

Report for the week ended

May 14, 1938.

Submitted by:

-9366 G P O

(Name)

A. Viola Smith,

(Title)

Trade Commissioner.

Representation of American Oil Company in North China:

A well known

American oil company which for years has been satisfactorily represented by a British engineering house in Shanghai, cabled its agents that "in view of control established over five Northern provinces and the apparent restoration of normal conditions in that area, the Mitsubishi Shoji Kaisha, Ltd., Tokyo, Japan, had requested the American suppliers to secure permission from their British distributors for Mitsubishi to market the American products in North China, and asked the Shanghai firm to advise whether it was agreeable to grant such request." The British concern frankly admits that due to difficulties in North China they have not been able to do any business for the American firm in North China during the last six months. The British representative called at our office to inquire specifically whether the American government was encouraging American manufacturers to sever their long established connections with foreign distributors and turn their accounts over to Japanese interests. He was mentioning no names as the communications were shown to us in strictest confidence. Mitsubishi Shoji Kaisha, Ltd. are the distributors in Japan for the particular American oil company, thus the Japanese firm logically (from their point of view) endeavors now to secure permission to extend their sales territory to those areas in China which have come under Japanese occupation.

(A. Viola Smith)

International Settlement Status:

Unconfirmed rumors tell of ensuing

negotiations between the British and Japanese authorities, whereby the

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British Government would take over the defence of the Yangtseepoo and Hong-kow areas by placing therein 5000 troops from Hong Kong, so that industrial enterprises might open up freely and rehabilitation commence, the Japanese military to withdraw from these areas with the exception of their barracks at Hongkow and their air base at the Point Island. While this seems a fantastic scheme, we live in weird dizzy days in Shanghai where almost anything may come to pass. Various efforts to confirm these rumors have been unsuccessful, yet on the other hand when one good British contact was asked about it, no forthright denial was made and a hedged reply given.

Numerous unpleasant incidents have occurred this week involving the throwing of hand grenades, allegedly directed at Japanese military while traveling on the crowded Nanking Road thoroughfare. This resulted in the Japanese Military Police arbitrarily assuming patrol duties in a sector entrusted to British forces, where they remained sporadically for several days. Great tension prevailed. Hand grenades were found in various other sections of the city; a well known British ornithologist on an innocuous morning stroll on the western perimeter was bayoneted and mauled by Japanese sentries and detained for 11 hours before being released; also, 3 of the Chinese staff of the Customs were seized and are still being held by the Japanese military.

Whether these hand grenade incidents are but a prelude to the Japanese military making attempts to find pretexts to take control of the Inter-

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national Settlement, South of the Creek, can not be stated with any exactness, but such likelihood is well within the realm of possibility. The remarks which the Denei news agency attributes to Foreign Minister Hirota from Tokyo on May 11, to the effect that negotiations for a reorganization of the administration of the Shanghai International Settlement are in progress, "but that the results thus far achieved fall far short of our expectations" may be significant. The leading Japanese daily paper, the SHANGHAI NIPPON, in commenting upon these repeated bombing incidents, editorially attacked the Shanghai Municipal Police on May 12, stating that: "We doubt whether the Shanghai Municipal Police has the ability to stop the incidents.....The attempt on the part of the S.M.C. not to face the facts will eventually worsen the general situation. Definite actions should be taken to eradicate the incidents fundamentally." (A.Viola Smith)

British Policy, Lower Yangtze River:

British authorities this

week have followed up their protests of last week regarding British shipping by announcing that Vice Admiral Sir G. Noble would make an inspection trip of the Lower Yangtze River from Shanghai to Suhu. We confidentially learn that British patience is "fed up" with representations of the Japanese that it is dangerous for shipping on the River; that the Admiral is taking his own mine sweeping facilities with him to clear the River and that in the wake of the Admiral's cruiser will follow several British commercial river steamers. British circles indicate that they

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intend to reinstate British shipping on the Lower Yangtze River and will no longer brook interference from Japanese naval authorities. (A. Viola Smith)

Effects of the Hostilities on Foreign Oil Interests:

At its monthly meeting, the American Junior Chamber of Commerce had as guest speaker, Mr. George Flynn, Shanghai District Manager for The Texas Company (China), who spoke on "Effects of the Hostilities on Foreign Oil Interests".

A brief resume of his talk and views are as follows:

Recalled how American oil interests were gradually frozen out of Manchuria although at the time assurances of the open door policy and the necessity of foreign cooperation were frequently uttered from official sources.

The same situation will undoubtedly occur in Central China should the present conflict be favorable to Japan.

Cooperation with the foreign interests will be sought only until such time as Japan can take over sales and distribution herself. Foreign crude oil would be shipped from abroad to Japan, processed or cracked to its various commercial forms in Japan, then shipped either in bulk or time to Japanese controlled distributing centers throughout Central China.

The Texas Company is not permitted to ship gasoline for commercial purposes to its various Chinese agents between Shanghai and Hanking or similar points under Japanese military occupation.

Currency and political developments in the Pei-Tientsin area are not reassuring for any genuine cooperation between foreign and Japanese interests there.

American oil interests in Shanghai "are decidedly pessimistic" regarding the future outlook should Japan gain economic control over China.

(H. B. Howard)

Submitted by:

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(Title)

Status of Hostilities in China: During the course of an evening spent with Edgar Snow, author of "Red Star Over Asia", Major Hagen of the U. S. Military Intelligence Division and Victor Keen, correspondent for the New York Herald Tribune, who has just returned from a trip to the front lines at Hauchow, the following statements were made which may be of interest to the Bureau:

Edgar Snow (one of the few foreigners ever to penetrate the Red regions of China and gain access to its leaders) said: "At the present time the Red Army and other communistic workers in China are under no instructions of a political nature from Moscow but at such time as the hostilities cease questions of a political nature originating from Moscow would probably take place."

Major Hagen: "The total size of the Japanese army is about 51 divisions, (20,000 men to a division). * Of this amount 26 divisions have already been sent to China, of which I believe 200,000 have been eliminated,-- one-half of this amount having been killed. On the basis of national conscription and a total population of 70 millions, Japan could probably raise additional man power amounting to 5 million men (using the half, lame and the blind). During the World War, Germany raised about 10 million men out of a total population less than Japan's. Japan, due to the poor physical standards of its people as compared with the Germans, could not do this."

Victor Keen: "The optimism of the Chinese soldiers and leaders seemed to increase as I approached the front lines. As an old China hand, I was amazed at the sincere unity and cooperation which is now existing between the National Government and several of its former and most dangerous political enemies who are now commanding armies in the Hauchow area."
(H. B. Howard)

A. Viola Smith,
Trade Commissioner,
Temporarily in Charge.

AVB:MIT

* Excluding mechanized unit