

Shanghai, China, January 24, 1939.

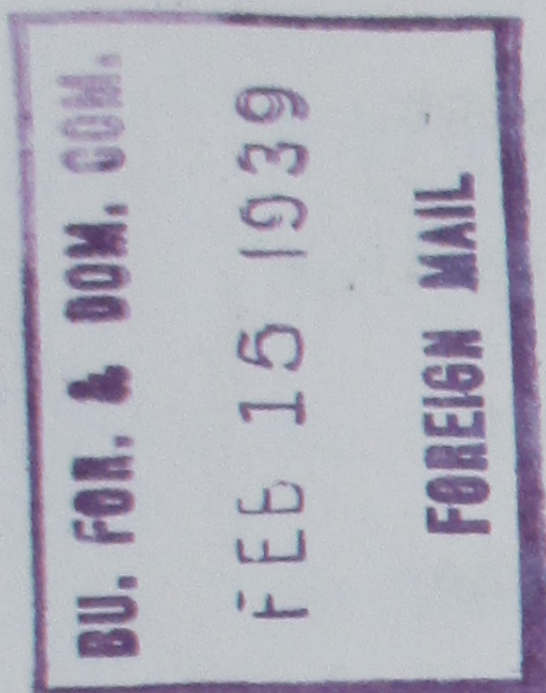
Subject: RESUME OF MILITARY AND POLITICAL EVENTS IN CHINA IN 1938

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NOTE: The material included in this report was prepared as a general introduction to our Annual Report on economic, financial, and trade conditions in 1938. Since the military and political aspects of the present upheaval in China bear so directly upon trade activities and outlook, it would seem impossible to present an intelligible treatment without at least reviewing the significant events in these categories as necessary background. The material herein had been roughly drafted prior to receipt of the Bureau's instruction by radio to the effect that the annual report, unless already completed as an exhaustive study, might be submitted within the compass of five to fifteen pages. Rather than scrap the material already prepared, it is submitted in this form as a special report.

(Military Developments): At the end of 1937 the Japanese military

campaign had succeeded in driving the Chinese regular forces out of the Shanghai-Nanking region. The port of Tsingtao was occupied by Japanese Naval forces early in 1938. The Japanese land forces then prepared to move southward from points in Shantung, as well as northward from Pukow, toward Hsuchow, junction of the Lung-Hai and Tientsin-Pukow Railways. Stoutly defended under a gradually recovering Chinese morale, Hsuchow did not fall until May after exceedingly costly effort by and many setbacks to the invading forces. The campaign was then pursued westward along the Lung-Hai Railway toward Chengchow, junction of the Peiping-Hankow and Lung-Hai Railways, but this sector was literally submerged by the Yellow River floods in June. Concentration of attack was then shifted to the Yangtze Valley, the Japanese forces pushing westward from Nanking along the river, penetrating the strategic Matang boom, and taking



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