

DEPARTMENT OF COMMERCE
WEEKLY CONFIDENTIAL REPORT

For the Information of Officers of the Bureau only, and not to be Published under any Circumstances

11-9184

Post Shanghai, China.

Date March 18, 1939.

Submitted by A. Bland Calder,
Acting Commercial Attache.

for the week ending March 18, 1939.

BU. FOR. & COM. DIV.
APR 8 1939
FOREIGN MAIL

RECOMMENDED

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WEEKLY ECONOMIC REPORT TEXTILE DIVISION

Basis for Pessimism Among Americans in China: The conclusions and

outlook in my 15-page Annual Report dated January 30, 1939, pointed strongly to the probability that, unless some effective interference is put in Japan's pathway by the concerned western powers, its program for an expanding East Asiatic Empire might well succeed, utilizing the enormous resources and man power in the present yen-bloc areas. I feel that it did not require any great powers of analysis to arrive at those conclusions, as so many of the trends are so utterly obvious. But after submitting the report and after some introspection as to whether one individual, here, at or near the "firing line" where the spectacular phases have been visible or audible for the past twenty months, could by chance have missed some of the broader aspects, I decided to submit my opinion of the outlook to a "straw vote". Copies of the report of the annual report above mentioned were therefore sent (confidentially, for perusal and return) to leading American business executives here. Some have recently returned from furlough in America or from round-the-world trips, some travel the Far Eastern territory from Japan to India, some get up or down the Coast occasionally, others have remained in Shanghai

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throughout the struggle. Individual income in the group ranges from US\$5,000 to \$50,000 per annum. I asked particularly for criticism of

Date 3 MARCH 1939
BUREAU FILE 7030
OFFICE OF THE ATTORNEY GENERAL

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the views expressed, as to whether these were too far on the pessimistic side. These people are obliged to keep their eye on the weather vane. The enterprises for which they are responsible, even their own livelihood, depends upon a correct interpretation. The contacts were requested to supply any bright or encouraging angles so that we might use them in further reporting, by way of correcting any misimpressions gained from any possible myopic observation of the developments. About thirty replies have been received. Not one contact has expressed the view that the pessimism as expressed in the outlook was unjustified. Leaving out such "bouquet" expressions as "interesting", "informative", "illuminating", etc. etc., here are some of the representative responses:

"Exactly describes the present situation."

"...if you had been more pessimistic I think you would have come near to hitting the facts, because I believe you have outlined what is going to happen."

"While we should like to be able to tell you that you are unduly pessimistic in your conclusions, we cannot see where you have placed a wrong interpretation on the facts, and we, therefore, agree 100% with your conclusions."

"Though it would please me very much to be able to offer some material that would enable you to issue more hopeful reports, I regret that at the present time I am unable to do so."

"I don't think you have gone far enough in your pessimism in regard to the future for foreign business here. You have covered the field most comprehensively and a great deal can be read between the lines of what you have written."

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"I have been trying for some time to get away from wishful thinking and I am impressed by this report that you have succeeded in drawing conclusions from facts as they appear rather than from how we would desire them. I thoroughly agree with your conclusions both said and implied."

"I, too, must draw similar conclusions, for I find that each season that comes and goes, things in general change but usually for the worse. Whether or not the Chinese Government realizes it, I do not know, but the facts are that their native commodities are fast getting into the Japanese hands."

"Now, how can we bring it (the report) to those at home to have it do good? I hope it is not yet too late."

"Your pessimistic conclusions I think are well founded. Japan, however, is expending enormous energy for the returns she is getting from China. It is my opinion that she cannot enjoy any great measure of success in China without peace and some semblance of order. And, I see no chance for peace while Japan insists upon ignoring the Kuomintang. The Chinese are still a force to be reckoned with, particularly that they have at least the moral support of the Democracies. The fact remains that Japan's campaign has damaged the trade of Western countries in the Far East badly, and there isn't anything apparent that is going to correct it soon. We have all got to continually remind our Home Offices of what is taking place in this part of the world."

It should be explained that the conclusions to my annual report were not drawn in any spirit of resignation to the inevitability of the trend, but rather to sound our quota of warning that unless something effective is done, Japan's scheme may prove successful. (The writer is not so ...)

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presumptuous, however, as to assume that anyone in the American official circle in Washington or China needs any such warning.)
Despite the fact that the indications of political cleavage at Chungking at the end of the year (when there appeared some indecision as to whether to continue the struggle or to succumb and to begin to work with Japan) have in the ensuing weeks or months turned for the better, other events have moved rapidly to create an even wider basis for pessimism as to the outlook. The longer the situation is left to take care of itself, the less likely are economic sanctions (if undertaken) to prove effective. It may be that the time has passed when anything but force or a stiff show of force can be of avail. A few of the unpropitious signs are as follows:

- 1. The Franco victory in Spain, followed by a swift British realistic recognition of the same, - the current swift implementation of Germany's "Drang nach Osten" - removes any rosy tints from the glasses with which the European scene may be viewed.
2. Events in Europe perforce keep British and French attention focussed on that situation, rendering them impotent to take direct or effective means in defence of their rapidly deteriorating position in the Far East.
3. Japan's bold seizure of Hainan Island, its speedy steps to make it a naval base, - in defiance of Great Britain, France and America, threatens Hong Kong, French Indo-China, and the Philippines, - swift coup in Japan's "Drive to the South" it puts the Japanese naval frontier nearer the Netherlands Indies, Borneo, the Malay States. Germany only needs to make a swift coup in Holland to be able jointly with Japan to gobble the wealth and riches of Holland's vast Oriental Empire (Java, Sumatra, part of Borneo, the Celebes).

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4. The institution of "export exchange control" at 27 ports at all North China ports, March 10, and the intent to restrict imports with the objective of creating as large a favorable balance of payments as possible, shows up Japan's intention to make us dig our own graves so far as trade with China is concerned. The cash we supply to Japan for the products of North China is to be used for financing the expansionist scheme. We, on the basis of principle, will not loan money to Japan, but under the clever gangster "set up", the United States and the British Empire as cash customers for the products of Japan, Manchuria, and China are automatically to supply the capital to promote Japan's "dirty deal" in the Far East.

5. Japan is looting China on an increasing scale, - purchasing supplies of all required materials in China with printed money at the point of the bayonet, and shutting out any but Japanese goods from the consuming areas. The recorded trade figures show Japan's trade as rapidly expanding but they show only part of the trade. Japan is running in quantities of Japanese goods and taking out Chinese export goods without the formality of Customs procedure. British, Americans, and others are obliged to pay duties, if indeed they are able to trade at all. We must pay Japan its monopolist toll for everything we buy, as the prices are already boosted 75% by the establishment of "exchange control".

6. The events in Manchuria and North China show that Japan is rapidly striving to tap important resources of basic materials so as to become independent of outside sources of supply at the earliest possible moment, blatantly stating the date as 1941. By then Japan apparently expects to have to purchase only a little cotton from us, meanwhile grabbing the bulk of the China supply, increasing that supply, and forcing the populace in Japan to get along with the synthetic "staple fibre", silk, and as little cotton as the barest necessities make necessary. India and Brazil are looked to as preferential sources outside of the United States. Yet Texas and California, blandly closing their eyes to the inevitable, support isolationist sentiment by

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6. (Continued) insisting on selling cotton to Japan so long as Japan can supply cash in payment. Group interest in America must profit while the general weal goes to pot. Labor organizations on the West Coast may make a feeble effort to hold up scrap iron shipments by picketing the docks at Portland, Astoria, or elsewhere, but the Japanese are rushing their scheme to develop a 2 million ton supply annually in Chehar, and further quantities in the northern Yalu region of Manchuria, trading Manchurian beans for German production equipment, spending some cash in America for such equipment as cannot be bought with beans.

This recital of developments illustrates something of the manner and speed with which the Fascist-Nazi coalition in Europe and the Japanese in Asia forge ahead on their joint spree of carving up of the world, while the Democracies are still in the stage of indecision, obliged to make large expenditures for armaments, but with some doubt as to whether public opinion will let the armaments be used, and with the Democracies steadily losing ground, losing potential allies, their prestige almost in eclipse.

In America articles are still being fed to isolationist mentality to show how it is that Japan's chances of winning are poor. Even here in China, it will be seen, from one of the commentaries above quoted, that certain Americans think Japan is spending so much more than it is getting in return that it must fail of its objectives in China. Fundamental economic poverty in Japan is assumed to be the rock upon which Japan's plans will break up. While thinking along this line and cold analysis

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of the facts may be motivated by realism, it is to be feared that the ideas are more correctly to be classed as wishful thinking. From what we can gather from news from home, the public and the group interests profiting out of trade with Japan largely regard it as "the government's business" as to what we are to do by way of reacting to the dire trends against us, while "Government" on the other hand appears to be shackled by public opinion, despite the keenest appreciation and understanding, in Government circles, of the signs.

It is true that Japan itself is feeling the strain of the war, that the people in Japan are being forced to get along with less and less in the way of material comforts, but close observers maintain that the populace of Japan can go a long way yet toward tightening its belt. It appears important to bear in mind that the Japanese authorities do not have to pay back the Ten Billion Yen war expense at once. If they pay it back in fifty years, it will be soon enough. The capacity of the Japanese to endure and to follow blindly the program being charted for them must not be underestimated. Japan's military might is probably far from having been expended or even impaired. Japan's naval power is without doubt fully intact. If I am correct, the First Fleet has not been drafted into service but is always ready for use when needed. No submarine has sunk a single Japanese ship, though a few small craft were apparently sunk or damaged in

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the Yangtze by bombing or by Chinese shore batteries.

I think that we must also place less emphasis on the assumption that Japan's economy cannot bear the strain and that we must explore the notion that Japan's Army and Navy have already moved over to new and rich feeding grounds on the Asiatic mainland and are less dependent upon Japan's economy and resources generally. The Japanese have had Manchuria's rich fulsomeness to draw upon unstintedly for more than seven years, and have now added another 400,000 square miles of territory embracing further vast resources. Japan is able already to enslave for productive purposes a population fully as great as that of Japan Proper in areas in Manchuria and North China in productive effort to serve the broadscale Japanese designs - this despite the fact that there may be 100 million Chinese in the "occupied" areas which are not "subdued". But some of the productivity of this latter 100 million will pass into Japanese hands in spite of that, and economic pressure may cause more and more of the "guerrilla areas" to become first passive and later active in production to serve Japanese aims.

There are of course many factors and some hopes which offer promise in our outlook provided full advantage is taken of them:

1. China's continued staunch resistance.
2. The chances that at some stage the Democracies will reach the point where they can be backed up no farther and that they will take a stand and fight back. They have gone almost too far in retreat.

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3. Reported American disposition further to aid China with credits. (So far too small - should be backed up with a supply of organizing and technical skill to make the implements more effective in China's struggle.)

4. British credits to China and the setting up by the British of a \$5 million pound currency stabilization fund, jointly with \$5 million of Chinese reserves, to fight Japan by preventing Japanese aims to destroy China's currency and to supplant it with the bogus printed valueless "Federal Reserve Bank" currency by means of which looting is carried on.

5. The straw votes in America which show a continuing swing to appreciation of the dangers for America in the world situation.

6. The armaments program in America, Britain and France.

This array of favorable signs, unfortunately, is far less impressive than is the spectacular headway being chalked up daily on the "enemy" front.

To return to the views and outlook of Americans here, it must be explained that while recognizing the existence of the threatening factors, they do not regard the outlook as hopeless. They do not want to sacrifice what they have built here, so are holding on in the hope that the world situation will swing in favor of America sooner or later. It may be that we shall all have to get out of here before we can get in again, but Americans here hope it will not come to that pass. About all they can do is to drive on in their daily affairs, try to influence opinion at home so far as possible, to protest vociferously over new encroachments on their rights, and to hope for an ultimate favorable outcome.

ABC;MKD.

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