

Despatch No. 954
American Consulate General
Shanghai, China
November 5, 1948

CONFIDENTIAL

MEMORANDUM

**Subject: Observations of the Commercial Attache
on a Visit to Hong Kong and Canton
October 25 - November 1, inclusive,
1948 -- Political Reactions.**

Prepared by
A. Blard Calder

The American Consul General at Shanghai has the honor to transmit herewith a memorandum prepared by Commercial Attache Calder following his recent visit to Hong Kong and Canton. The trip was made in order to bring up to date material submitted in a memorandum of January 5, 1948, forwarded with this Consulate General's Despatch No. 9 of the same date and bearing the title "Observations of the Commercial Attache on Current Conditions and Outlook for Industrial and Other Developments in Hong Kong and in Kwangtung Province of South China", particularly as both Consulates General in the South have been lately understaffed as to economic personnel with former officers transferred and newly assigned personnel now functioning or not yet arrived. If the accompanying material is read with the earlier memorandum as background, it is believed it will prove of greater interest. In view of the character and rapidity of events it was only natural that reactions obtained from his contacts should be more political than economic in character. The material, herewith, therefore is mainly of a political nature and is submitted in advance of the portion of Mr. Calder's report which will deal with economic and trade matters to follow shortly. It was felt inadvisable to hold the attached material, which may be of immediate interest both in the Department and in the Embassy.

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Enclosure: Confidential memorandum dated November 5, 1948, entitled as above. Governor of Kwangtung Province, expressed the view that only U.S. Government military action can solve the situation.

Multilith to Department;
Copies to: Embassy, Nanking
Consul, Hong Kong
Consul, Canton

stated that Chiang Kai-shek's attitude included strong sympathy toward the middle class, but that he obviously did not see his way of handling the economic measures might nearly ruin his father's government. military reverses since the August 19 man's ineffective and are inclined to blame the United States.

A true copy of
the signed original.

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MEMORANDUM

VISIT TO HONG KONG AND CANTON
October 25 to November 1, inclusive, 1948

Prepared by Commercial Attache
A. Bland Calder

(Note: This memorandum deals with reactions and comments of a political nature and is submitted in advance of a report, to follow shortly, on economic and trade matters. It is suggested that this report be read in conjunction with a memorandum submitted with Despatch No. 9 from Shanghai, January 5, 1948, entitled "Visit to Hong Kong and Canton - December, 1947")

My inquiries were begun in Hong Kong where I arrived at 10:30 a.m. Monday, October 26, 1948, and continued at Canton on Wednesday to Friday, inclusive, October 27, 28 and 29, and terminated in Hong Kong Monday, November 1, 1948. I returned to Shanghai on Tuesday, November 2, 1948.

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<u>Summary</u>	

A general pessimism pervades the thinking of South China and Hong Kong Chinese business and government contacts with regard to effective National Government military resistance against the Communists. Dr. T. V. Soong, Governor of Kwangtung Province, expressed the view that now only U.S. Government military action can save the situation. He continues genuine effort at economic recovery in the South with substantial results evident. He modifies application of central government directives to avoid disrupting the people's livelihood and security. One contact reliably stated that Chiang Ching-kuo's thinking includes strong antipathy toward the middle man, but that he obviously did not foresee that his way of handling the economic measures of August 19 might nearly ruin his father's government. Others held that military reverses made the August 19 measures ineffective and are inclined to blame the United States.

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One smart Chinese lawyer in Hong Kong who has in the past professed to have excellent contacts and "inside track" with the National Government, is now being urged to leave Hong Kong to avoid pressure by his official friends to assist them.

Political Reactions More Important than Economic

With the National Government's military front collapsing in the North and a critical situation rapidly developing in Shanghai over failure of the Government's economic controls adopted August 19, 1948, most Chinese contacts in Hong Kong and Canton were exceedingly pessimistic over the prospect of the National Government's ability to continue long to hold the Nanking-Shanghai area. Even on his part

My inquiries were begun in Hong Kong where I arrived 10:30 a.m. Monday, October 25, were continued at Canton on Wednesday to Friday, inclusive, October 27, 28 and 29, and terminated in Hong Kong Monday, November 1. I returned to Shanghai by plane Tuesday, November 2, 1948.

Hong Kong contacts, some in National Government jobs, assumed that within a few months, the National Government would have to leave Nanking, would move to Canton, then eventually even Canton would be invested by the Communists, and that finally the National Government would move to Taiwan. These contacts did not appear to visualize the likelihood that if conditions were to become so bad as to involve evacuation of Nanking, the National Government itself might no longer exist. Rather did they seem to be wishfully thinking in terms of maintaining the status of the Government until World War III should eventuate, and following its termination, of re-establishment of the Kuomintang Government intact in Nanking. They were counting strongly upon a Republican victory in the U. S. elections and of continued strong support for Chiang Kai-shek's government by the United States, and upon such slower action than has actually occurred in the past ten days in economic and political affairs in China.

At the end of the week, after my return from Canton, these same people, mostly well-to-do and well-connected Chinese not in Government, were panicky, hoping for immediate American military intervention to save Shanghai from the Communists. They hoped in addition that an international commission might take over and govern Shanghai, although suggesting that Chinese ought to be on such a commission along with American, British, French and other members. They had not by Saturday, October 30, done much thinking along lines of the possibility of a coalition government assuming control of the country's affairs, although such had been touched upon in the press.

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One smart Chinese lawyer in Hong Kong who has in the past professed to have excellent contacts and "inside track" with Kuomintang officials in Nanking, but who claims that it was necessary for him recently to seek the calmer air of Hongkong to avoid pressure by his official friends to assist them with various prohibited transactions, expressed complete lack of confidence in China to govern itself and hoped that the entire country would be taken over by the United Nations under mandate for, say, 50 years--preferably by the Western bloc of the UN, leaving the Soviets out of it. He expressed conviction that China cannot govern itself under present world and internal conditions. Even on his part there appeared to be no thought whatever that either the United States or the United Nations would consider dealing experimentally with a coalition government in China at this stage of world and China affairs. My last conversation with him was on Monday, November 1.

In Canton, Governor T. V. Soong, in the presence of his subordinates appeared objective and buoyant. He was receiving numbers of callers, both local and from out of town. He was meeting with the heads of the various economic divisions of the Kwangtung provincial government and was active in directing economic recovery measures, encouraging evidences of which were visible everywhere in Canton with marked improvement in the physical aspects of the city. There are also many surface signs of a bettered commercial interchange between city and hinterland, as compared with my observations 10 months ago.

In his conference room, with no one else present, Dr. Soong appeared extremely discouraged and depressed. He ruminated on world developments of the past few years and deplored what he termed utter lack of realism in dealing with the Soviet Union and Communist parties everywhere. He expressed undisguised lack of confidence in the ability of the National Government's armies to achieve adequate defense against the Communists, especially now that the latter obviously have enough equipment to do positional fighting. He expressed the view that the only thing which can now prevent all China from coming under Communist domination would be direct U.S. military action in China. Asked his opinion as to whether such action might precipitate World War III on Chinese territory, he felt convinced that the Soviets would not want to start a front so far from their bases and that it would not take much of a U.S. force to beat the Chinese Communists at this stage. He stated that, inasmuch as he is not attempting now to exercise any positive influence in national affairs, he would take no steps to influence such American action unless so requested or directed by the Generalissimo.

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He expressed virtual contempt for the ability of the economists in the National Government at Nanking to devise any effective means for dealing with the chaotic conditions which have arisen from efforts to apply the August 19 economic controls. He asked many questions about conditions in Shanghai, apparently wanting to hear my version of various aspects of the developments. He stated that he carries out central government directives in the South with such modifications as he deems advisable, indicating that he tries to refrain from upsetting the security and livelihood of the people.

It is popularly believed in Canton, and so stated by those close to him, that, although he was present at the discussions in Nanking prior to launching the August 19 economic measures, Dr. Soong did not agree to many of the features introduced. Thus, there is a tendency in national government circles to blame him now for non-cooperation, non-"tiger-hunting", and for alleged irregularities. The effects in Canton were far less disruptive, it is true, than at Shanghai, and there was no buying spree of consequence--patently both because people did not turn in their gold and foreign currency assets to the same degree that was the case in Shanghai and because Canton prices were not held at stipulated ceilings.

The foregoing outlines the significant views and statements made by Governor Soong in a short call at his office at Pacification Headquarters October 27, in a longer conversation at the same location on the next day just before luncheon to which he invited me at the Governor's residence (formerly the Canton home of Wang Ching-wei), and during the course of a ride from headquarters to the residence in his armored limousine which is patently protected with invisible armor plate and with visible protective glass no less than 1-1/4 inches thick. Armed guards in another car follow his car closely. At luncheon at which were present Mrs. Soong, a Mrs. Cook, who is an American and is the sister of the wife of the Governor of Hong Kong, two military officer body guards, Dr. Soong and I, the conversation took no significant turn, except that Mrs. Soong stated that she would fly up to Shanghai to get out winter clothes from their residence in a day or two. Since Mrs. Soong spent last winter at Canton, one wonders whether this is the real object of the visit. At any rate, Mrs. Soong flew to Shanghai from Hong Kong on November 2 and is presumably still in this city. Close Chinese friends who were in touch with her yesterday insist that she is en route to the United States where the Soongs have three daughters in school.

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One of my best Chinese business contacts who has within the past few months been transferring his trading activities to Hong Kong, an American educated Chinese, and one who has, through marriage ties of relatives, intimate connections with Kuomintang officials, threw some interesting sidelights on General Chiang Ching-kuo's makeup and performance. It is clear, he stated, that the latter became at one time thoroughly indoctrinated in Soviet ideology during his sojourns of some 12 years in Moscow where he underwent training and education in Marxian and Soviet principles. My contact attended a conference at Kuling, hill resort near Kiukiang, on the Yangtze, east of Hankow, in 1946. In that conference Chiang Ching-kuo expressed the view that the American system of free enterprise is not suited to China, since China has never had and cannot at any early date have the degree of industrial development and high living standards enjoyed by the United States. Therefore, China, he believed, must adopt a socialistic form of government and economy which would insure a more equal distribution of the wealth. In that conference he expressed himself as opposed to the Soviet form of totalitarian Communism but he appeared deeply prejudiced against middlemen. On that occasion he described Shanghai as a city of parasites. While my contact indicated a firm belief in Chiang Ching-kuo's integrity, which he described as beyond reproach, he recognized that Chiang was psychologically so conditioned as to feel that, in handling the Shanghai situation as he did, he was doing the right thing. Patently, he did not foresee that in carrying out his own ideological concepts as regards Shanghai, he would destroy virtually the last vestiges of public faith in his father's government and bring it nearly to ruin. My contact expressed strong disbelief in the notion purveyed by other less well-informed Chinese contacts that the young General was consciously serving the aims of Moscow in conducting affairs as he did.

Early in the week in Hong Kong, Chinese in National Government jobs were inclined to defend the August 19 economic measures on the ground that they would have been effective for a much longer period, also that the goods buying spree would not have happened were it not for the military reverses of the National Government's forces in the North. One such contact, Fisher Yu, the Central Bank's present representative in Hong Kong, in a tone or manner of regret rather than one of reventfulness, deplored American efforts to restrain the National Government's forces in 1946 from cleaning up the Communists, holding that the present strength of the Communists would not have developed had the National forces been allowed to crush them in 1946. He apparently believes such would have been possible.

Ordinarily,

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Ordinarily, he is thoroughly friendly toward and uncritical of America, but it seems possible his reactions may be symptomatic of a tendency in Kuomintang circles to blame outsiders rather than themselves for the present state of affairs. He also expressed regret over the slow speed with which American ECA aid has been implemented, believing that if it had come sooner and in volume, the general economic situation would not have taken such a bad turn.

A. Bland Calder
American Commercial Attache