is letting him down. I am amazed that the British should want a boy to represent them at this critical juncture. I have had a number of talks with Hall-Patch, Far East financial advisor to the U.K. Treasury, copies of which I enclose. He changes his plans frequently and keeps close to me. From him and other sources I find a disposition on the part of the British to wait and wear down the Chinese in the hope finally of winning out. I have had two talks with the Generalissimo, one of 1 1/2 hours, at which all the Board members, including my American associates were present and another, upon his invitation, of 3 hours at which we were alone. He seems absolutely determined in the Rogers matter. The Generalissimo seemed sincerely and keenly interested in a discussion of financial and economic problems confronting China.

At first there was a disposition on the part of the Chinese members of the Board to postpone formal organization to await the appointment of the British member. Now they are disposed to proceed immediately upon our return to Chungking with the formalities of organizing officially. Hall-Patch and Rogers insist that by the terms of the British-American agreements and understandings, the Board could not officially organize without a British member. Some time ago I cabled to the Department for a legal opinion on this point. I am inclined to proceed at once with a four man board unless there are legal obstacles to it.

(4) I find in Shanghai genuine interest, among Americans and Chinese, in a Chungking victory. Under the gangster and squalid conditions prevailing in Shanghai such sentiments cannot be revealed or action taken that will make them too evident.

There appears to be much loose money in Shanghai and if some form of Chinese investment with American backing -- perhaps that of the Stabilization Board may be sufficient -- can be devised I am

- 3 -

strongly of the opinion that a good deal of idle capital in Shanghai and elsewhere could be drawn into the interior. Early and earnest attention will need to be directed to this matter by the Stabilization Board. Any suggestions from Washington will be most welcome.

(5) Much material was gathered in Shanghai on the freezing of Chinese funds. The term is generally misunderstood even among those who should be expected to know better. We are preparing a report which should be cabled to Washington by the end of this week. I am convinced that much of Fund A was needlessly dissipated and that a similar fate will befall the new Stabilization Fund unless some control measures are instituted. Shanghai has been patiently awaiting the arrival of the new Fund on the market and then the fun will start. The statement of the Japanese commercial attache in Shanghai which I enclose is interesting in this respect. There is much good the Fund can do and why it should be thrown to the speculative wolves I don't know. I do not know either what position my Chinese associates will take in the matter but mine is becoming increasingly clear as my cable will show.

(6) There seems much fuss about a private secretary. For the first time in 16 years I have been without one and at a most difficult period. We have had no easy time even getting temporary assistance in Hong Kong and Chungking and we have hesitated to entrust the copying of some of our notes to such help as we could get. Miss Jacobsen of the Nicholson's office in Shanghai suggested a woman in Shanghai with good enough experience. She seems restless and adventurous, with a commercial flare. She seems to have especially good connections in the State Department -- a pull there somewhere, as is evidenced by the fact she was able recently to get a visa to come to the Far East. Consul General Lookhart of Shanghai, who knows her and speaks well of her ability, was not very enthusiastic about her appointment.

I'll manage somehow -- I have thus far -- and if the Department doesn't think that the cables I have sent and the detailed material on which they must be based are sufficiently important and confidential then I am positive that I stand well enough by this time in Chungking to be able to borrow a sufficiently capable and trustworthy Chinese secretary. K. P. Chen told me upon my arrival that they could furnish me with ample stenographic assistance for ordinary purposes but not with a confidential secretary. This matter would have been settled in Washington except that Dr. T. V. Soong certainly acquired a severe attack of parsimony and I didn't want to argue with him. Incidentally a number of people in Shanghai during our interviews spoke rather disparagingly of the Doctor. They don't seem to have much confidence in him, in certain respects.

I knew I was accepting a difficult task when I came to China -- it is running true to form. It is interesting and challenging and I continue to have confidence that there are distinct possibilities for good in operating the Stabilization Fund. Ambassador Gauss assured me, at our first and only meeting, that the Chinese are not grateful. They have been most kind and cooperative; I find no difficulty in treating them as my equals. I only hope that I shall prove worthy of the friendship of some I have met. They need help -- and need it badly -- I shall do a small bit to render such assistance as I can.

Very respectfully yours,

A. M. Fox

Secretary of The Treasury,
Washington, D. C.



Peninsula Hotel

Kowloon

Hong Kong

July 5, 1941

Mr. J. C. Secretary

I had I should have intended
to rewrite the attached letter
before mailing out and had it
much leave at once to make
the letter. I trust that your
confidential secretary will
have it typed before submitting
it to you and that she will
have no difficulty in deciphering
it.

Very respectfully,

J. M. Cox

The Secretary of Treasury,
Washington, D.C.

Personal and Confidential

UNITED STATES TREASURY DEPARTMENT

AMERICAN CONSULATE GENERAL

HONG KONG

July 15, 1941 5 AM

Dear Mr. Secretary,

I have been moving so fast and on such unusual hours that I haven't had an opportunity to write you a personal letter. I have tried to keep the department fully informed both thru the State Department and the offices of the Treasury Representative. I have two distinct attitudes in these two offices, that in the Treasury office being more progressive and more representative of the true situation ^{usually} prevailing especially in the economic and financial fields. Immediately upon arrival I found a letter from Ambassador Gauss copy which I enclose and had I followed it I would ^{have} seriously marred, if not permanently destroyed, my usefulness here.

There are a number of matters which I would like to call to your personal attention:

(1) I am quite disturbed over the situation I find here regarding the American banking institutions. I have ~~recently~~ reported, in a general way, in a

2
recent cable regarding them. My particular
concern is relative to the National City
Bank. A different attitude prevails
in the Chase Bank, ^{as long as} ~~as long as~~ ^{is to be noticed} ~~as long as~~
more sympathetic attitude ^{prevails} ~~prevails~~
~~in the Chase Bank~~. The Hong Kong branch
is in charge of a Mr. Betting, a bachelor
playboy, if you know what that means
in the Far East. The supervisor of the
Shanghai area is a Mr. Mackay and the
manager of the Shanghai area is a
Mr. Reed. Mackay was most anxious to
cooperate ^{with us in Shanghai}, but seemed most uneasy.
Reed, next to Huxter of the Mercantile
Bank, is reputed to be the slickest exchange
operator. I suspect that Huxter and Reed
did the ^{greatest} ~~greatest~~ damage to Fund A. Neither
have any scruples about handling
accounts for the Japanese and speculators.
My impression is that the National City
is less exacting in handling accounts for
speculators and exchange operators than
commercial firms. I have received ~~many~~
complaints from ^{many sources that} ~~many sources that~~ ^{that} ~~that~~
~~the Hong Kong Bank~~ ^{have considerable} ~~have considerable~~
difficulties in obtaining accommodation
with the ^{American Bank} ~~National City~~ - about this I have
reported by cable from Shanghai. American

(2) I filed a distinct and disturbing
disposition on the part of the British

banks are said to be "fair weather friends." These branches in China are treated like 58th Branch with little or no discretion left ^{with} ~~in~~ commercial accounts to local managers in China.

businessmen ^{3 months} to ~~be~~ ^{compromising} with
the Japanese. A number asserted
that they were sure that they would
fare as well with the Japanese as
they have with the Chinese. They give
me the impression of being willing to
trim and ~~change sail~~ ^{change sail} quickly and
are ready to do anything to protect
their profits and investments. This makes it
all the more important ^{by the way} to ~~be~~ ^{be} ~~careful~~ ^{careful} ~~in~~ ⁱⁿ ~~the~~ ^{the} ~~matter~~ ^{matter} ~~of~~ ^{of} ~~the~~ ^{the} ~~British~~ ^{British} ~~to~~ ^{to} ~~force~~ ^{force} ~~Rogers~~ ^{Rogers} ~~on~~ ^{on} ~~the~~ ^{the} ~~Board~~ ^{Board}.
(3) There seems a disposition on the
part of the British to force Rogers on the
Board. He may know exchange but
otherwise he hasn't passed much beyond
the diabetic stage. At first apparently
cocky, now whining and complaining that
he has been mistreated. I am amazed
that the British should want a boy to
represent them at this critical juncture.
I have ^{had} a number of talks with Hall-
Petch, Far East financial advisor to the
U.K. Treasury, copies of which I enclose ⁱⁿ ~~to~~
from him and other sources. I find a
distortion on the part of the British
to want to wear down the Chinese and
finally ^{point} ~~bring~~ ^{bring} out. I have had two talks
with the Generalissimo, one of 1 1/4 hours,
at which all the Board members
including my American associates were
present and another of 3 hours ^{upon his invitation} ~~alone~~ ^{alone}. He
seems absolutely determined in the
Rogers matter. The Generalissimo seemed

have a clear cut policy and assume
leadership in the ^{proposition} Municipal Council
and elsewhere.

even his own government is letting him
down.

changes his plans frequently and keeps close
to me.

sincerely and keenly interested in a discussion of financial and economic problems confronting China.

At first there was a disposition on the part of the Chinese members of the Board to postpone formal organization to await the appointment of the British member. Now they are disposed to proceed immediately upon our return to Chungking with the formalities of organizing officially. ^{Hall-Patch} ^{Gulf Rogers} insist that by the ^{first} of the month ^{of} ^{January} ^{the} ^{governing} ^{committee} ^{is} ^{ready} ^{to} ^{begin} ^{its} ^{work} ⁱⁿ ^{Shanghai} ^{and} ^{Chungking} ^{where} ^{there} ^{appears} ^{much} ^{money} ⁱⁿ ^{Shanghai} ^{and} ^{if} ^{some} ^{form} ^{of} ^{Chinese} ^{investment} ^{with} ^{American} ^{backing} - perhaps that the Stabilization Board may be sufficient - can be devised. I am strongly of the opinion that a good deal of idle capital in Shanghai and elsewhere could be drawn into the interior. Early and earnest attention will need to be directed to this matter. ^{by the Stabilization Board} Suggestions from Washington will be most welcome.

(6) There seems much fuss about a private secretary. For the first time in 18 years I have been without one and at a most ^{difficult} ^{critical} period. We have had ^{difficulty} ^{getting} even ^{temporary} ^{assistants} in Hongkong and Chungking and we have hesitated to entrust ^{the} ^{copying} ^{of} ^{some} ^{of} ^{our} ^{notes} ^{to} ^{such} ^{help} ^{as} ^{we} ^{could} ^{get} ^{from} ^{the} ^{Wickham} ^{office} ⁱⁿ ^{Shanghai} ^{and} ^{from} ^a ^{woman} ⁱⁿ ^{Shanghai} ⁱⁿ ^{the} ^{past}.

British American agreements and understandings the Board could not officially ^{organize} without a British member. I ~~have~~ ^{recently} cabled to the Dept. for a legal opinion on this point. I am inclined to proceed ^{at once} with a four member board unless there are legal obstacles to it.

in Shanghai such sentiments cannot be revealed or action taken that will make them too evident.

...of experience. He seems to be
...the Bureau with a command
...The present has to be explained
...and ... in the ...
...pull these ...
...backbone of Shanghai who knows
...and speaks well of his ability
...not very enthusiastic about it
...I'll manage to ...
...the Department about it
...that the cables I have sent ...
...material on which they can base
...are sufficiently ...
...am positive that I stand well ...
...by this time in Chang ...
...to borrow ...
...K P Chen told me upon my arrival
...they could furnish me with ample
...ethnographic assistance for ...
...purposes but not with a confidential
...secretary. This matter would have
...settled in Washington except that
...TV Soong certainly acquired a severe
...attack of parsimony and I did not
...argue with him. Incidentally a number
...of people in Shanghai during ...
...Drews spoke rather disparagingly of
...the Doctor. They don't seem to have the
...confidence in him in certain respects.
...② Much material was gathered
...in Shanghai on the ...
...funds. The ...
...even ...



which should be called
by the end of this week. I am
that much of the fund is
dissipated and that a number
be fall the new stabilization
has been patiently
of the new fund on the market
fun will start the stabilization
commercial attaché in
interesting in the
good the fund can do and
be throwing to the
don't know what position my
associates will take in the
mix is becoming increasingly
my cable will show.

I knew I was accepting a
task when I came to China - which must
me to form. It is interesting and
I continue to have confidence that
though possible for good and for evil
assured me that the Chinese are not grateful
they have been most kind and cooperative
and no difficulty in treating them as
equals. I only hope that I shall prove
the friendship of some I have met. They
need help - and need it badly - I shall do
my small bit to render such assistance as
I can.

Very respectfully yours
A. M. Fox

The Secretary of The Treasury
Washington, D.C.

C O P Y

R E A L

EMBASSY OF THE
UNITED STATES OF AMERICA

Chungking, June 3, 1941

(Personal and Confidential)

The Honorable A. Manuel Fox,
c/o American Consul General,
Hong Kong.

My dear Mr. Fox:

The Department of State having informed the Embassy of your expected arrival in Hong Kong, I write to extend a word of cordial welcome and to assure you that the Embassy, and the American consular officers at the several ports in China and at Hong Kong, will be glad at all times to be of any possible assistance to you and your associates in your work in China.

As you will have been but a few days from the United States when you reach Hong Kong, I assume that you are fully informed of the latest developments in regard to the stabilization committee set-up. Perhaps you have already learned that the nomination of Rogers as the British representative has been rejected by the Chinese Government. This information has been obtained confidentially (and confirmed); and I might add that it is our understanding that the rejection of Rogers flows from the opposition of Dr. H. H. Kung, who from time to time has been the object of frank criticism by Rogers in the past in connection with various financial and currency matters. This rejection of Rogers has not, I am informed, been well received on the British side. As yet, the British have not submitted a substitute candidate.

I am informed that the Chinese members of the stabilization committee have very recently been called to meet at Chungking, so that none of them will be there to meet you at Hong Kong.

It is known here, according to my information, that you propose

propose to visit Shanghai before coming up to Chungking. Personally I think this a very wise move as the question of including the Shanghai market in the stabilization operations will undoubtedly be a much discussed point. If my information is correct, Dr. Kung and his group are rather opposed to supporting the Shanghai market.

In connection with your visit to Shanghai, however, one suggestion occurs to us here (as a result of some comment that has reached us). This suggestion is made merely for your consideration and in the utmost desire to be helpful to you in any way at all times. It is based upon the situation which finds you proceeding to Shanghai without first coming to Chungking and meeting the members of the Government and your colleagues on the stabilization committee.

I suggest that before leaving Hong Kong you may wish to send a message of friendly greeting to Dr. H. H. Kung, informing him of your arrival at Hong Kong and saying, perhaps, that before proceeding to Chungking to remain indefinitely you are taking the opportunity to make a short trip to Shanghai in order to obtain a first hand impression of the situation there so that you may be better equipped to give consideration to that feature of the problems which must be discussed when the full committee finally assembles in Chungking; that this side trip will of course be very brief and that you look forward to meeting Dr. Kung and your colleagues in Chungking at an early date.

You will find a great deal of "politics" in this Chungking situation; and you are likely to encounter strongly opposed opinions. Having in mind your own effectiveness in the situation you will necessarily have to approach some of the problems with considerable reserve and with finesse. You may, or may not, find yourself opposed, as are many here, to the views of the Minister of Finance as put forward directly by him or by those who are more or less his representatives. But you will probably feel that whatever position you may have to take, there shall be maintained at all times a surface respect for the opinions and susceptibilities of all concerned. It is this that leads me to my suggestion regarding the message to Dr. Kung before you go to Shanghai; a message to respect the Oriental amenities of the situation and perhaps overcome any tendency at resentment that you should be making the trip to Shanghai before coming on to Chungking to become acquainted with your Chinese colleagues, the officers of the Chinese Government, and so on.

- 3 -

I look forward with pleasure to meeting you and
your associates at Chungking.

With cordial good wishes,

Yours sincerely,

(Signed) C. E. Gauss

C.E.Gauss

Interview with

MR. A. S. HENCHMAN

(Manager of the Hongkong and Shanghai Banking Corporation,
Shanghai, China.)

Mr. Henchman is referred to by many groups as "the King of Shanghai". The British Embassy, which had been most helpful in arranging interviews with members of the British community, informed us that if we wished to see Mr. Henchman we would have to call at his Bank for he could not be expected to come to us. Under such circumstances we went to Mr. Henchman for our primary concern was to get his views on the Shanghai situation.

When it was suggested at the opening of the conversation that much foreign exchange in Shanghai was being used for non-essential purposes and that some form of exchange control seemed to be necessary Mr. Henchman broke out with a clear and decisive "Impossible". The Board, operating Fund A, had been very much interested in doing something along these lines. Mr. Cyril Rogers, after months of painstaking study, had advised against it. On another occasion Mr. Henchman had informed Sir Vandeleur Grayburn that the situation would not allow of any control measures being established.

Legitimate needs for exchange could not be effectively distinguished from the illegitimate. To turn away people asking for exchange might result in curtailment of production, loss of employment, and therefore mounting social unrest and discontent which were to be avoided at all costs at the present time in Shanghai. Some time ago Dr. W. H. Kung, the Minister of Finance, toyed with the idea of exchange control over Shanghai. This view was thoroughly "unrealistic" and he was finally persuaded not to press the issue further.

When Mr. Fox mentioned that many business men that he had talked to -- American, British, and Chinese -- had expressed surprise that controls had not been imposed a year and more ago, Mr. Henchman replied, "Yes, it is extremely easy for merchants to say such things. The fact that they are not bankers prevents them from viewing pro-

(Interview with Mr. A. S. Henchman.)

perly the difficulties and intricacies of the situation."

In reply to a query about the drain on Fund A, Mr. Henchman replied that to his certain knowledge the funds did not go to the Japanese. "Lord knows I don't like the Japs any more than you, but to my knowledge on only one occasion did they raid the Fund." On this occasion Mr. Henchman protested vigorously to the Japanese authorities and the exchange people responsible were severely reprimanded. The biggest raiders were Chinese speculators and leading public officials. Surely the United States Treasury must have full knowledge of these operations for the exchange acquired by the Chinese has been transferred in very large part to America. It is absolutely essential that these individuals be controlled.

In reference to the Shanghai gold bar market Mr. Henchman said that at one time its transactions were strictly legitimate. Chungking had some time back ordered the closure of the market. It was thereupon reopened by the Nanking Chinese and has become a form of pure gambling. Nanking insiders rig the market to suit their convenience, and once engineered the arrest of over 100 Bank of China employees to cause desired fluctuations. Fancy profits were obtained when the market went wild through fear and panic.

"Our bank is a true friend of China. Whatever makes China strong aids us, for our business is entirely Chinese." It was pointed out that the bank branches in far-away Malaya were largely dependent on Chinese immigrants -- their business establishments and remittances. "It is our policy to keep Shanghai strong, for a strong Shanghai can aid Free China materially."

The Japanese have not dared move further against the settlement than they have already done because of a very healthy respect for the United Kingdom in conjunction with the United States.

Shanghai,
July 4, 1941.

Interview with

SHIZUO SHIMADA

(Commercial Secretary to the Japanese Embassy, Shanghai)

Mr. Shimada was introduced by Judge Allman, American member of the Shanghai Municipal Council, to Mr. Fox at one of the American Consul General's festivities on the 4th of July. He was very desirous of having an interview and such was arranged.

Shimada opened the conversation with the statement that he knew it would not be politic to ask what measures were contemplated, but that he would like to convey some ideas from the Japanese side.

He stressed again and again that Japan was no longer interested in attacking fa-pi, and would in fact be glad to see the rate stabilized at about the present level. It cannot be publicly announced but Japan is interested in stabilization for among other things it helps Japanese businessmen -- both in their dealings with Chinese and in obtaining foreign exchange to pay for necessary imports.

When questioned as to why Nanking was pushing Central Reserve Bank notes and thus attacking fa-pi, Shimada replied pointedly that Japan could not interfere with the independent Nanking government. He asked whether Fox held Nanking to be a "puppet" government, and when it was pointed out that he himself had used the term he merely shrugged his shoulders and laughed. He did acknowledge that without Japanese support Nanking would not long survive.

He called attention to the fact that he had heard a rumor that Shanghai might be isolated as regards foreign exchange. He hoped there was no foundation to this report, affirming that on this point action must not be too fast or too hasty.

Japan is not strong enough financially to effectively attack fa-pi. And it certainly is not strong enough to engage in any financial fight with the U.K. and the U.S.A., which is implicit in their support of fa-pi. Shimada thought that negotiations that proceeded along financial lines might lead to peace. Japan wishes the present war stopped as soon

(Interview with Shisuo Shimada)

as possible.

If Japan, China, and the U.S. cannot negotiate now the "ditch will get deeper" and difficulties will multiply.

When asked whether Japan was exercising discrimination against American interests he denied such practices. When informed that the U.S. had on hand records of discrimination in North China where American concerns had been frozen out he again denied that this was discrimination. This was followed immediately by the plea, "America must be more generous in her treatment of Japan".

Shanghai

July 8, 1941.

Interview with

Mr. H. D. Hall-Patch

(Far Eastern Adviser to the United Kingdom Treasury)

Mr. Cox took the initiative to contact Mr. Hall-Patch and to present a letter of introduction from Mr. Raymond A. Stevens, Chairman of the United States Tariff Commission. A rather frank and satisfactory talk ensued, during which considerable attention was given to the case of Mr. Cyril Rogers. Mr. Hall-Patch stated that Rogers was quite brilliant, had enjoyed wide experience in foreign exchange transactions, and was quite prolific with ideas when difficult situations arose. It was pointed out that he had been one of the most promising young men at the Bank of England, and that Sir Montague Norman very reluctantly and only after considerable pressure had been exerted agreed to his continuing his work in China. Rogers was a hard worker, and knew both China and its monetary problems intimately.

Mr. Hall-Patch acknowledged that the British had had considerable difficulty with Rogers. He didn't seem to know how to get along with people, antagonizing them rather easily. At first he riled the foreigners here, and finally many groups of Chinese. Mr. Hall-Patch was informed that it was known that Rogers had been busy in Washington plugging for his own choice for the American member, Mr. Arthur Young.

In speaking of stabilization operations Mr. Hall-Patch agreed that a very important part of our work here was not merely monetary but concerned the influence we could exert over inflationary price trends, the rapid expansion of note issue, and other vital economic problems. Our effectiveness in respect to these problems depended in part on our ability to get along well with the people in authority.

Mr. Hall-Patch spoke at length regarding the Shanghai market. He stated that Mr. Lockhart, the American Consul General at Shanghai, had requested him to urge me to visit Shanghai before making up my mind about what should be done about that market. Mr. Hall-Patch stated that he realized that if Shanghai were lost to the Japanese, as it might well be, we would have to do something immediately regarding the Shanghai situation. Under such circumstances it would be

2

(Interview with MR. E. L. Hall-Patch)

well to be prepared. If the United Kingdom and the United States were to cooperate fully on a program of external exchange control the thing could be managed quite well in spite of its many difficulties.

Mr. Hall-Patch spoke of the difficulties the British had experienced in working out a charter for the Central Bank of China. Things were going along nicely and some knotty problems were being straightened out when the Sino-Japanese war broke out and upset everything.

In conclusion, Mr. Hall-Patch agreed that stabilization activities should be conducted along a broad position, namely that they should be tied up with Chinese economic problems.

Hong Kong,

June 6, 1941.

Interview with

MR. E. L. HALL-PATCH

(Far Eastern Adviser to the United Kingdom Treasury)

Mr. Hall-Patch requested this second interview to take place during the present stay in Hong Kong. He opened the conversation rather abruptly by stating that Mr. Cyril Rogers was, without a doubt, the best man the United Kingdom had for dealing with Chinese monetary problems. Rogers possessed a wide knowledge of China and its personalities, which should prove invaluable. Formerly an exchange expert with the Bank of England he had also had wide experience in operating Fund A under the Sino-Anglo Equalization Agreement of 1939.

Mr. Hall-Patch was determined to find out why Rogers had been rejected by the Chinese Government as the British choice for candidate to the new Stabilization Board. Mr. Fox assured him that he was not acquainted with the inside story and could give no reasons for the rejection. Thereupon Mr. Hall-Patch declared warmly that if the Chinese rejection was based on grounds of personal spite, then "By jove, those beggars have got to be taught a lesson." Mr. Hall-Patch wondered if Rogers might not be persona non grata with Mr. Fox, but that impression was very quickly removed.

It was openly admitted that Rogers was often tactless and needlessly blunt. He had opposed and "rightly" opposed Dr. H. H. Kung, the Minister of Finance, at least twice each month. He had stood up to Dr. Kung and told him off when it was essential that such be done. Mr. Hall-Patch holds no high opinion of Dr. Kung, who, he says, is overly conceited and wont to inflict upon all and sundry the story of his life and his descent from Confucius.

If Rogers isn't reappointed that fact will stymie stabilization operations for it will take the United Kingdom 4 to 6 months to find a man adequate to replace him. It was recognized that China was vital to the Empire's war effort in the sense of keeping an enemy occupied, but the situation in Chungking was "grim" with "the sands running low". Under these conditions Rogers is more valuable than

- 2 -

(Interview with Mr. R. L. Hall-Patch)

ever. Mr. Hall-Patch would give no consideration to the questions whether it might not be true that Rogers knew the Chinese government officials too well and had been too restless in the past. "China must accept Rogers, and that is that."

Hong Kong.

June 9, 1941.

Interview with

MR. E. L. HALL-PATCH

(Per Eastern Financial Adviser to United Kingdom Treasury)

Mr. Hall-Patch opened the conversation by asserting that he was quite convinced that the time had arrived when something must be done to stop the leaks in the present Shanghai free market. Too much money was going to the Japanese, to speculators of all nationalities, and to some prominent unnamed Chinese. It was revealed that some months ago the United Kingdom Treasury, feeling that Shanghai was a major leak through which funds were going to the Tripartite powers, had prepared an order "to cut off" Shanghai from sterling altogether. Only on the strongest protests of Cyril Rogers and Hall-Patch was the matter deferred. Hall-Patch at this time flew to Chungking to see the British Ambassador, Sir Archibald Kerr Clarke-Kerr. During the course of this contact he stated "Look here, you can't do this. Shanghai may look like a mere financial matter and it may start as one, but it is damned well political and we must face that fact." The Ambassador agreed and cabled his objections to London whereupon the matter was dropped for the time being.

The situation in Shanghai is extremely complicated and complex. The Shanghai Municipal Council has resisted and is resisting Japanese aggression, and over the course of the last four years it has done not too bad a job in difficult circumstances. Drastic measures may disturb the local situation. Freezing is drastic. If in retaliation Japan moves against the international settlement what will the United Kingdom and the United States do? Hall-Patch was convinced that the United Kingdom cannot do much at the present time, "as we have only a couple of musty old cruisers out here". Is the United States prepared to move? Presumably this situation will be considered by Washington prior to reaching a definite decision regarding freezing.

Hall-Patch agreed that the U.S.S.R., now an ally, would be a deterring element in Japanese counter-action at Shanghai. The Reds had some 80 submarines and 80 destroyers at Vladivostok and these, together with the possibility that its air force could raid Japanese home cities, would make the Japanese think twice. According to his information however, the Far Eastern Red Army was not self-sufficient and

(Interview with Mr. E. L. Hall-Patch)

had supplies for only six weeks active warfare. Nor did they have the industrial bases upon which to draw in the event of active hostilities in Siberia. It must be recognized that not all of the hazards are on our side now though obviously much will depend upon the outcome of the Nazi-U.S.S.R. conflict.

Hall-Patch was positive that if control measures over the Shanghai market are introduced they cannot be instituted by the Chinese for the following reasons:

(1) The foreign exchange allotment system adopted in 1938 broke down due to large market raids and would undoubtedly break again if reintroduced.

(2) Control by Chinese would put the Chinese banks and bankers in Shanghai on the spot with resultant wholesale murders and kidnappings by Nanking gangsters, Japanese gunmen, etc.

(3) Control by Chinese would leave the back door wide open for "insiders" to take advantage of the situation as they have done in the past.

Control measures to be effective depend upon joint parallel action by the United States and the United Kingdom. Only in this way is there a possibility of plugging the leaks. Joint action must extend not only to the Treasuries of the two countries but to their banks as well. Parallel action would necessitate the establishment of a single control board which was equipped through fast communications to make quick decisions and to whip their banks into line, if necessary. A Shanghai representative or agency of the Control Board must be set up and the American and British banks in Shanghai would act as its agents. Ultimate decisions and responsibility must, nevertheless, be centered in Washington and London to avoid the onus or for final judgments locally.

Hall-Patch openly expressed doubt on a number of matters in regard to control over the Shanghai market. These may best be summarized as follows:

(1) Is the United States Treasury ready? The United Kingdom

(Interview with Mr. E. L. Hall-Patch)

Treasury has had its freezing order drawn up and ready to apply at a moment's notice. But what of Washington? There must be no possibility of disagreement in British and American orders and a single board must be established to bring both into line in the beginning and in subsequent action.

(2) What of the American banks in China? Hall-Patch knows from bitter experience in North China that one particular American Bank (National City ?) did not play ball. In this case the British had the devil's own time to get Washington to issue the necessary instructions to the bank's head office in New York to get it to go along. Mr. Fox assured Hall-Patch that there would be no further difficulty on this score either in Shanghai or in Washington. Mr. Fox wanted to know what about the British banks--in particular what about Grayburn (Hongkong office of the Hongkong Bank), Henchman (Shanghai office of the Hongkong Bank), Huxton (Mercantile Bank, Shanghai), who had demonstrated in personal interviews their independence, cockiness, and even non-cooperation and who have aloud wondered at the audacity of London issuing orders and trying to control exchange. Hall-Patch gave every assurance that he would be responsible for these people and their banks and asserted that no difficulties would arise if freezing went into effect.

(3) What of the needs of legitimate Japanese merchants in Shanghai area? The type thus referred to are the merchants that were in Shanghai prior to 1937 and who have proven ever since a consistently moderating influence. Their voices have been rowing weak as the shouts of the ronin carpet-baggers, that have followed in the wake of the Japanese army, have risen to a crescendo. Their voices might be extinguished all together if freezing occurred. It was admitted that this was not a valid reason for holding up such action.

(4) What of the Chinese? It is essential that the Control Board have the full cooperation of Chinese governmental leaders and banking officials. There must be no evasion

(Interview with Mr. E. L. Hall-Patch)

evasion or speculative runs such as were carried out by prominent private and official leaders in the past. If the Stabilization Board maintains absolute secrecy about its operations, current and prospective, this will go far to stop leakages that have occurred in the past. In this regard Hall-Patch asserted that the Chinese members-- K. P. Chen, Tsuyee Pei and T. M. Hsi were excellent choices and above all suspicion. It is also recognized that freeing itself and supervision by the United States and the United Kingdom will close other avenues to Chinese manipulators.

(5) What retaliation will Japan and Nanking take? This is a political question and the time has arrived to face up to it. Hall-Patch believed that the Japanese and their puppets will probably do very little in the event that resoluteness and a willingness to hit back hard are displayed. It must be realized that Japanese bank balances and investments in the sterling areas are now so small as not to constitute a deterrent to Japan. Hall-Patch wondered about Japanese bank balances and investments in the United States.

(6) What of evasion through South America? Again in the event that the United Kingdom and the United States act in unison this should not constitute a serious problem. The British Treasury can handle the Argentine quite adequately and the United States could probably take care of Brazil. If this is done the other South American countries will have to fall in line.

Shanghai,

July 3, 1941.

ADDRESS THE COMMANDANT, U. S. COAST GUARD
AND REFER TO HQ.



HEADQUARTERS

TREASURY DEPARTMENT

UNITED STATES COAST GUARD

WASHINGTON

11 July, 1941.

SECRET

From: Spagent, Shanghai, China.
To : Secretary of the Treasury.

The Yokohama Specie Bank is exerting pressure to have the Shanghai Municipal Council accept Nanking Puhoet Central Reserve Bank notes for rates and taxes to the extent of 20%. The Council sought advice from henchman of Hongkong Bank and McKay of National City, who met with American and British members. I understand the henchman took a strong position against yielding and that McKay was lukewarm. I saw McKay on the morning of the 9th at his office. He attempted to demonstrate that acceptance would not necessarily be injurious to settlement. I vigorously opposed this view as being but an opening wedge. McKay assured me that his bank would not accept Central Bank notes under any conditions unless directly ordered by American government. Asked if this was the general foreign banking sentiment, he asserted that it was and applied not only to Nanking currency but to all bloc currencies. I have conferred with all three American members of the Council. Explained the importance of American members taking a firm position in this matter and showing definite leadership. Am firmly convinced that Japan is making this effort to push her notes to mollify the Nanking government, but will not press the matter if American members show a determined opposition. A large volume of data has been collected, the

- 2 -

assimilation of which will take some time.

A complete report on Shanghai will be forwarded as soon as possible. A few tentative observations are being forwarded through the American Consul General with whom we have frankly reviewed the situation.

Signed,

FOX



HEADQUARTERS

ARRIVED THE COMMISSARIAT, 12 1/2 COAST GUARD
AND ORDER TO GO.

31

TREASURY DEPARTMENT

UNITED STATES COAST GUARD

WASHINGTON

16 July, 1941.

From: Spagent, Shanghai, China.
To : Secretary of the Treasury.

The National City Bank has announced the closing of two branches at Canton and Peking. You probably have full details regarding this action. The closure indicates a definite attitude of non-compromise toward Japanese and yen bloc currencies. I am informed that the closure was partly result-ant of lack of business with no one entering the bank premises day after day. Had these branches been willing to accept yen bloc currencies, the action would probably not have been necessary. The same non-compromising attitude was also evidenced by National City Shanghai manager, McKay, in discussing efforts by Yokohama Specie Bank to get the Shanghai Municipal Council to accept Nanking Central Bank notes in part payment of rates and taxes. MacKay is asserting that his bank would never accept Japanese sponsored notes unless ordered to do so by the United States government. At the same time MacKay attempted to rationalize the acceptance of such notes by the Shanghai Municipality and to minimize the consequences. It is important that American banking representatives in Shanghai, especially MacKay, maintain an unwavering and firm attitude in this matter as they exercise a great influence on American council members, whose position in turn will have a great bearing on the final attitude of the council. I am convinced that the acceptance of the Nanking notes will not be allowed by the Japanese to become an issue if it is known that American and British members are fully united in opposition.

- 2 -

Every effort should therefore be made by the Treasury to influence the position of American banking representatives and to have Britain maintain a similar attitude.

Complaints, heard from some businessmen and lawyers, were confirmed by British bankers that American banks were too severe in their loan and credit arrangements. Also, that local managers had no leeway as British bankers were under strictest control from New York head offices. When the matter was called to the attention of local managers, MacKay and Barber, they agreed, stating that it was the fault of too strict an application of American banking laws abroad. Subsequently, MacKay denied the allegation, stating that many of the loans made by British banks, especially the Hongkong Bank, were not in accord with sound banking principles. The Hongkong Bank carried along many business concerns even when they were technically insolvent and only war-time prosperity in Shanghai had saved them. National City, it was claimed, had accounts of most of the American business concerns worth having. I did not have the opportunity to examine fully into the merits of various contentions. However, there seems to be some element of truth in the charge, and if American business institutions are to take full advantage of future opportunities for increasing business in Asia, improved facilities for making banking services more readily accessible should be instituted. I have also received the impression that National City has done an unusually large amount of exchange business, showing a willingness to handle accounts for any nationality or type of operation.

- 3 -

It would seem highly desirable for the Treasury to discuss with American banks, particularly National City:

1. The desirability of providing ample banking facilities for legitimate enterprise of American nationality.
2. The desirability of scrutinizing exchange operations more fully in the interests of Sino-American welfare.

I arrived in Hongkong on the 14th. Confusion in the mails with letter from Treasury being forwarded to Shanghai a few days ago which may reach the United States a week from now. I am planning to leave for Chungking in a few days. Frese, after a profitable two weeks in the field, is in Hongkong now together with Chen and Pei.

Signed,

FOX



ADDRESS THE COMMANDANT, U. S. COAST GUARD
AND REFER TO NO.

TREASURY DEPARTMENT

UNITED STATES COAST GUARD

WASHINGTON

10 August, 1945.

SECRET

From: Spagent, Shanghai, China.
To : Secretary of the Treasury.

Message from Mr. Fox

The organizing and functioning of the board here is a most delicate matter. Aside from the physical difficulties to which I recently referred in cable through the State Department, there are others. There is unmistakable evidence that everything discussed in the board is strictly reported to Dr. Kung. Hall Patch reluctantly came to Shanghai for a few days for organizing purposes. He is most persistent in refusing to leave. I understand Dr. Kung is to be present at the board's initial deliberations and will probably make the inauguration speech. The board is drafting exchange control regulations without first consulting the board. I understand that it is being done by Vice-Minister T. T. Chen. Control undoubtedly will be centered in Finance Minister. Very little information on exchange control procedure is apparently coming through markets. Dr. Kung appears flustered with the situation. I am doing everything I can to support V. D. Chen as a private individual. Unfortunately, Dr. Chi's services have been secured for the board. This will be a distinct help. There is much communication between the board and the Central Bank of China through General Hsiangshang. The board is making political maneuvering even though it is not clear that some of the benefits this would bring to the board are being criticized by many accounts.

general confidence. I understand it is not as well organized and staffed as other government and private banks. The Board hesitates to engage in general economic studies regarding suggestions for needed improvements for rehabilitation. Proper economic studies by foreign group may be able to effectuate some change. It would seem that without outside influence and pressure there is little hope for improvement. I am not certain of the advisability of joint Anglo-American help in such an undertaking. It seems to me that the present uncertainty in Shanghai and Hongkong occasioned by the recent freezing of Chinese funds is caused in a large part by yet unofficial appointment by Treasury of Far East administrator or inspector of frozen funds operating together with one or two assistants to be stationed at Shanghai and possibly Hongkong.

The friendly freezing of Chinese funds has been well received. At present I am satisfied with my present here and possibilities for the future, although progress is slow and patience necessary.



HEADQUARTERS

ADDRESS THE COMMANDANT OF A COAST GUARD
AND OFFICE TO NO.

TREASURY DEPARTMENT

UNITED STATES COAST GUARD

SECRET

WASHINGTON

26 August, 1941.

From: Spagent, Shanghai, China.
To : Secretary of the Treasury.

At the conference on Saturday with H. H. Kung, I observed that O. K. Yui was not particularly deferential to his Excellency. Inquiry has disclosed that for the first time the Minister of Finance has not chosen his own vice-minister. I understand that O. K. Yui and Y. C. Koo were appointed by Chiang Kai-shek himself during H. H. Kung's absence on account of illness and that Madame Kung immediately came to Chungking on learning of this and has been here ever since. The Central News Agency on August 19th states that Dr. T. F. Tsiang, Secretary General of the Executive Yuan, at a conference on August 18th for foreign correspondents announced that the national government on August 13th formally set up an exchange control committee "to conduct operation of stabilization fund." The committee is to be composed of fifteen members. H. H. Kung will be chairman. O. K. Yui, the three Chinese board members and JIANHACHEN, Deputy Governor of Central Bank, are to constitute a standing committee which is to meet weekly, while the whole committee meets monthly. Other members of the committee are: General WU TE CHANG, Dr. WANG SHIH CHIEH, ATUKAN, Dr. CHANG PO NING, General UTYAOTSOU, Dr. T. F. TSIANG, Y. C. KOO, LEE TAO NAN, AND K. K. KWOK. T. N. CRECK, Manager of the Bank of Communications is to be secretary general of the

committee. Lee's reputation as a member of the stabilization fund's committee is not of the best. From another very reliable source I learn that Lee is not to be a member of the committee, but in addition to those named above, two others are to serve: SUNG HAN TSANG, GENERAL MANAGER BANK OF CHINA, and WHIENHSINTS, Chairman of the board of directors of the Bank of Communications. Sometime ago I learned that Lee is gunning for the general managership of his bank. I understand that appointments are to be made by the national government as of August 12th, the day on which the Executive Yuan meets stabilization board members appointed by Minister of Finance.

At a conference of the board with H. H. Kung and his two vice-ministers on the 16th, Hall Patch stressed the question of exchange control, but nothing was said of a committee having been already organized. I suspect that the announcement on organizing on the 12th or 13th is for meeting of actual formation of the committee and is an attempt to confuse the functions of the committee and the stabilization board. Neither K. P. Chen or I expect much of the committee and we have every reason to doubt whether any program or plan has yet been formulated for handling exchange control. Because of the political characters of the committee, K. P. Chen hesitates to serve on it.

(Signed) FOX

SECRET

TREASURY DEPARTMENT

UNITED STATES COAST GUARD

STEPS

URGENT AND PERSONAL

WASHINGTON

28 August, 1941.

To: Spagent, Shanghai, China.
From: Secretary of the Treasury.

I have received very few replies to many inquiries adding to the difficulties of operations here. I would greatly appreciate an early consideration of the question raised herein. K. P. Chan and I joined Pei and Hsi in Hongkong because of the number of problems raised requiring attention of the full board. I was particularly disturbed over the appearance of the advantage displayed by operations of the Hongkong and Shanghai bank during the past week. I find that British banks did not have any particular advantage. Instead of taking advantage of the opportunity, as the British banks did, the American banks referred the matter to the head office and were advised to exercise extreme caution. Then they asked a flood of questions giving the impression that the American banks wanted the board to take all the risk. They were for cooperation, but wanted the board to promote one hundred percent of it. Can not Hongkong do something to get at closer to fifty-fifty basis. The situation is particularly serious because the attitude of the American banks is a decided factor in keeping Shanghai stirred up and uncertain. I have called the Treasury's attention before to the American banks' lack of real cooperation. The board during the past week has, in my opinion, made an exceptionally good start, particularly through Pei's determination and extreme ability, thus steadying the Shanghai market and laying a good foundation in foreign exchange control in

SECRET

- 2 -

China. During a long session with H. H. Kung Friday, which K. B. Chen considered the best meeting we have had with him and showed evidence of confidence in American member, it was pointed out that the board's present activities really were initiating fixed steps in China's present exchange control and that it was quite importance for the Chinese government soon to work out its exchange control regulations. H. H. Kung stated that if the board was ready to turn over its present Hongkong operations to the agency, it could turn them over to P. N. Chung, Hongkong manager of the Central Bank of China, and whose particular claim to fame rests on being China's official greeter to visitors passing through this gateway. P. N. Chung is spending the week-end in Chungking with H. H. Kung. Chung does not know what it is all about and in this particular matter, H. H. Kung is not in a such fortunate position. The first week of operation has cost the board about one million seven hundred thousand U. S. dollars. The board, to avoid criticism, must soon provide to cover also for cities in Free China. This will not require a large amount of distress among stranded American newspaper men, such as Hubble of the New York Times who appealed to me from Kungming Friday, but others. It arises from a lack of knowledge of exchange control operations in the activity of the Central Bank of China in handling its opportunities under license sixty and failure of H. H. Kung's foreign exchange control agency to start operations. The agency has been placed in my position. It is composed of a mongrel group with a decided political complexion. I am fully aware of the danger of having the board under the circumstances continue to take risks involved in carrying on exchange operations.

SECRET - 3 -

board members have given much thought to the problems involved. The agency, on the other hand, is technically and otherwise not equipped to handle the situation at the present time. The board plans to turn the Hongkong operations over ^{to} the agency very soon unless the Treasury believes the board should continue to function in this field for a while. I should like to hear from you in regard to this matter very soon.

SECRET

EXCLUDED FROM AUTOMATIC DOWNGRADING AND DECLASSIFICATION

41

TREASURY DEPARTMENT

UNITED STATES COAST GUARD

WASHINGTON 29 August, 1941.

From: Spagant, Shanghai, China.
To : Secretary of the Treasury.

(Part 2, "Urgent" of August 28)

The board may call a conference in Hongkong with a group of leading Shanghai business men and bankers in order to place plan and objectives before them personally. If it is decided to hold such a conference, I shall recall Taylor from Shanghai to Hongkong for a short period. It is most inconvenient to function effectively in Chungking, in spite of long hours devoted to task, without a confidential secretary and without other help; even ordinary stenographic assistance is scarce. Now that the board has started operations, Press should return to accounting phases of work. What are the chances of getting at least one competent person for a short time to observe conditions in Shanghai? It is quite important to have a technically trained observer in Shanghai and, if possible, one in Hongkong.

I should know at an early date what the attitude of the Treasury Department would be toward a new application from the Chinese Government for an additional contribution to the board's fund of fifty million U. S. dollars or a smaller sum. There is no hurry about this. Some of the uncertainty here, for which the United States Government is blamed, in part arises from the slowness in formulating plans for exchange control in China. The Finance Ministry relishes the power which it has through the Stabilization Board, which it tries to dom-

- 1 -

SECRET

SECRET

nate, and the agency which it does control. The Ministry is not handling the present task in an intelligent and effective manner. There is unmistakable evidence of incompetence in the Central Bank of China. It is a haven for political and other hacks. The Bank of China, on the other hand, appears competent and, among private commercial banks, commercial and savings banks of Shanghai, and the Bank of East Asia, appears to stand out. This is not intended as a complete list.

WCH

SECRET



TREASURY DEPARTMENT

SECRET

UNITED STATES COAST GUARD

WASHINGTON

29 August, 1941.

From: Spagent, Shanghai, China.
To : Secretary of the Treasury.

(Continuation of message of 23th)

Conditions in Chungking are extremely difficult. I am willing to continue on at least until the board is better organized, but I should be able to count on better cooperation from the Treasury Department than I have been receiving. I realize the difficulty of formulating a definite policy or position on many problems, but I should at least be advised of the situation. I can then govern myself accordingly. I ought to know whether a reply may be expected soon on such questions as:

1. Chinese banks in Hongkong are caught in the dilemma of freezing by United States and Hongkong is being included in the sterling area.

2. Will license be granted to competent private commercial banks or can they operate under license 58?

3. Attitude of Treasury towards agency.

4. Is it Treasury's intention to have board relegated to a minor position and have the major role given to agency?

I am anxious to return to Chungking soon to take advantage of contacts developed here. An early reply to Hongkong will be appreciated. I am sending another cable through State so as to provide opportunity for reply through regular channel.

FOX