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## The second Chinese banking consortium: The open door and finance diplomacy

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THE SECOND CHINESE BANKING CONSORTIUM:  
THE OPEN DOOR AND FINANCE DIPLOMACY

A Thesis  
Presented to the  
Department of History  
and the  
Faculty of the Graduate College  
University of Nebraska at Omaha

In Partial Fulfillment  
of the Requirements for the Degree  
Master of Arts

by  
Pauline Selenke Pesek  
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## PREFACE

This thesis is an attempt to analyze the events of the Second Chinese Banking Consortium, signed in 1920, and the relationship of this event to America's China policy, generally referred to as the Open Door Policy. The Consortium demonstrates how the Open Door Policy developed as a part of American foreign policy, and how the State Department hoped to use American capital as the right arm or a tool of American diplomacy in China.

The Open Door Policy as conceived by Secretary of State John Hay was an attempt to preserve equal economic opportunities for Americans in China. As time progressed it became evident China's territorial and administrative integrity needed to be insured in order to provide a favorable climate for foreign commercial and investment privileges in China. By 1918 the State Department believed it would be necessary to curb Japanese investments and influence being exported to China throughout World War I and the following years. If American monies could be joined with French, British, and Japanese dollars, all four nations could expect to share in investment and commercial privileges in a vast underdeveloped nation.

Once the American bankers had State Department assurances that the American Government would lend public support and provide diplomatic backing for their loans, the bankers became willing allies of the State Department's

finance diplomacy. But all American Governmental guarantees could not bring political stability to the disorganized Chinese Government, and without a consolidated and stable government in China, no investment could be assured success. Consequently, the American bankers refused to lend money without stringent lending rules, and the Chinese refused to borrow money within the terms set down by the lenders.

It is the author's intention to use the Consortium to illustrate how Secretary of State John Hay's Open Door Proclamation expanded in concept from its original intention to acquire equal economic opportunity to its second stage of a respect for the territorial integrity of China to the expanded concept as an attack upon spheres of influence, especially Japan's spheres. The State Department did not achieve its intended goal, but a study of the Consortium's correspondence leaves no doubt that the Department intended to limit if not to eliminate spheres in China, exemplified by Japan's claims in Manchuria, and in doing so allow American capital equal investment opportunity in China.

The author is indebted to several persons and institutions for providing the help necessary for the completion of this project. I would therefore like to thank the following people and institutions. My interest in this area of history was stimulated by my advisor, Associate Professor Jacqueline D. St. John, to whom I am indebted for the advice and counsel that she was always willing to give to me. A special thank you must also go to Professor Harl A. Dalstrom

of the History Department and Professor Justin D. Stolen, of the College of Business Administration for reading my thesis and offering suggestions and comments that provided invaluable assistance in the final draft of this work.

Several institutions also gave valuable assistance in the completion of this project. The Hoover Institute on War and Peace in Stanford, California, allowed access to all the documents they had available, which included some of the personal correspondence of Frederick Stevens used in the final chapter. The Morgan Guaranty Trust Company of New York provided copies of Thomas Lamont's public speeches and addresses. The inter-library loan division of the University of Nebraska at Omaha located and acquired several volumes needed for research. A special thank you must go to the University of Colorado which, through inter-library loan, permitted the extended use of their microfilm rolls of Records of the Department of State Relating to Internal Affairs of China from 1910-1929, specifically the rolls dealing with financial conditions in China. The British Foreign office permitted the reproduction of many of their documents relating to the Second Consortium. I am indebted to Miss Mildred Wretts-Smith for providing the research expertise necessary to locate the materials in the Foreign Office Archives, copying them, and forwarding them to me for examination.

I would like to express a personal thank you to my Mother, Frances Selenke, who in life gave me the invaluable examples of perseverance and hard work, and in death



continues to remind me how necessary these two attributes are to any endeavor. My Father, Andrew Selenke, whose strong will and continuous drive to improve whatever he came in contact with, taught me that without a strong will and personal drive nothing extra or special can ever be accomplished. Continued reminders from my family never let me forget, over a period of six years, that I had not completed a job I initiated for self-improvement. Of course, without my husband Terry's personal encouragement and financial assistance there never would have been any thesis or degree. Our children, Thomas and Margaret, spent many hours with Daddy, Grandmother Pesek, and a babysitter in order that I might accomplish this goal.

## INTRODUCTION

Probably no term in American History is more analogous with China than "open door." From its inception while an emperor still reigned in 1899 until the Communist defeat of Chiang Kai-shek, the term was used by all classes of American society. Just what the term meant to each user cannot be known. What is certain is that John Hay's original concept was no longer present after the progressive modifications of Theodore Roosevelt and his Secretary of State, Elihu Root. The policy itself underwent even more radical modifications during William Howard Taft's administration due to the policies of his Secretary of State, Philander Knox. The chief architects of radical change during Taft's administration were Willard Straight and Francis Huntington Wilson, who will be discussed later.<sup>1</sup>

Hay's original open door objectives were limited. He had no illusions about the United States' inability to erect new spheres of influence or the possibility of removing the existing spheres of influence.<sup>2</sup> When Hay announced

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<sup>1</sup>Raymond Esthus, "The Changing Concept of the Open Door Policy, 1899-1910," Mississippi Valley Historical Review, XLVI, (December 1959), p. 435.

<sup>2</sup>Areas in China where a country claimed to have superior investment rights and presumably concomittant political influence.

his open door policy he believed that equality of capitalistic investment was gone and could not be retrieved; he did hope to preserve the right of Americans to trade freely in commercial goods, that is, to sell American manufactured surplus in China.<sup>3</sup>

The open door policy as applied by Hay was based upon a realistic appreciation of the limitations of American policy. He did not undertake to attack the spheres of influence that existed, because he knew spheres could never be removed by protests and caveats. Military force provided an unthinkable alternative, so Hay attempted to save commercial equality within the framework of special rights and interests. On April 25, 1903, Hay wrote President Roosevelt, "Americans will not fight for Manchuria's commerce or China's integrity."<sup>4</sup>

John Hay's support of China's territorial and administrative integrity was an exceedingly qualified one. Hay opposed the complete partitioning of China. Even though spheres were undoubtedly an infringement of China's integrity, he never attacked existing spheres. Attacking these spheres Hay considered intervention in the affairs of another continent.<sup>5</sup> Furthermore, Russia's invasion and subsequent control

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<sup>3</sup>Tyler Dennett, Americans in Eastern Asia, (New York: Macmillan, 1922), p. 292. See also: Esthus, "Open Door," p. 436.

<sup>4</sup>Jerry Israel, Progressivism and the Open Door: America and China, 1905-1921. (Pittsburgh: University of Pittsburgh Press, 1971), p. 84.

<sup>5</sup>Dennett, Eastern Asia, p. 403; Esthus, "Open Door," p. 437.

of Manchuria forced the Secretary of State to tacitly acknowledge that Manchuria was a province of Russia and no longer remained an integral part of the Chinese Empire. His acceptance of Russian control of Manchuria supports the position that to all intents and purposes Hay abandoned the doctrine of the territorial integrity of China.<sup>6</sup>

In reviewing John Hay's original intent and application of the open door policy one thing is clear; he had not secured anything approaching an international guarantee of an open door for United States' commercial trade in China or a guarantee of the territorial and administrative entity of China. Secretary of State Hay had initiated and popularized a policy for American participation in the affairs of the Far East.<sup>7</sup> This policy was uniquely American and a product of American thought.

How, then, did the open door become the established American policy in the Far East for almost half a century? This can only be explained by examining the policy after its creation and application. When Hay died in 1905, Elihu Root became Secretary of State. During Root's four year tenure the open door proclamation underwent a change in interpretation. Root accepted the basic assumption that spheres of influence were established facts and that probably more harm than good would result from direct attack upon their existence.

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<sup>6</sup>A. Whitney Griswold, The Far Eastern Policy of the United States. (New York: Harcourt Brace and Co., 1933), p. 84.

<sup>7</sup>Ibid. p. 86.

He was less willing than Hay, however, to abandon or water down the concept of China's political integrity. His policy attempted to stop further infringement of China's integrity.<sup>8</sup>

After Philander Knox took control of the State Department in 1909, United States' relations with China changed significantly. Francis Huntington Wilson took the position of First Assistant Secretary of State. He also held the post of Knox's chief adviser on Far Eastern Affairs. Young and aggressive, Willard Straight, with definite convictions concerning American investment in China, was appointed to serve as agent of the newly formed American banking group with interests in China.<sup>9</sup> With Knox and Huntington Wilson in charge of Far Eastern affairs they dictated a policy that demanded equal investment as well as commercial opportunities in China. Knox, Huntington Wilson, and Straight wanted to end spheres of influence and give vigorous support of China's integrity. This newly espoused policy was called "dollar diplomacy." The policy of Hay, and even Root, was no longer discernible.<sup>10</sup> Open door historian, Raymond Esthus, suggests that if the new interpretation of the open door is confusing to historians, it was even more confusing to the Japanese who were criticized for not adhering to America's changing interpretation of the open door.<sup>11</sup>

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<sup>8</sup>Esthus, "Open Door," p. 453.

<sup>9</sup>Israel, Progressivism, p. 59. Israel also notes that Assistant Secretary of State William Phillips played a vital role in American policy change in China. p. 64.

<sup>10</sup>Esthus, "Open Door," p. 453.

<sup>11</sup>Ibid.

It is the expanded concept of the open door that became the basis of future American policy. When the State Department supported American banking involvement in both the First and Second Chinese Banking Consortiums,<sup>12</sup> it was the open door policy of dollar diplomacy that the Department advanced. Just how American capitalists were to invest in China with reasonable assurance that their investments would be protected is uncertain. American involvement in China did not extend to using military force. Realizing the degree of American commitments in China, the possible success of American capital in China, especially Manchuria, remained continually doubtful. Manchuria had been a Russian sphere before 1905 and after the Russo-Japanese War Japanese dominance there was apparent.

Though the open door policy espoused by the dollar diplomats proved unrealistic, it did give the semblance of being moral. The balance of power was the chief concern of the major powers and the United States advocated equal opportunities for all nations. Just how the State Department intended to achieve equal commercial and investment opportunities in China when preferential rights already existed is the diplomacy behind the Second Chinese Banking Consortium. Washington called it enforcing the open door, but it was a

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<sup>12</sup>The First Chinese Banking Consortium, an international banking agreement signed in 1911, eventually included banking groups from the countries of Great Britain, France, United States, Germany, Russia, and Japan. The Consortium was formed to provide funds for the internal development and administrative reform of China.

policy far removed from the ideology of John Hay and more closely attuned to "dollar diplomacy."

## CHAPTER I

### The United States Forms the Open Door Policy, 1900-1912

An analysis of the Second Financial Consortium of China and its relationship to the open door policy must begin with an examination of the broader interests of foreign countries in China. The consortium was not merely an attempt on the part of foreign banks to loan money to China for administrative and industrial purposes, it was a formulated effort on the part of foreign powers to promote their own political and economic objectives in the Far East, particularly China. To understand what these objectives were, a brief consideration of Oriental trade expansion, Chinese railroad development, and foreign entrenchment in the Far East is necessary.

The concept of building colonial empires heightened in the Nineteenth Century. Great Britain, Germany, and Russia struggled for the control of foreign markets and colonies. Political thought of this period contended that the balance of power rested with the country that controlled the greatest number of foreign colonies. Keeping the balance of power did not mean colonizing or controlling the existing Chinese government. Commerce and industrial development were possible and more profitable if the cost of governing



could be avoided, and China's existing political structure provided these conditions.

By the latter part of the Nineteenth Century, however, there emerged an awakened interest in the trade potential of China, especially in her ability to absorb the surplus of manufactured goods. Due to the internal political organization of China and the established colonial rivalry, foreign nations gained political, territorial and economic footholds in China by a series of unequal treaties with China.<sup>1</sup> Rivalry heightened and by the turn of the Twentieth Century Japan entered the struggle closely followed by the United States.

American diplomatic reaction to the scramble for Chinese spheres of influence and the subsequent Boxer insurrection resulted in Secretary of State John Hay's famous Open Door Notes. The first of these notes was sent on September 6, 1899 to Great Britain and Germany and later notes to Japan, Italy and France. It proposed that, in view of the division of China into spheres of influence, these countries should not interfere with treaty ports and should not levy higher harbor and railroad duties on foreign goods than on their own within their own spheres. Agreement to

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<sup>1</sup>For a chronological listing of the unequal treaties signed with China see: William L. Langer, ed. and compiler, An Encyclopedia of World History. (Boston: Houghton Mifflin Company, 1968), pp. 913-914. A detailed study of the unequal treaties of this period can be found in William L. Tung, China and the Foreign Powers: The Impact and Reaction to Unequal Treaties, (Dobbs Ferry, N. Y.: Oceana Publications, Inc., 1970), pp. 19-43.

this proposal was noncommittal with the exception of Italy, the only nation without spheres of influence in China. Russia found reservations and never accepted the proposal. The American Secretary of State, by March 1900, announced that the replies were "final and definitive." Although the notes of 1899 had as their aim the preservation of Chinese sovereignty in the spheres of influence as well as equal commercial opportunity, these objectives were merely implied.<sup>2</sup>

Despite American claims, struggles for spheres continued. Russia marched into Manchuria. In continued efforts to curb Russian advances, a key Far Eastern issue in 1900, Hay sent a second circular of notes in which he stated that the United States wanted to find

a solution which may bring about permanent safety and peace to China, preserve Chinese territorial and administrative entity, protect all rights guaranteed to friendly powers by treaty and international law, and safeguard for all the world the principle of equal and impartial trade with all parts of the Empire.<sup>3</sup>

As a statement of American policy no replies were sought.

These second notes set into motion a basic plan for American diplomacy in the Far East that would remain in

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<sup>2</sup>Thomas A. Bailey, A Diplomatic History of the American People, (8th ed.; New York: Appleton-Century-Crofts, 1969), pp. 480-81.

<sup>3</sup>U. S. Department of State, Papers Relating to the Foreign Relations of the United States, 1899 (Washington: 1899), p. 299. Hereafter cited as Foreign Relations.

effect until the mid-Twentieth Century.<sup>4</sup> The original intentions of this policy are often misunderstood and overlooked. "The notes went beyond a bare attempt to guarantee freedom of trade."<sup>5</sup> In his letter to John Hay submitting the Open Door memorandum, William W. Rockhill, State Department Consultant on Far Eastern Affairs, wrote of "what I conceive to be the main points of the negotiating is a kind of a modus vivendi in China."<sup>6</sup> Rockhill, though, "never considered his policy a permanent guiding principle,"<sup>7</sup> and neither did Hay.

John Hay, Alfred Hippisley and William Rockhill, who worked with and understood the intricacies of the open door policy realized that a country, such as China, could not be rescued from the clutches of foreign intervention and control by a single diplomatic maneuver. These same diplomats also knew that the expanding American market could not be preserved by one foreign policy statement. They did believe that if a foothold could be gained in the political and economic structures of China, this foothold could be used for both trade and strengthening the Peking Government. The United States wanted to insure the integrity of the Chinese

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<sup>4</sup>For an understanding of the intricacies and discussions of W. W. Rockhill and Alfred E. Hippisley that went into the background and origins of the Open Door Policy see: Paul A. Varg, Open Door Diplomacy, (Urbana: University of Illinois Press, 1952), pp. 26-33; and Esthus, "Open Door," pp. 435-54.

<sup>5</sup>Varg, Open Door Diplomacy, p. 33.

<sup>6</sup>Ibid. p. 36.

<sup>7</sup>Ibid.

Empire so she could and would discharge her international obligations.<sup>8</sup> A strong China would mean that the United States could hope to enjoy equal trade opportunities with the rest of the world.

Almost every historical reference of the open door includes a mention of American merchants anxious for China's markets, but some fail to include the fact that missionaries in China had invested years in spreading Christianity to the Chinese. With their religious fervor came the Western way of life. Extraterritoriality protected them in most instances, but with the instability of the Peking Government Boxer rebellions were a reality. The lifelong work of these men of God needed protection.<sup>9</sup>

It was obvious to the formulators of the United States' China policy that "the struggle in China was only a lesser arena for the Western nations engaged in the diplomatic struggle in Europe."<sup>10</sup> The United States, a spectator to this struggle, had little bargaining power save repeated affirmation of the open door. In the late summer and early fall of 1903, Russia began her struggle to secure Manchurian port openings.<sup>11</sup> With the outbreak of the Russo-Japanese

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<sup>8</sup>Esthus, "Open Door," p. 437.

<sup>9</sup>Dun J. Li, The Ageless Chinese: A History, (New York: Charles Scribner's Sons, 1905), p. 431; Varg; Open Door Diplomat, p. 30.

<sup>10</sup>Varg, Open Door Diplomat; p. 47.

<sup>11</sup>Frederick V. Field, American Participation in the Chinese Consortiums, (Chicago: University of Chicago Press, 1931), p. 7.

War, President Theodore Roosevelt approved sending a circular note to Great Britain, France, and Germany to request belligerents to respect the neutrality of China, and in all practical ways her administrative integrity.<sup>12</sup>

In 1901 Japan strengthened her position by allying herself with Great Britain, the great world naval power. Then, in 1905, the Treaty of Portsmouth gave Japan a dominant position on the continent of Asia. Extensive Russian rights in Manchuria now held by the Japanese further enhanced Japan's position in Asia, and the United States' withdrawal from her Korean legations in September 1905 allowed Japanese entrance there. Allowing the Japanese to expand their control in Asia brought complaint. American merchants protested their declining trade in Manchuria via the port of Dalny. Japanese merchants paid neither duty nor liken.<sup>13</sup> Despite commercial protest, the State Department did not act to curb Japanese expansion until May 1907.<sup>14</sup> By this time Charles Denby and Huntington Wilson, who held secondary positions with the State Department, were beginning to distrust Japan's position in regard to an open door in China. As Japan pressed hard for more concessions, the struggling Peking Government in November 1908 sent Tang Shao-yi, a protégé of Yuan Shih-k'ai, to Washington for financial support to

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<sup>12</sup>Foreign Relations: 1904, p. 327.

<sup>13</sup>Liken is an internal tax on trade.

<sup>14</sup>Varg, Open Door Diplomat, p. 87.

counteract aggression in Manchuria. Tang was to press for further commitment of the United States to an active role, especially in support of railway investment and the proposed Manchurian Bank. Tang's visit accomplished very little. The Root-Takahira Agreement was signed the day he arrived in Washington.<sup>15</sup>

Private American interests were also at work. In September 1905 Edward H. Harriman, chairman of the Union Pacific Railway and Pacific Mail Company, arrived in China to promote the purchase of the South Manchurian and Trans-Siberian Railroads. Negotiations that followed ended in naught because the Japanese currently owned the Manchurian Railway from Port Arthur to Harbin.<sup>16</sup> In the summer of 1905 another blow was issued to private American interests. China cancelled the Canton-Hankow Railway contract, the United States' most important concession at this time. This contract had been granted to the American China Development Co. in 1898, to build approximately 900 miles of track.<sup>17</sup>

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<sup>15</sup>Charles Vevier, The U. S. and China 1906-1913: A Study of Finance and Diplomacy, (New York: Greenwood Press, 1968), p. 76. The Root-Takahira Agreement states that the United States and Japan would maintain "the existing status quo" in the Pacific. Both agreed to "respect the territorial possessions belonging to each other in said region," and to back all "pacific means at their disposal the independence and integrity of China and the principle of equal opportunity for commerce and industry of all nations in that Empire." Foreign Relations, 1908, pp. 510-511.

<sup>16</sup>Vevier, The U. S. and China, p. 24.

<sup>17</sup>Varg, Open Door Diplomat, p. 7.

When William Howard Taft became President, his administration inherited an increasingly troublesome open door policy. China continued to try to escape her obligations by political maneuvers with various world powers and these same powers extracted special commercial and investment rights whenever possible. The Japanese were particularly guilty of this.<sup>18</sup> Taft adopted the often used but never acknowledged policy of using business as a weapon of the state to achieve its goals. Previously the government had shielded business interests, now business became a tool of diplomacy. This policy was appropriately labeled "dollar diplomacy." Taft found Willard Straight, Chief of the Division of Far Eastern Affairs, a willing exponent of his economic policy in China.<sup>19</sup> Straight and his superiors all "favored a more active role" for the United States in China and Manchuria.<sup>20</sup>

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<sup>18</sup>The following incidents provide an illustration of China's inability to control her political destiny. In December 1905 Japan negotiated the treaty of Peking with China. It validated the terms of the Portsmouth agreement and gave the Japanese additional railway rights in Manchuria. In the spring of 1907 the Japanese forced the Chinese to make supplementary agreements that clarified Tokyo's growing strength in Manchuria. Japan received mining advantages along the Antung-Mukden Railroad that linked Korea with Manchuria. In June 1907 Tokyo received France's recognition of Japan's paramount position in Manchuria. Russia and Japan signed a convention in July 1907 that recognized Manchuria as a sphere of influence for Japan and Mongolia for Russia. Vevier, The U. S. and China, pp. 39 and 42-43.

<sup>19</sup>For a detailed account of Willard Straight's dealings with Edward H. Harriman for the purchase of the Chinese Eastern Railway and other financial associations of Straight with the bankers of Wall Street see: Vevier, The U. S. and China, pp. 35-84.

<sup>20</sup>Vevier, The U. S. and China, p. 92.

Applying dollar diplomacy, the United States began to press for participation in the financing and construction of the Hukuang Railway in central China. Straight and other Department officials believed it to be the United States' best defense against Japanese aggression. In June of 1909, Straight left his State Department post to become a representative of the newly-organized group of American bankers interested in Chinese development. Banking firms represented were: J. P. Morgan; Kuhn, Loeb and Co.; First National Bank of New York; National City Bank of New York; and interests of Edward H. Harriman. This group had been formed by the State Department for the purpose of gaining entry into the proposed loans to China for the Hukuang Railroad System. Before Straight left for Peking he carried instructions to secure from China the rights for American bankers to build a north to south railroad from Chinchow to Aigun.<sup>21</sup>

By October 1909 Secretary of State Philander C. Knox arrived at an official policy of dealing with the railroad question in China. His proposal stated:

In all cases where the Imperial Credit of China is pledged for railway construction, the powers which have pledged themselves to the principle of equal trade opportunities in China and the preservation of China's political integrity have such a direct interest as to entitle them to participation in the loans and equitable consideration for their nationals and materials.<sup>22</sup>

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<sup>21</sup> Straight was successful in negotiating a preliminary agreement with the Chinese Viceroy in Manchuria for the Chinchow-Aigun Line. Varg, Open Door Diplomat, pp. 100-101. Vevier, The U. S. and China, pp. 113-126.

<sup>22</sup> Varg, Open Door Diplomat, p. 101.



The new Knox policy also held that "exclusive right should not be granted to do business within the territory served by a railroad which had been constructed upon imperial credit or pledge of provincial revenues."<sup>23</sup> Railroads were now included as a part of the open door policy. Clearly, this policy was expanded from its original text, meaning, and application.

With new diplomatic guidelines and encouragement from the newly formed American Banking group, State Department officials set out to have the railroad interests of China purchased by an internationally controlled syndicate. By the fall of 1909 Russia agreed to sell the Chinese Eastern Railway on the condition that the Japanese sell the South Manchurian Railway. Japan refused.<sup>24</sup> The neutralization scheme had failed and with it the Department's attempt to prop the open door open. Japan had no fear of violating the principle of the open door.<sup>25</sup> Her stake in Manchuria was too great.

Failure of the neutralization scheme did not deter Knox and the State Department in their hopes for a fuller realization of the open door for China. Beginning in January 1909, the impoverished Peking Government began negotiations with European bankers for financing of the Hukuang Railways

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<sup>23</sup>Ibid. Varg had access to the Knox papers when preparing Open Door Diplomacy and therefore is the authority cited.

<sup>24</sup>Ibid. p. 102.

<sup>25</sup>Vevier, The U. S. and China, p. 138.

with lines from Hankow to Szechuan and Hankow to Canton. American bankers were not invited. The "dollar diplomats" could not resist the financial and political possibilities. Based on 1903-04 Chinese promises to allow the United States and Britain first offers to finance the Szechuan-Hankow line, the Americans pressed for a share in financing the Hukuang Railways.<sup>26</sup>

Since China chose to ignore the United States' claims, they renewed the issue of liken. The Americans claimed that according to a 1903 agreement, the Chinese had promised United States investor's rights to increase custom tariffs and subsequently to abolish liken.<sup>27</sup> The Chinese had listed liken as security for the Hukuang loans. American trade was being threatened by foreign competition. To provide equal trade opportunities, the United States entered into international cooperation for financing Chinese Railways. A statement issued to the British Foreign Office read:

The Government of the United States regards full and frank cooperation as the best calculation to maintain the open door and the integrity of China /and that/ the formation of a powerful American, British, French and German financial group would further that end.<sup>28</sup>

Pressures from European bankers and financial necessity forced the Chinese to conclude an agreement which limited

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<sup>26</sup>Field, American Consortiums, p. 16.

<sup>27</sup>This was digging deep for an excuse to be included in the Hukuang loans. The United States had not done anything about abolishing liken.

<sup>28</sup>Foreign Relations, 1909, p. 152.

United States' participation in the Hukuang loans to one-fourth the total financing of the Hankow-Szechuan line.

This brought immediate protest by President Taft. He cabled Prince Chun, Regent of the Chinese Empire:

I have an intense personal interest in making the use of American capital in the development of China an instrument for the promotion of the welfare of China, and an increase in her material prosperity without entanglements or creating embarrassments affecting the growth of her independent political power and the preservation of her territorial integrity.<sup>29</sup>

Knox thereafter reiterated the position in a cable to the American legation in Peking:

. . . this Government greatly deplores a situation in which it seems that individuals in China . . . are able to defeat the practical operations of the open door and equal opportunity . . .<sup>30</sup>

After considerable delay due to haggling and political unrest in China the bankers reached an agreement. The Hukuang loans were to be made by bankers from Great Britain, France, Germany, and the United States. The agreement would include the construction of all Chinese railroads.<sup>31</sup> Final settlement with the Chinese was not reached until May 20, 1911. The bankers issued a loan of 6,000,000 pounds. Revolution in China, however, hampered further negotiations.<sup>32</sup>

Entrance into the Hukuang loans expanded methods of maintaining the open door. An international financial

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<sup>29</sup>Ibid., p. 178.

<sup>30</sup>Ibid., p. 179.

<sup>31</sup>Field, American Consortiums, p. 23.

<sup>32</sup>Ibid., p. 31.

consortium became a means to further United States' interests in China. Currency reform also broadened these methods.

On September 22, 1910 the Chinese Government approached the United States for a loan of 50,000,000 taels<sup>33</sup> for use in currency reform. By October 2, China had increased the amount to \$50,000,000. The additional monies would be used for Manchurian development. American bankers, ready to abandon Chinese finances in the light of international complications, were persuaded by Knox to continue in the quagmire of dollar diplomacy. The existing American group would be allowed to have associates, but the loan would be signed by Americans.<sup>34</sup>

In keeping with the existing quadruple agreement, the United States offered equal participation in the currency loan to the other consortium members at their meeting on November 8, 1910. China, desperate for funds, consented. On April 15, 1911 China signed a final currency reform loan with the four power consortium groups.<sup>35</sup> In addition to currency reform the currency agreement was extended to promote industrial development in the three Eastern Provinces.<sup>36</sup> Only four hundred thousand pounds was actually

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<sup>33</sup>The tael was a standard silver coin of provincial issue used in China until 1934, when it was replaced by the yuan dollar. In 1910, a tael in Shanghai was valued at 65 percent of a United States gold dollar. On the Canton market the same year, a tael was valued at 71 percent of a United States gold dollar. The estimated value of a tael in China in 1910 was 68 percent of a United States gold dollar.

<sup>34</sup>Varg, Open Door Diplomacy, pp. 109-10.

<sup>35</sup>Field, American Consortiums, p. 45.

<sup>36</sup>Ibid.

advanced on the Currency Reform Agreement. China sought ten million pounds. The Reorganization Loan of 1913 included funds to repay this amount.<sup>37</sup>

Revolution broke out in China in October 1911 and temporarily brought an end to railroad, currency and industrial negotiations.<sup>38</sup> When an unstable peace was established, the so-called Republic under the Presidency of Yuan Shih-k'ai, sought funds to reorganize the new Peking Government. Yuan offered to the consortium a "firm option of undertaking the comprehensive loan for general reorganization purposes . . . ."<sup>39</sup> The consortium powers were to use this offer to stop all loans to China outside the consortium. A financially desperate China had to forego any independent loan negotiations. When Japan and Russia were admitted to the international banking group in June 1912, Chinese sources of money were virtually strangled by bankers who sought secure investments for their money. Negotiations within the confines of the consortium were painfully slow, and an internally chaotic China bargained away control over the economic rights of a sovereign nation by pitting one lender against the other.<sup>40</sup> Without doubt the administrative and territorial integrity of China was at stake.

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<sup>37</sup>Ibid., pp. 64-65.

<sup>38</sup>Roy Watson Curry, Woodrow Wilson and Far Eastern Policy 1913-21, (New York: Bookman Associates, 1957), p. 19.

<sup>39</sup>Ibid.

<sup>40</sup>Field, American Consortiums, pp. 98-100.

In the name of the open door, American dollar diplomacy now had interests in all of China's railroads, in currency reform, Mongolian industrial development and the reorganization of the newly established Chinese Republic.<sup>41</sup> In doing so American foreign policy practically forced Russia and Japan to seek protection of their interests in Manchuria and Mongolia.<sup>42</sup>

The Revolution of 1911 and the subsequent chaotic state in China brought an end to or effectively slowed all railroad, currency and industrial negotiations. It also ended the diplomatic hopes of Knox and Straight. Their efforts to pressure American capitalists to invest in China as a means of fostering the open door and maintaining the political and economic integrity of China had failed.

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<sup>41</sup>America's actions were closely watched by Japan and Russia. At a secret convention on July 30, 1907, Russia and Japan agreed to divide Manchuria into Russian and Japanese spheres of influence; in addition, Russia undertook not to obstruct the further development of Japan's political relations with Korea, while Japan recognized Russia's "special interests" in Outer Mongolia. Due primarily to America's activities in the Far East, Russia and Japan signed another alliance in 1916. By this document the two nations agreed not to participate in any arrangement or combination with a third power against the other, and support the other's claims of special rights and interests in the Far East.

<sup>42</sup>When the final negotiations for the four power consortium were conducted, Article XVI provided that if China should need further loans or funds to complete the operations contemplated in the agreement, the banks participating in the currency loan should be the first invited to provide the funds. Japan and Russia had been invited to these preliminary negotiations, but failed to attend because they viewed the international loan for the reform of China's currency as another version of Knox's neutralization scheme. Thus Japan and Russia were in a position not to be party to future Chinese loans. Naturally both Tokyo and St. Petersburg would not permit this. Varg, Open Door Diplomacy, pp. 110-111.

Securing for American businessmen economic opportunity had also failed.<sup>43</sup> Only by tying the currency loan to the Reorganization Loan did the United States hope to maintain the open door policy. It was hoped that the creation of the Six Power Banking Consortium would strengthen China through loan assistance.<sup>44</sup>

If the failure of dollar diplomacy is to be noted, so too must the role of a very weak central government in China.<sup>45</sup> The strong opposition by Japan and Russia, who had no intentions of maintaining an open door, can also be cited as reason for failure of the United States to put into operation an effective foreign policy. The United States' position deteriorated further due to Europe's struggle to keep their balance of power. To keep this balance of power

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<sup>43</sup>Ibid., p. 112.

<sup>44</sup>Vevier, The U. S. and China, p. 200.

<sup>45</sup>Political conditions in China during the declining years of the Nineteenth and first decades of the Twentieth Centuries were in a constant state of flux and disorganization. Peking remained the central seat of government for the Chinese Empire and later the Republic; however, officials in Peking were never able to consolidate the various provinces into one political unit. In most instances, the various provinces were autonomous, controlling their own taxes, currency and legal systems. After the revolution in 1911, Yuan Shih-k'ai gained control of the traditional seat of China's Government in Peking and lent some semblance of order to the country; however, military strongmen in the various provinces controlled much of the political power, especially in the South of China. Attempts to consolidate the various military factions with Peking during the years of the Republic failed. After Yuan Shih-k'ai's downfall in 1916 political authority in China, in the main, had returned to the hands of the warlords. During all the political negotiations of the Second Consortium, foreign nations dealt with the traditional government in Peking, but clearly Peking politically controlled a limited area of China.

it was often necessary to transfer their coalitions to the Far East.

Despite the lack of success for dollar diplomacy, the open door policy of John Hay had gone through an enlarged interpretation during the Taft administration.



## CHAPTER II

### Woodrow Wilson, American Capital and China: 1912-16

On March 4, 1913 Woodrow Wilson became President of the United States, and appointed William Jennings Bryan as his Secretary of State. With the Presidency and State Department in their charge, dollar diplomacy slipped into history. According to Wilson this policy seemed to touch upon the very administrative independence of China. According to one scholar, however, there

is no indication that the administration sought to chart a new course in Far Eastern Affairs as such. It sought primarily to voice its position in relation to requesting the American group to remain in the Consortium negotiations.<sup>1</sup>

Woodrow Wilson publicly withdrew government support from the American bankers on March 19. The next day, the American group met in New York and announced that they were no longer no longer party to the Chinese banking consortium.<sup>2</sup> The bankers had wished to withdraw previously, but had been persuaded to remain by the State Department.<sup>3</sup> The United States delegated its consortium banking commitments to the

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<sup>1</sup>Curry, Woodrow Wilson, p. 22.

<sup>2</sup>Ibid.

<sup>3</sup>Ibid., p. 21.

International Banking Corporation in China, a J. P. Morgan firm which retained China's loan agreements until they were repaid. After the conclusion of the reorganization loan with the remaining Consortium nations, all American money advances were repaid, with funds from the reorganization loan.<sup>4</sup>

In his statement regarding United States withdrawal from the Consortium, Wilson said that he did not want the United States to "be party to conditions," that would "touch very nearly upon the administrative independence of China itself."<sup>5</sup> This independence would be marred, the President believed, by pledging specific taxes for a loan, and by non-Chinese nationals administering the collection and dispersal of these taxes. He believed in continued American trade and investment in China, but only if it aided in developing China. His statement concerning the consortium closed: "Our interests are those of the open door--a door of friendship and mutual advantage. This is the only door we care to enter."<sup>6</sup> Wilson had charted an independent course in China. This course was aimed at defending the United States' traditional friendship with China. Wilson put emphasis on "political example and moral encouragement," rather than "finance and commerce."<sup>7</sup>

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<sup>4</sup>Field, China Consortiums, p. 117.

<sup>5</sup>Foreign Relations, 1913, Vol. I, p. 170.

<sup>6</sup>Ibid., p. 171.

<sup>7</sup>Paul S. Reinsch, An American Diplomat in China, (New York: 1922), p. 63.

To implement his policy, Wilson chose to recognize the newly established Republic in China as early as May 2, 1913. Recognition would serve to strengthen the existing central government in China and hopefully express friendship. Secondly, Paul S. Reinsch, a Professor at the University of Wisconsin, accepted the position of Minister to China. A student of Far Eastern affairs, he served the State Department well, but not without controversy, for six years. His observations and reports were most extensive. He recognized the necessary tie between East and West and the inevitable rise of Japan to the status of a world power. These observations he readily relayed to the State Department.<sup>8</sup>

Reinsch left on November 13, 1913 for China. Once there he quickly set out to aid the development of her industries, government and people. Based on his early observations, Reinsch wrote the State Department that the field remained wide open for resumption of American interest in Chinese currency reform and in a currency loan. The Chinese

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<sup>8</sup>Just how closely Reinsch followed Wilson and Bryan's instructions is not clear. He obeyed orders, but had a definite mind of his own. He wrote: "I had entirely made up my mind on the primary importance of American participation in the industrial and economic development of China." He stated further that he believed that political matters included commerce, finance and industry. Reinsch, An American Diplomat, p. 64. According to Burton F. Beers, Reinsch's actions drove China into Japan's political camp. Burton F. Beers, Vain Endeavor, Robert Lansing's Attempt to End the American-Japanese Rivalry (Durham: Duke University Press, 1962), pp. 99-100.

urged American participation.<sup>9</sup> First would be the Huai River Valley, a fertile valley plagued with sporadic flooding. In 1911 the Red Cross provided famine relief and hired an American engineer to survey for flood control. Reinsch wanted to keep the project in American hands.<sup>10</sup> An agreement signed on January 27, 1914 provided for the American Red Cross to participate in the Huai River Valley project.<sup>11</sup> Wilson's position on American capital in China, World War I, and Chinese unrest kept American financiers from offering to float bonds even though the Red Cross had engaged the J. G. White Corp. to make a preliminary survey of the Huai River Valley. Private sources of money were sought, but to no avail. The Chinese then extended the option for a year, and in January 1916 for four months more.<sup>12</sup>

Another attempt at private investment in China centered around a small loan by Lee, Higginson and Co. of Boston. This loan was primarily the work of an American,

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<sup>9</sup>Department of State Papers Relating to the Internal Affairs of China 1910-1929, 893.51/1501-1665. Microfilm Role 149, Frame 22. Hereafter cited as State Papers Relating to China, with a notation of the microfilm's role number and the frame wherein the information is located. This method of footnoting was chosen because the State Department Papers dealing with the Internal Affairs of China were not always chronologically filmed by the Department file number. The author trusts the location of thesis materials will be facilitated by a citation of a microfilm frame number rather than a citation of the document and the Department file number.

<sup>10</sup>Reinsch, An American Diplomat, p. 65.

<sup>11</sup>Foreign Relations, Vol. I, 1914, pp. 95-119.

<sup>12</sup>Curry, Woodrow Wilson, pp. 146-47.

Guion Gest, who had been traveling in China. In answer to his inquiry, on March 27, 1915 Bryan wrote Gest that the United States will

give, subject, of course, to existing obligations of the Government of China, all proper diplomatic support to any legitimate enterprise of the character to which its citizens are party.<sup>13</sup>

Through Gest, China appointed Higginson as their fiscal agent. This appointment had as its purpose the hope that Higginson could acquire the legal right to place bond issues for the rehabilitation of the Bank of China on the American market.<sup>14</sup> Not until April 3, 1916 did the negotiations go far enough for Lee, Higginson and Co. to advance \$1,000,000 on a \$5,000,000 loan.<sup>15</sup>

To further complicate the situation in early 1915, Japan issued her Twenty-One Demands upon China. China's inevitable surrender to this ultimatum on May 8, meant a virtual Japanese stranglehold on China, especially in Manchuria and Shantung. Using the Twenty-One Demands, Japan would claim priority on future attempts at American loans.<sup>16</sup>

Due primarily to Reinsch's urgings, Bethlehem Steel expressed desires to finance a Chinese naval establishment. In reply to Reinsch's inquiry, Bryan on May 21, 1914 wrote

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<sup>13</sup>State Papers Relating to China, 893.51/1501-1665, Roll 149, Frame 331.

<sup>14</sup>Ibid. Frame 446.

<sup>15</sup>Ibid. Frame 654.

<sup>16</sup>Curry, Woodrow Wilson, p. 147.

that if the Japanese objected to Bethlehem Steel's involvement, the investment would be unwise.<sup>17</sup> The Minister replied two days later that Japanese objections were based on desire of special rights in Fukien. Special rights, he continued, were a violation of the open door.<sup>18</sup> Reinsch reiterated on May 26 that Japan's desire for special rights in Fukien violated the open door, and added that Washington should resist the Japanese attitude. China, he wrote Bryan, looks to the United States as a "protector of its integrity."<sup>19</sup>

The Higginson loan caused some excitement in the United States, especially among former Consortium members. Despite the excitement and Peking's numerous attempts to secure loans from the United States,<sup>20</sup> the Wilson policy continued to restrain loans to China. Nothing would be done unless there was official indorsement.<sup>21</sup> Wilson's idea of democracy cannot be faulted completely. The continuous state of political discord in China made floating bonds in the United States virtually impossible.<sup>22</sup> Even factions within China strongly objected to any loans to the then Peking government of Yuan Shih-k'ai. Sun-Yat-Sen, a leader

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<sup>17</sup>State Papers Relating to China, 893.51/1501-1665, Roll 149, Frame 58.

<sup>18</sup>Ibid. Frame 81.

<sup>19</sup>Ibid. Frame 112.

<sup>20</sup>Ibid. Frame 229.

<sup>21</sup>Ibid. Frame 302.

<sup>22</sup>Ibid. Frame 236.

of the Chinese Southern faction, wrote Wilson asking him not to loan money to the corrupt Northern Government.<sup>23</sup> Japanese objections via her Twenty-One Demands to American loans, old consortium restrictions, and the outbreak of World War I were also decisive considerations at this time.

State Department opinion, and with it Wilson's, began to change with the appointment of Robert Lansing as Secretary of State. The Washington Post, on August 19, 1915, noted:

Although no definite announcements were forthcoming from official circles following conferences the Minister Reinsch had with the President and Secretary of State Lansing, there is strong reason to believe that the administration without placing the United States Government in the position of a guarantor will seek to encourage American financial interests to open their purses to the Chinese Government.<sup>24</sup>

Another headline read: "American dollars may be match for Jap's diplomacy."<sup>25</sup> By the end of 1915 the State Department and Wilson began actively to solicit loans to prop up the Peking Government and hopefully to rehabilitate China.

Washington's attitude change on capital investment in China and World War I trade combined with continued urgings by Reinsch for American investment in China led to the American International Corporation's interest in the Huai River. The United States continued its involvement through its Red Cross. Accordingly, on January 31, 1916, the Chinese

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<sup>23</sup>State Papers Relating to China, 893.51/1501-1665, Roll 149, Frame 272-73

<sup>24</sup>Ibid. Frame 399.

<sup>25</sup>Ibid.

extended the Red Cross option for reclamation of the Huai River Valley. In examining this venture the American International Corp. sought out the possibility of renovating the Grand Canal where it bisected the Huai River. Eventually, a subsidiary of the American International Corp., the Siems-Carey Co., assumed control of the Red Cross option.<sup>26</sup>

The Huai River involvement led to an April 19, 1916 conclusion of a \$6,000,000 loan between China and the American International Corp. The loan agreement allocated the money for improvement of the Grand Canal in Shantung and Chihli.<sup>27</sup> Using the Twenty-One Demands, Japan claimed priority on the Grand Canal loans. The American International Corp. agreed to Japanese cooperation. China, helpless to do otherwise, accepted the joint venture. The Chinese and American Governments were not informed in advance of the International Corporation's decision to cooperate with Japan. Naturally the Chinese resented this, because as Reinsch pointed out, the canal would serve Japanese penetration of Kiangsu Province. Lansing and Wilson disliked investment cooperation on the Huai River project, but the State Department allowed the venture to continue in order to keep American International Corporation interested in Chinese investment.<sup>28</sup> The American International Corporation, unlike the State Department, was primarily concerned with the economic benefits derived from cooperation with Japan.

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<sup>26</sup>Curry, Woodrow Wilson, p. 147.

<sup>27</sup>Ibid.

<sup>28</sup>Beers, Vain Endeavor, pp. 81-82.



Washington's attitude fostered interest in other projects. By March 17, 1916 the Siems-Carey Co. sought out and received an agreement from the Peking Government to build 1,500 miles of railroad. Five lines were proposed. Objections would be overcome by giving rights to build elsewhere. This agreement never got beyond the early stages of negotiation due to counter claims by other countries involved in Chinese railroad development, especially the Entente Powers involved in the first Consortium.<sup>29</sup>

The Wilson administration supported both the canal and railroad negotiations of the Siems-Carey Company. Failure of these projects can be placed with the "general fate of American industrial development in China throughout the period."<sup>30</sup>

Even though it is doubtful that Wilson realized how much government support would be needed to get American capital into China, he did make an overt effort in that direction. President Frank J. Goodnow of John Hopkins University received a letter from Westel Willoughby, constitutional adviser to the Peking Government. Willoughby, who had succeeded Goodnow in China, inquired about placing a one to two hundred million dollar loan on the American market. The loan, if advanced, would go for banking and

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<sup>29</sup>Tien-yi Li, Woodrow Wilson's China Policy, (New York: University of Kansas Press-Twayne Publishers, 1952), pp. 190-92.

<sup>30</sup>Curry, Woodrow Wilson, p. 148.

currency reform and land taxes provided security. Howell Griswold, a John Hopkins' graduate took control of the situation. Griswold wrote Wilson seeking his and State Department approval of the venture. In spite of the eventual sanction of President Wilson, the negotiations proved futile. Wilson's approval was constrained by his belief that it was contrary to administration policy to have the United States Government become a collector of debts.<sup>31</sup>

Despite all the negotiations, by May 30, 1916, only two loans had been actually completed: the Lee, Higginson and Company loan of \$5,000,000 with no specific security and the American International Corporation's \$6,000,000 loan for the improvement of the Grand Canal.<sup>32</sup> Reinsch wrote the State Department noting the futility of small advances which only served to irritate opposition without affording substantial relief. What was needed, he believed, was a substantial reorganization loan.<sup>33</sup> The Chinese money situation remained desperate. Terms of the 1912 consortium restricted borrowing from sources outside the consortium. Further intensifying Chinese needs was inflation caused by the profitable heavy export of silver from the country. This inflation would continue for China until trade improved after the conclusion of World War I.<sup>34</sup>

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<sup>31</sup>Ibid. pp. 149-51.

<sup>32</sup>State Papers Relating to China, 893.51/1501-1665, Roll 149, Frame 692.

<sup>33</sup>Ibid. Frame 638.

<sup>34</sup>Curry, Woodrow Wilson, p. 151.

Japanese economic aggression in China continued to increase. Paul S. Heintzleman, Consul General in Tokyo, on June 13, 1916 cabled Reinsch that the Bank of Chosen had made a loan to the Fengtien Provincial Government, which in essence provided for an agreement making Japanese gold notes legal tender for payment of taxes and other levies by the provincial government.<sup>35</sup> On June 30, Heintzleman again wrote Reinsch noting that the Yokohama Specie Bank and the Bank of Chosen now virtually controlled finances in Manchuria. He also reported that the Japanese yen was rapidly replacing China's mixed currency, and the Japanese gold standard was taking the place of China's fluctuating silver.<sup>36</sup>

Reinsch relayed his and Heintzleman's pleas to Washington. Lansing responded by calling together a meeting of interested banking firms to be held on June 27.<sup>37</sup> Seeking an American policy to follow in view of China's deteriorating financial condition, Lansing wrote Wilson and forwarded Reinsch's numerous reports. Lacking time to read all the correspondence, Wilson asked for and received Lansing's summary of events and a recommended plan of action. This summary mentioned that the Japanese were withholding surplus

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<sup>35</sup>State Papers Relating to China, 893.51/1666-1835, Roll 150, Frames 2-3.

<sup>36</sup>Ibid. Frame 15. The Japanese yen in 1916 equaled approximately fifty cents in American currency.

<sup>37</sup>Ibid. Frame 652.

Chinese Salt Gabelle,<sup>38</sup> thus controlling internal Chinese finances. Recommended action would be to encourage the American bankers who seemed to be "disposed to make a loan to China in association with European financiers," and "carry the European shares until the war is over."<sup>39</sup> British, French and Russian financiers, he noted, were probably willing, if not eager, to have the Americans aid in a group loan to China. If American and European interests joined Japan in a consortium loan it could possibly check Japanese encroachment upon China.

Lansing's summary included recommendations for preventing possible discord among American bankers. Since the possibility of conflict between Lee, Higginson and Company, fiscal agents in China, and the old American Group existed, Lansing felt that the government's action should support the inclusion of Higginson. By including Higginson, hopefully conflict would be averted.<sup>40</sup> Wilson approved Lansing's plan of action.<sup>41</sup> Lansing then cabled Reinsch that American bankers were seriously considering a loan, but cautioned him nothing could be done in the meantime.<sup>42</sup>

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<sup>38</sup>A tax or custom duty on salt used for centuries in China.

<sup>39</sup>State Papers Relating to China, 893.51/2759-3040, Roll 155, Frame 1376.

<sup>40</sup>Ibid.

<sup>41</sup>Ibid.

<sup>42</sup>Ibid. Roll 149, Frame 662.

On June 27, representatives of the Old American Group, Guaranty Trust Company, and Lee, Higginson and Company met to discuss the urgency of Chinese finance. They agreed that the United States could not make a loan to China in view of the Six Power Loan Agreement and this agreement would not expire for another year.<sup>43</sup> Only Willard Straight, representing the American International Corporation, the National City Bank, and the firm of Lee, Higginson wanted to loan without State Department approval. Members of the old American Group refused to make a loan that was not completely backed by the American Government. Conflict did arise between Higginson and the American International Corporation. Both firms refused to join each other in an organized effort. As a solution Gest pressed a request to renew the existing American Group. The State Department, as a matter of policy, could not be a medium of renewing the old group either by transmitting telegrams or by playing favorites.<sup>44</sup>

J. P. Morgan and Company sent a telegram dated the same day as the meeting to their associates in London. Morgan's telegram noted company refusal to loan money to China due to the existing old consortium agreement, and asked if the British would join in an immediate advance not to exceed \$2,000,000. They also wanted to seek out the possibility of renewing active interest in the Six Power Group.<sup>45</sup>

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<sup>43</sup>State Papers Relating to China, 893.51/2759-3040, Roll 149, Frame 662.

<sup>44</sup>Ibid. 893.51/1666-1835, Roll 150, Frame 126.

<sup>45</sup>Ibid. 893.51/1501-1665, Roll 149, Frames 734-35.

Despite the State Department memo stating that the Department could not be a medium, the Morgan telegram emphasized that they had "no desire ~~/to/~~ revive interest in Chinese business, but we are . . . desirous ~~/in/~~ acquiescing" our Government's wishes.<sup>46</sup>

Developments in Washington met with Reinsch's approval, but he begged for an immediate advance to China with the security of the land tax to be offered the Lee, Higginson Company.<sup>47</sup> He advised Higginson that since they had decided on joint action they should be careful to secure "a very capable, respected, honest, and experienced man to represent them in China."<sup>48</sup> Still no funds were forthcoming.

Offering liberal concessions, the Chinese made another request of Lee, Higginson and Company.<sup>49</sup> Higginson replied that the investing public in America was now worried about political troubles in China.<sup>50</sup> Trying to check the situation, Third Assistant Secretary of State Frank L. Polk called another meeting of bankers and invited the old American Group and Lee, Higginson and Company.<sup>51</sup> Polk asked the bankers for a sum of \$4,000,000 or \$5,000,000 to be

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<sup>46</sup>State Papers Relating to China, 893.51/1501-1665.  
Roll 149, Frames 734-35.

<sup>47</sup>Ibid. Frame 693.

<sup>48</sup>Ibid. 893.51/1666-1835, Roll 150, Frame 57.

<sup>49</sup>Ibid. Frame 30.

<sup>50</sup>Ibid. Frame 69.

<sup>51</sup>Ibid. Frame 31.

advanced immediately to the Chinese Government for administrative necessities. The bankers reminded Polk that Wilson believed that consortium loans impaired the political sovereignty of China, and for this reason they had withdrawn from the consortium. The Department, fully advised of all consortium negotiations, gave its consent. The American Group remained bound to their withdrawal agreement until June 18, 1917.<sup>52</sup> When asked what the Department's role would be, Polk replied:

The American Government, . . . while it would be glad to see China receive the financial assistance which it requires, cannot place itself in the position of urging its citizens to engage in any particular enterprise.<sup>53</sup>

The banker's position led Reinsch to write Lansing that the American bankers' indecision was interpreted by the Chinese as weakness or unfriendliness.<sup>54</sup> He suggested that since Lee, Higginson and Company acted as fiscal agent for China and remained outside the Six Power Consortium, they could make an independent loan with no conflict.<sup>55</sup> Higginson replied that they could not issue a loan without "special security" due to the unsettled political situation in China.<sup>56</sup> The Minister replied that if Higginson would

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<sup>52</sup>State Papers Relating to China, 893.51/1666-1835, Roll 150, Frames 20-21.

<sup>53</sup>Ibid. Frame 25.

<sup>54</sup>Ibid. Frame 33.

<sup>55</sup>Ibid. Frame 35.

<sup>56</sup>Ibid. Frame 110.

issue a loan of five million, China would pledge an issue of five year six percent bonds on ninety-two percent of net proceeds secured on the mining tax.<sup>57</sup> Still Lee, Higginson refused. Not understanding why, Reinsch continued to write the Department requesting funds and noting that Japan would soon control Chinese finances unless the United States intervened. With or without international cooperation, American funds were needed to keep China open and preserve her integrity.<sup>58</sup>

In spite of China's dire needs, funds to prop up the central government were not forthcoming in the fall of 1916. The old American Group would only loan on an international basis, and Japan remained the only nation capable of joining the United States. This China opposed. War conditions prevented the Entente Powers from consulting German banks or offering loans. Indeed, the conditions for China securing money from any source appeared dim.

Without doubt Wilson, Reinsch and the State Department would have been pleased to secure funds from American financiers. The open door policy was in jeopardy. The only method of securing future Americans investment rights in China would be to stabilize the wobbly Chinese government and limit Japanese encroachments.

The situation suddenly changed, for in early November the Continental and Commercial Trust of Chicago announced

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<sup>57</sup>State Papers Relating to China, 893.51/1666-1835, Roll 150, Frames 37-41.

<sup>58</sup>Ibid. Frame 133.



that their firm had advanced the Chinese Government \$5,000,000 on a \$25,000,000 loan option. Security would be wine and tobacco taxes. Lansing immediately cabled the Chicago firm that the United States was grateful that private citizens would lend financial assistance to China. The policy of the Department would be "to give (as in the past) all proper diplomatic support and protection to American citizen's legitimate enterprises abroad."<sup>59</sup>

Based on the Six Power Consortium agreement, French and British bankers soon voiced objections to the Chicago firm's loan. France voiced special objections because the Banque de l'Indo-Chine had a prior lien on tobacco and wine taxes.<sup>60</sup> Japan's objections carried inferences that the Chicago Bank had a strong German bias.<sup>61</sup> After the protests, Wilson asked Lansing for advice since he did not personally follow the Chinese loan situation.<sup>62</sup> Lansing felt that the conditions did not warrant protest, but Wilson instructed him to convey to the Chinese Government that any attempt to exclude our bankers from "fair participation in Chinese affairs would meet with very decided resistance from this

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<sup>59</sup>State Papers Relating to China, 893.51/1666-1835, Roll 150, Frame 181.

<sup>60</sup>In January, the Manager of the Banque de l'Indo-Chine, wrote the State Department that "of course we had to object to the loan, but it is a good thing after all," because American activity in China meant greater security for Europe. Ibid. Frames 227-28.

<sup>61</sup>State Papers Relating to China, 893.51/1666-1835, Roll 150, Frame 188. Curry, Woodrow Wilson, p. 153.

<sup>62</sup>Ibid. Frame 111.

government."<sup>63</sup> Lansing notified Peking accordingly.<sup>64</sup>

Reinsch noted the protests and wrote the Department that in view of consortium policy, the activities of the Chicago bank should be criticized because of the international controversy the firm provoked. Personally he had been pleased and felt that in the long run it would be good for China and the United States. The Minister then cautioned that perhaps it would be best for all concerned if the United States rejoined the existing consortium.<sup>65</sup>

By the end of 1916 China expressed desire for full American cooperation in a government reorganization loan,<sup>66</sup> and hoped that with British and French consent American bankers could raise the necessary funds to complete the Hankow-Canton Railway.<sup>67</sup> Prospects of securing American financing looked promising, and if the continuing Japanese objections could be resolved perhaps American capital could play an active role in financing Chinese development. Lansing took the position held by Reinsch, that is, the United States should reenter the consortium with Japan. Wilson concurred

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<sup>63</sup>State Papers Relating to China, 893.51/2759-3040, Roll 155, Frame 1391.

<sup>64</sup>Ibid. 893.51/1666-1835, Roll 150, Frame 197.

<sup>65</sup>Ibid. Frames 249 and 263.

<sup>66</sup>Ibid. Frame 211.

<sup>67</sup>Ibid. Frame 212.

with this position, but qualified his agreement by stating that the American Government could not act as guarantor of the loan.<sup>68</sup>

Throughout his first term Woodrow Wilson consistently advocated the policy of private investment in Chinese loans and enterprises. The President and the State Department did all they could short of government interference to obtain such participation.<sup>69</sup> What Wilson failed to realize was that it would take extensive government encouragement, leadership and diplomatic assurances for American capitalists to invest in China due to her continually unsettled conditions. Investment elsewhere, especially in Europe and Latin America, proved more profitable. Facing the possibility that Japanese financial aggression could destroy or permanently impair the open door in China, Wilson finally accepted the position that an international consortium provided the best method of preserving China's territorial and administrative integrity.

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<sup>68</sup>State Papers Relating to China, 893.51/1666-1835, Roll 150, Frame 306.

<sup>69</sup>Curry, Woodrow Wilson, p. 154.

### CHAPTER III

#### The Policy of Using a Chinese Consortium is Reconsidered

By November of 1916 and his reelection, Woodrow Wilson had altered his position in regard to American investment in China. He had conceded that it was impossible to get sufficient independent loans and accepted the necessity of a cooperative method of financing American interests in China. A change in Japan's central governing authority in October 1916 brought a more conciliatory policy toward the United States because a newly elected ministry of Seiki Terauchi considered cooperation with the United States essential to Japan's developing economy.

Political circles in Japan, believing that the invasion of Shantung and the Twenty-One Demands had aroused great resentment in China, deposed the existing ministry under Shigenobu Okuma. The Terauchi Ministry adopted the policy of "no coercion in China;" instead Japanese influence would be extended through trade, investment, and loans to that country. Removal of Okuma from office, to a degree, was a result of Okuma's strained economic relations with the United States. American trade remained a vital factor in Japan's economy and consequently the new ministry intended to cooperate with the United States whenever possible.

Japan realized that American resources of investment capital could not be ignored.<sup>1</sup>

Not really sure of Japan's new ruling ministry, the State Department under Lansing's cautious guidance proceeded in attempts to control Japanese aggression in China. Efforts to activate American banks that would advance direct loans to China had met with limited success.<sup>2</sup> With Japan's repeated offers of loans to Peking, officials feared that if the Chinese became financially dependent upon Japan, the United States could no longer obtain investment rights in China. Some in the State Department, especially Lansing, favored reviving the old American consortium group and asking it to make a loan to China through the Six Power Consortium. Lansing believed that the revival of the Consortium remained the best recourse for two reasons. First, the amount needed by China exceeded the amount that could be loaned by individual banks, and second the governments of the first consortium had given consortium bankers a monopoly over administration loans to China. Since Japan remained a member of the consortium it would be easier to check Japanese efforts toward independent loans to China by joining Japan in the consortium.<sup>3</sup>

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<sup>1</sup>Foreign Relations, 1917, pp. 119-21; Beers, Vain Endeavor, pp. 79-80.

<sup>2</sup>See Chapter II, page 39, for the particulars of the Chicago Continental and Commercial loan.

<sup>3</sup>State Papers Relating to China, 803.51/1666-1835, Roll 150, Frame 306; Beers, Vain Endeavor, pp. 87-88.

As early as June of 1916 Lansing had been meeting with members of the American group to urge reactivation of American rights granted to American bankers by the consortium. On June 21, 1916 Wilson wrote Lansing that due to the present circumstances it would be best to bring American bankers together to discuss the situation. Lansing replied that since the United States had withdrawn from the consortium it would probably be best if the United States based its reasons for reentry on the historical claims of the consortium.<sup>4</sup> According to Wilson's wishes, Lansing called the bankers together on June 27, 1916. The bankers agreed that the United States could not make a loan to China because they would be in violation of the Six Power Consortium Agreement, and it would not expire until June of 1917.<sup>5</sup> At the meeting, National City Bank of New York, the leading investor in the American International Corporation, and Lee, Higginson and Company of Boston expressed an interest in loaning money to China without State Department backing. J. P. Morgan's firm, however, refused to participate in any venture without State Department guarantees of diplomatic support.<sup>6</sup>

The preliminary efforts to revive the old American group in the summer months of 1916 ended in frustration.

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<sup>4</sup>State Papers Relating to China, 893.51/1666-1835, Roll 155, Frame 1376.

<sup>5</sup>Ibid. Roll 149, Frame 664.

<sup>6</sup>Ibid. Roll 150, Frame 126.

Most of the controversy arose over group membership, acquiring loan securities and China's unstable political conditions.<sup>7</sup> By the time most of these controversies could be resolved, National City Bank and the American International Corporation's interest in loans to China had diminished. After the United States declared war against Germany, Europe became a very profitable arena for investors. Even though the negotiations collapsed, Lansing still continued to believe that the Consortium provided the best instrument of American foreign policy in China.<sup>8</sup>

By January 1917, the State Department under the direction of Robert Lansing stepped up their activities in the Far East. Japanese aggression in China, especially Manchuria, became a primary concern. Anti-Japanese suspicions that had taken root in 1914-15 developed into a diplomatic crisis with the completion of the Continental and Commercial Trust of Chicago's loan to Peking. Japan insisted the loan had political motives and therefore must come through the consortium. She further insisted that no one could exercise German Consortium rights, thereby preventing further loans to China until the termination of World War I.<sup>9</sup>

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<sup>7</sup>Lee, Higginson insisted that they were the official fiscal agents of the Chinese government, and they wanted to loan money on the security of the salt Gabelle, but they refused to join the American International Corporation. On August 21, 1916 Lee, Higginson and Company wrote Reinsch that the investing public was now worried about the political troubles in China and therefore needed special securities. Ibid. Roll 150, Frames 126 and 69.

<sup>8</sup>Beers, Vain Endeavor, p. 88.

<sup>9</sup>State Papers Relating to China, 893.51/1666-1835, Roll 150, Frame 319.

On January 17, 1917, Lansing wrote Wilson: "Japan evidently aims to take advantage of the preoccupation of her allies to obtain control of China." Furthermore, Lansing continued, it is obvious she wants the United States out of China and the Chinese central government to remain weak. In view of these circumstances, the United States must be firm and insist on certain rights in China. Wilson agreed.<sup>10</sup> Activities of the Far Eastern Division of the State Department now centered around this dilemma. Ultimately they hoped to further American commercial and investment privileges in China with the purpose of hopefully limiting Japan's financial activity.

In the meantime, the Terauchi Ministry initiated attempts at acquiring cooperation with American investors in the Huai River and Grand Canal Conservancy project.<sup>11</sup> Both Reinsch and Lansing hoped to keep Japanese money out of this venture. Reinsch wrote the Department on January 2, 1917, should "the Chinese learn that it is proposed to carry the Japanese into Kiangsu on the back of Americans their indignation would be without limit . . . ."<sup>12</sup> Contrary to the American Minister's and the Department's feelings, the American International Corporation refused to finance the project without Japanese cooperation. A slow and qualified

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<sup>10</sup>State Papers Relating to China, 893.51/1666-1835, Roll 150, Frame 319.

<sup>11</sup>For the details of this project see Chapter II, p. 31.

<sup>12</sup>Foreign Relations, 1917, p. 207.



Department endorsement followed. Significantly though, the whole episode must have given Reinsch the idea that if the Japanese could force their way into American investment projects, then why could not the United States do likewise.

To advance his new idea, Reinsch wrote the Department on January 15, 1917 that the Chinese Finance Minister had informed him of a Japanese Banker Syndicate's proposed loan of 10,000,000 yen on condition that all negotiations with Continental and Commercial Trust of Chicago be broken off. The Finance Minister also stated that further loans from the Japanese firm would be forthcoming. The Japanese also indicated that the Syndicate considered asking the New York group to join in future loans.<sup>13</sup> This disturbed Reinsch who remained determined that American investments should be allowed to proceed in China, especially in the provinces of Manchuria and Shantung. He wanted any future loans from the Chicago bank to go for the financing of an industrial bank in China. Reinsch, with unrealistic idealism, also hoped to force American capital into South Manchuria. Accordingly, he dispatched a note to the Japanese Minister on January 3, 1917, stating that if the Japanese intended to cooperate with American finance, the Railway from Chinchow to Aigun should be considered. This line bisected the Trans-Siberian Railway at Tsitsihar. Reinsch chose this line because the American Group claimed certain rights to

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<sup>13</sup>Ibid., p. 116.

constructing the Chinchow-Aigun Line under a preliminary contract of October 6, 1909.<sup>14</sup>

Since Reinsch's actions were not sanctioned by the State Department, Lansing issued a memorandum on January 25, stating that the American Government would welcome cooperation between Japan and American financial firms if it remained free of political designs and met with the approval of the Chinese Government. Lansing also added that the United States recognized Japan's special interests in Manchuria and if the Japanese built railroads there it presented no problems. Although no official declaration existed, the United States Government had tacitly acknowledged these Japanese interests. In attempting to circumvent Reinsch's actions, Lansing carefully distinguished between Manchuria, where the United States conceded special Japanese interest, and Shantung, where no special interests were recognized.<sup>15</sup>

A determined Reinsch could not allow Lansing's statement concerning Japanese special rights in Manchuria to close the issue. On January 30, 1917, he dispatched a strongly worded telegram to Lansing claiming that there had been no recognition of a so-called special position of Japan in Manchuria. He added, if cooperation between the United States and Japan was desired, then why could not it be in

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<sup>14</sup>Ibid., pp. 115-116.

<sup>15</sup>Lansing also noted that the United States had never recognized German claims to special interests in Manchuria. Ibid., p. 117.

Japanese projects rather than American enterprises. Reinsch concluded the telegram by saying if the United States maintained a strong position in Manchuria, the Japanese might agree to cooperate there.<sup>16</sup>

Even though Reinsch's actions were not approved and were later denounced by the Department, he posed an American challenge to Japanese spheres of influence in Manchuria by suggesting joint construction of the Chinchow-Aigun Railway. The incident also served to arouse Japanese anxiety for improving relations with the United States.

While Reinsch attempted to force American capital into Manchuria, the Chicago Continental and Commercial attempted to lend the full amount of their November 1916 loan agreement with the Chinese Government. The Chicago firm's action brought a series of protests from the remaining members of the first consortium. The United States, on the other hand, opposed Japan's attempts to provide funds to the desperate Peking Government. Because of political designs of foreign governments, China's need for industrialization and reorganization capital increased rather than decreased. Accordingly, China appealed to the participants of the first consortium, but the Entente Powers, engaged in World War I, had no available capital.

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<sup>16</sup>Ibid., p. 171.

Increasingly concerned, the Entente bankers sought American participation in the consortium as a means of destroying the near monopoly the Japanese were achieving over Chinese finances.<sup>17</sup> With hopes of American cooperation, the French, Russian, Japanese and British groups met in London on January 30, 1917, to consider proposals for a supplementary issue of the Reorganization Loan.<sup>18</sup> Resolutions were passed requesting the American group to reconsider its withdrawal and to participate in the proposed supplementary loan, or if the existing American group did not want to participate perhaps another group could be designated. The group meeting in London hoped that a 10,000,000 to 20,000,000 pound loan could be equally issued in Japan and the United States. Salt revenues and land taxes were to be used as security. This resolution, however, did not reach J. P. Morgan and the American group until March 2, 1917.<sup>19</sup>

When information of the London meeting reached the State Department, it came through the American Ambassador in Tokyo, George Guthrie. Guthrie wrote Washington on January 27th that the Japanese Minister of Foreign Affairs had informed him that Japan would approve American reentry

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<sup>17</sup>Ibid., pp. 144-45, 154-55; Curry, Woodrow Wilson, p. 188.

<sup>18</sup>The Reorganization Loan had been part of the first consortium negotiations. It was to provide revenue for the reorganization of the central government of China. For a detailed account of the negotiations see Field, Chinese Consortiums, Chap. VI.

<sup>19</sup>Foreign Relations, 1917, p. 128.

into the international financial group if the loans made were only for administrative purposes. He added that the Japanese hoped for cooperation between American and Japanese interests in loans for the industrial development of China. Further, the Japanese government would actively support cooperation in industrial development only if Japan's claims to special rights in Manchuria and Eastern Inner Mongolia remained unaffected.<sup>20</sup>

Four days later Lansing responded to Guthrie, indicating that the State Department would be favorable to participation by American financiers in consortium loans. Reservations of political loans to China were listed, but he gave no indication that the Department would offer diplomatic support to American financiers making the loans.<sup>21</sup> Words of encouragement, however, continued to come from Paul Reinsch. To encourage Department support for American investors in China, he wrote that the financial situation in China, considering the circumstances, remained good, but support would be essential to prevent Japanese control. He added that reports of Chinese trouble and insecurity circulating in the United States were prompted by Japanese agencies and unwarranted. He wrote: efforts "are continuing unabated with evident design of securing American money after Japanese political purposes have been

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<sup>20</sup>Ibid.

<sup>21</sup>Ibid., p. 118.

accomplished."<sup>22</sup> The Department, Reinsch wrote, should press Continental and Commercial of Chicago and Lee, Higginson and Company for independent loans.

A new development occurred on March 15 when Chicago's Continental and Commercial Bank Vice President, John Jay Abbott, sailed for China aboard the Empress of Asia with full powers to conduct loan negotiations.<sup>23</sup> Reinsch found this encouraging, and upon hearing of Abbott's departure, the Chinese Government extended the loan negotiation time until June 15.

While John Jay Abbott worked at completing loans independently, members of the first American Group met to discuss their invitation to reenter the Six Power Group. On March 8, the Wall Street firms, J. P. Morgan and Company, Kuhn, Loeb, and Company, First National Bank of New York, and the National City Bank of New York informed Lansing of the possibility of participation in the proposed Supplementary Reorganization Loan. The group felt that proper administration and collection of the land tax could secure the loan, but they would not enter into negotiations without the expressed approval of the American Government. There "would have to be no doubt either then or at any future time of our Government's sympathetic interest in and

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<sup>22</sup>Ibid., p. 125; State Papers Relating to China, 893.51/1666-1835, Roll 150, Frame 330.

<sup>23</sup>Ibid., pp. 125, 128.

support of the project."<sup>24</sup> Clearly, the Wilson administration now had a decision to make.

Lansing's immediate answer to the American Group informed them that due to

pressure of other important business and certain developments, which may have an important bearing on the matter, the Department has not been able as yet to arrive at a definite conclusion on this subject.<sup>25</sup>

Obviously, Lansing wanted time. The European War, a primary concern, held his attention, and Wilson had yet to agree to an international consortium as a diplomatic means restraining Japanese activities in China.

By the end of May the American Group made another appeal for Department endorsement of American participation in the Reorganization Loan. The First Consortium Agreement, due to terminate on June 18, 1917, could result in complications for the group if participation in the loan did not occur before termination.<sup>26</sup> Lansing's response was to notify the American Group on June 6 that, due to political disturbances and conditions in China, it was impossible to make a "definite statement outlining a policy" in connection with the Supplementary Reorganization Loan. Robert Lansing's reply, for all practical purposes, closed the issue of American bankers loaning money to China through the First Consortium.<sup>27</sup>

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<sup>24</sup>State Papers Relating to China, 893.51/1666-1835, Roll 150, Frames 365-66.

<sup>25</sup>Foreign Relations, 1917, p. 129.

<sup>26</sup>Ibid., pp. 129-130.

<sup>27</sup>State Papers Relating to China, 893.51/1666-1835, Roll 150, Frame 456.

Contrary to Lansing's reply to the American Group, his other correspondence indicated he desired participation by American bankers in an international consortium. He wrote Wilson on June 25, that he did not support American bankers entering the Consortium because it opposed the open door. Apparently, he did not make known to Wilson his personal viewpoint. A Department memorandum written by Lansing reads:

My own view is that the whole question, of American participation in consortium loans being of so much importance to our future relations in the Far East, ought to be considered with little regard to the past.<sup>28</sup>

This Memorandum indicated Lansing wanted to alter the existing China policy, and did not know how to change Wilson's continued insistence that the traditional open door policy and China's territorial and administrative integrity be upheld.

Wilson's position and Lansing's reluctance to press the issue doomed the United States' reentry into the First Consortium. Meanwhile John Jay Abbott's last hour attempt to independently complete the Continental and Commercial's loan agreement also failed. Reinsch's telegram on June 4 noted that Abbott had secured additional security for the loan, but the disorganization of the Chinese Government prevented the negotiations from being signed.<sup>29</sup>

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<sup>28</sup>State Papers Relating to China, 893.51/1666-1835, Roll 150, Frame 595.

<sup>29</sup>Foreign Relations, 1917, p. 130.



China continued to request money,<sup>30</sup> and American bankers continued to deny China loans. By the end of June 1917, indications were that the United States would not be involved in financing China. The American Government's reluctance to rejoin the original consortium resulted from several factors. First, Wilson assumed a posture of non-government support for private banks willing to loan money. Second, private bankers refused to risk their capital without State Department guarantees. Third, the unstable political conditions in China, resulting from failure to consolidate political power in a central authority, discouraged investment. Fourth, the War in Europe not only preempted State Department time, but also provided a lucrative investment arena for surplus capital.

American preparation for war during the spring and summer of 1917 marked a lull in diplomatic activity in China. On September 7, Reinsch informed the State Department that the Chinese Minister of Finance intended to open negotiations with representatives of the Consortium for approximately 200,000,000 Mexican dollars. The loan, if completed, would go for currency reform. Lansing immediately inquired of the American Ambassador to Britain, Walter H. Page, whether or not the British banks would have the support of their government in the proposed loan. Ambassador Page replied that the Foreign Office knew nothing of the Mexican dollar loan, and reminded Lansing the British had, through

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<sup>30</sup>Ibid., pp. 136-37.

Arthur James Balfour, encouraged American participation in loans to China so the Japanese would not dominate. The Foreign Office, Page added, did not encourage loans at this particular time.<sup>31</sup>

Six days after hearing about the rumored Mexican dollar loan, the Chinese Minister made a direct request to the State Department for an Allied loan of \$100,000,000, and was told it might be possible for a \$25,000,000 loan to be issued. Reinsch did not favor a loan outside the consortium. He felt a war loan would be wasted if a definite war purpose were not listed. Reinsch also believed that American money should result in Chinese commitment to equal opportunity for Americans in economic and commercial investment,<sup>32</sup> and this would not happen through an Allied war loan.

In spite of Reinsch's warning, on September 19, Lansing sent a request to the Secretary of the Treasury for a \$25,000,000 loan. The loan, if approved, would be issued in the form of credits. Lansing recommended that a committee of Americans meet with Chinese officials to determine where the credits were to be spent, and whether or not a larger amount would be needed by China.<sup>33</sup>

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<sup>31</sup>Ibid., pp. 138-40; State Papers Relating to China, 893.51/1666-1835, Roll 150, Frames 619-20.

<sup>32</sup>Foreign Relations, 1917, pp. 140-41.

<sup>33</sup>State Papers Relating to China, 893.51/1666-1835, Roll 150, Frames 629-31.

When the State Department sent their inquiry to the Treasury Department, it included questions concerning the possibility of loaning money without security. Once the inquiry had been made of the Treasury, the State Department informed the American Legation in Peking that they were now considering a loan from the American Government instead of a Consortium loan. The Department believed that a Consortium loan would be a Japanese loan since Japan remained the only member of the Consortium capable of a loan without first borrowing from the United States. An independent loan continued to be undesirable. In view of the developing circumstances, Reinsch again urged caution. A war loan to China could become a tool of Japan due to their influence in China's Government.<sup>34</sup>

Oscar T. Crosby of the Treasury Department questioned the State Department's request, and he asked Lansing to supply the reasons for such a loan. Lansing's reply came in the form of a question. Did the War Department consider it possible and advisable for China to cooperate with the Allies against Germany? The War Department's reply from Newton D. Baker stated loans to China were favored for military purposes, because Chinese troops could mean more fighting men could be brought to Europe via the Mediterranean Sea. The Mediterranean remained free of

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<sup>34</sup>State Papers Relating to China, 893.51/1666-1835, Roll 150, Frame 628, and Foreign Relations, 1917, p. 142.

submarines. Baker also cited valuable raw materials and psychological benefits.<sup>35</sup>

Meanwhile, the Japanese, through the Yokohama Specie Bank, took the lead in Consortium negotiations. On October 3 the British Embassy formally requested American participation with Japan in the Consortium. The British request noted that Japan had asked for American cooperation in the Consortium, and the United States should accept because American cooperation would assure both the American and British Governments a voice in currency reform, and whatever other facets of the Chinese economy the Japanese intended to control. Not until October 9 did Reinsch inform the State Department that on August 28 the Yokohama Specie Bank had advanced 10,000,000 yen to the Chinese Government.<sup>36</sup> Japan called the loan the Second Reorganization Loan.

British and French officials, greatly alarmed about the Japanese Reorganization Loan, appealed again for American participation in loans to China. Lansing's reply to both nations noted the United States' concern. The State Department promptly informed Reinsch of its intention to base a claim to participation in the Japanese Reorganization upon the history of the project. The claim to participation in

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<sup>35</sup>State Papers Relating to China, 893.51/1666-1835, Roll 150, Frames 637, 648 and 650.

<sup>36</sup>Foreign Relations, 1917, pp. 145-48.

the loan would be controlled by the State Department and not a banking group.<sup>37</sup>

Concern deepened when word reached Washington on October 26 that the Chinese Bank of Communication had agreed to a 20,000,000 yen loan with three Japanese banks.<sup>38</sup> American refusal to join the Japanese had left the door open for Japanese penetration. By November 1917 the State Department realized that to secure equal investment opportunities for Americans in China and maintain the open door immediate action was necessary. Accordingly, on November 9, Lansing cabled Reinsch that the Department favored American participation in a Consortium, and would probably undertake at once to organize a new American group.<sup>39</sup>

Meanwhile, the Chinese applied for an advance of 2,000,000 pounds on the proposed Supplementary Reorganization Loan.<sup>40</sup> Japan favored the request, while Britain remained reluctant to make an advance,<sup>41</sup> and the French took the occasion to urge the prompt organization of an American group.<sup>42</sup>

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<sup>37</sup>Ibid., p. 149.

<sup>38</sup>Ibid., p. 150. This loan would be the first of many Nishihara loans that were made between September 1917 and September 1918.

<sup>39</sup>Foreign Relations, 1917, p. 153.

<sup>40</sup>See footnote on page 51 for the particulars of this loan.

<sup>41</sup>Foreign Relations, 1917, pp. 153-54; State Papers Relating to China, 893.51/1666-1835, Roll 150, Frame 669.

<sup>42</sup>Foreign Relations, 1917, pp. 154-55.

On November 20, Reinsch reported from Peking that since Britain and France were unable to participate in the Supplementary Reorganization Loan, the advance would be carried by Japan alone. The Chinese Minister of Foreign Affairs, fearful that the Japanese would take advantage of the Chinese Government and restrict her financial independence, appealed to Reinsch.<sup>43</sup> In Washington, the Wilson administration now sought to have the French Group participate in the advance and have the American Group, once organized, carry France's further obligations in the loan. Similar participation was urged by the State Department on the part of the British.<sup>44</sup>

Simultaneous to the loan developments in China between September 6, 1917, and November 2, 1917, Lansing was in negotiations with Viscount Kikujiro Ishii of Japan. Through the resulting Lansing-Ishii Agreement, Lansing wanted to establish a working wartime, diplomatic relationship with Japan. He also wished to secure an agreement with the Japanese that would bolster the open door in the Far East. Lansing conceded to Japan a dominant influence in Manchuria, but in doing so he hoped to secure from Japan a recognition of the commercial open door in Mongolia and Manchuria and the absolute neutralization of the other eighteen Chinese provinces.<sup>45</sup>

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<sup>43</sup>Ibid., p. 155.

<sup>44</sup>Ibid., pp. 156-57.

<sup>45</sup>State Papers Relating to China, 893.51/2193-2493a, Roll 153, Frame 60.

Due to conflicts of the war and disagreements with President Wilson, Lansing did not achieve his goals.<sup>46</sup>

On November 9, Lansing conferred with Wilson about the currency and reorganization loan. Wilson finally agreed to the formation of a new American group to participate in the loan.<sup>47</sup> Wilson apparently felt that more American banks should be involved, and that the old group should not be allowed to monopolize loans to China. Brechinridge Long, Assistant Secretary of the State Department, took charge of notifying the bankers of the change in Wilson's policy. Long notified John Jay Abbott of the Continental and Commercial Bank of Chicago and Charles Hamilton Sabin of the Guaranty Trust Company of New York. Abbott arrived in Washington, D. C. on November 14, and for the next two days he and Long discussed the formation of a new American group to participate in the currency and reorganization loan.<sup>48</sup> A new American group would mean the termination of the American banking group that had participated in the First Chinese Banking Consortium.

On November 21, E. T. Williams, Chief of the Division of Far Eastern Affairs, submitted a memorandum with his

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<sup>46</sup>For a detailed account of the diplomacy surrounding Lansing's intentions, see: Beers, Vain Endeavor, pp. 102-119.

<sup>47</sup>Vivian Lorraine Munson, "American Merchants of Capital in China: The Second Chinese Banking Consortium." (unpublished Ph. D. dissertation, University of Wisconsin, 1968), p. 60.

<sup>48</sup>Ibid., p. 61.

recommendations concerning the subject of loans to China. Lansing forwarded the memorandum to Wilson with a recommendation that it be approved. If not approved, Lansing noted, the United States would practically put "China in Japan's hands." Williams recommended that the United States join with the British, French, and Japanese in a four-power consortium. Even if the British and French could not share equally the financial burden, they could provide diplomatic support. Williams believed that it was better to "carry" Britain and France than to compete against Japan. He noted that the State Department still opposed reentering the old consortium. Therefore, he proposed the organization of a new or second consortium. Williams questioned whether the old American group should be retained or a new group should be formed.<sup>49</sup> There was no need for Williams' last question, Wilson had already made the decision that there would be a new American group.

After due consideration, on December 10 Secretary of the Treasury William McAdoo replied to Lansing's loan request.<sup>50</sup> McAdoo said he left the political decision to the President and Secretary of State. The Treasury Department realized the necessity of assisting China, but if a loan were to be made, more facts would be needed. McAdoo recommended

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<sup>49</sup>State Papers Relating to China, 893.51/1836-1999, Roll 151, Frames 34-35.

<sup>50</sup>See page 57 for Lansing's request to the Treasury Department.



sending a capable man to China for a study and report. He cautioned Lansing that if the New York bankers were allowed to loan money, it should be on their own terms. McAdoo cautiously added that no "green light" should be given to John Jay Abbott and his Chicago firm.<sup>51</sup> Apparently McAdoo lacked Brechinridge Long's trust in Abbott.

On December 15, Lansing submitted to McAdoo details of the Chinese loan as they were reported to John V. A. MacMurray, First Secretary of the American Legation in Peking. MacMurray placed the loan amount needed at 20,000,000 pounds, and noted ample security in surplus custom revenues, surplus salt Gabelle and smelting profits. He placed priority of money use on unifying the Chinese monetary system. Lansing added three more statements to MacMurray's memorandum. First, the urgency of the issue did not allow time to send someone to China to study the problem. Second, if the United States did not act, the Japanese would. Third, if the Treasury Department approved a loan, the State Department would submit a list of banks recommended for participation.<sup>52</sup>

McAdoo answered Lansing:

in view of the fact that this financing is to be permitted on diplomatic rather than financial grounds, I feel that our Treasury Department is in a better position to judge, . . .<sup>53</sup>

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<sup>51</sup>State Papers Relating to China, 893.51/1836-1999, Roll 151, Frames 34-5.

<sup>52</sup>Ibid., Frames 48-51.

<sup>53</sup>Ibid., Frame 85.

just how the matter should be handled. It was obvious to McAdoo that the State Department's interest in China remained diplomatic rather than constituting a sincere effort to solve China's currency problems.

Due to the financial burdens of the war, the British Government refused to allow British participation in the Chinese loan. On January 1, 1918, the United States Ambassador, Page, forwarded to the State Department the British suggestion that the new American group carry Britain's one-third of the proposed loan in addition to America's share of one-third. Foreign Office officials wanted the group to abide by the original consortium agreement of June 18, 1912. Since the Japanese expressed a willingness to allow American participation, the American group should not encounter any opposition to reenter the old consortium. French officials took the same position as the British.<sup>54</sup> The United States, however, had already decided upon the desirability of a new consortium.

While the British, the French and the American State Department were trying to consolidate their efforts concerning the consortium, Japan signed another loan advance of 10,000,000 yen for currency reform.<sup>55</sup> The Japanese advance heightened British and American concern, and convinced them that Japan intended to gain a financial stranglehold on China.

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<sup>54</sup>Foreign Relations, 1918, pp. 139-40.

<sup>55</sup>State Papers Relating to China, 893.51/1836-1999, Roll 151, Frames 242-47.

It was the Treasury Department that decided the immediate fate of loans to China by either the United States Treasury or American bankers. Lansing's September 19, 1917 request for a United States Government loan to China was denied, despite the Department's information and encouragement. McAdoo informed Lansing that legally the United States Government had no authority to make such a loan. He also pointed out that it was "inadvisable and probably in any event impossible, for American banks to participate in Chinese loans at the present." McAdoo recommended postponing the decision on the loan. If, however, an immediate decision was required, the Treasury Department would oppose the transaction.<sup>56</sup>

Not willing to accept McAdoo's position, Lansing on February 11, wrote Wilson of the need to extend a \$50,000,000 war loan to China in the form of credits to the United States Government. Lansing centered an unsubstantiated argument for a war loan around his belief that if the United States provided sufficient capital to enable the British and French contractors working in China to complete their work, these contractors would persuade their respective governments to give up any claims they might have to superior investment rights in China.

To further his unsubstantiated argument for a war loan, Lansing added that the possible use of Chinese coolies

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<sup>56</sup>Foreign Relations, 1918, pp. 140-41.

could provide a cheap replacement for American troops. He noted that perhaps the time was bad for a war loan in view of the fact it coincided with the floatation of a Liberty Bond. Lansing cautiously concluded that funds, in addition to the war loan, needed for Chinese currency reform would have to wait until the formation of an international banking concern and financial cooperation with Japan.<sup>57</sup> Clearly, the Secretary of State hoped the President would change his position and encourage American capital in China.

Wilson apparently chose to ignore Lansing's plea. At any rate, there is no correspondence to indicate Presidential interest, and for all practical purposes the proposed government loan to China was dropped. A limited amount of correspondence concerning loans to China exchanged hands over the next few months. On April 8, 1918, Reinsch resumed correspondence by reminding the State Department that the expiration date on the currency loan option was April 18. How "far has the formation of an American Group proceeded?" he asked. Lansing replied that a "final decision in the currency loan matter has been deferred pending developments in China and here." He added that he doubted a new group would be organized in the near future. Lansing did ask Reinsch to see if the Chinese Government would grant an extension of the option. The Chinese did extend the loan option for six months.<sup>58</sup>

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<sup>57</sup>State Papers Relating to China, 893.51/1836-1999, Roll 151, Frames 302, 307-08.

<sup>58</sup>Ibid., Frames 286, 287, 289.

Informed on May 7, 1918 of the Fengtien Loan Agreement,<sup>59</sup> another Nishihara Loan, Lansing asked Reinsch for details. Reinsch's reply indicated the loan of 30,000,000 yen was for the reorganization of China's telegraphic system. Reinsch noted the Japanese were lending to both the Northern and Southern factions, and many loans were being made to the local Chinese provinces. Peking was only one recipient. The Minister felt the loans were prolonging the Chinese conflict, and questioned their legality. Would the State Department protest the new loans, he asked?<sup>60</sup>

Lansing sent another request for a government loan to McAdoo, but the Treasury Department still did not favor a Treasury loan. McAdoo's attitude, however, had changed somewhat with the more recent developments and increased Japanese loans. He wrote Lansing that if the issue was financial, the Treasury Department would not consider making a loan, but if the issue was of great diplomatic importance he would "be glad to confer." Lansing considered it important enough, and asked the Treasury to confer with Brechinridge Long.<sup>61</sup>

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<sup>59</sup>This loan agreement was for the development of Fengtien's telegraphic system. In Fengtien province, one of the three provinces comprising Manchuria, are located the important ports of Dairen and Port Arthur.

<sup>60</sup>State Papers Relating to China, 893.51/1836-1999, Roll 151, Frames 547-50, 313, 315.

<sup>61</sup>Ibid., Frame 324.

On June 19, a meeting was held concerning loans to China. In attendance were Brechinridge Long, State Department; Russell C. Leffingwell, Assistant Secretary of the Treasury; Albert Strauss, War Trade Board; John Jay Abbott, Continental and Commercial Trust of Chicago; and several members of the Treasury Department. They discussed the feasibility of government and private enterprise loans and the problem of loan security.<sup>62</sup> Reinsch had warned officials in Washington that the Japanese controlled most of the Chinese revenue sources. The only two major sources remaining were wine and tobacco, and they were controlled by the British-American Tobacco Company. Realizing the gravity of the situation, Lansing wrote Reinsch he was progressing in the organization of an American group.<sup>63</sup>

Lansing also renewed his attempt to change Wilson's position on consortium loans to China. To persuade Wilson of the need for cooperative finance in China, Lansing signed and sent a detailed memorandum to President Wilson on June 20, 1918. The situation in China, Lansing explained, warranted American capital, whether it was from the United States Government or private firms. The Treasury Department recommended private capital, and therefore all interested banks should be asked to form an American group. Lansing noted it would be necessary for the American bankers

<sup>62</sup>Munson, "Merchants of Capital," p. 66-7.

<sup>63</sup>State Papers Relating to China, 893.51/1836-1999,  
Roll 151, Frames 342-44.

to finance British and French interests until they were economically able to do so.

China, Lansing wrote Wilson, expected American financial assistance. If the United States did not act now, the Japanese would make the needed loans independently. As a solution to the dilemma, Lansing then proposed the formation of an American banking group interested in loans to the Orient. Once formed, the group could work out the details of the loan. Lansing cautioned it "would be necessary to assure them of Government support on this project."<sup>64</sup> He formally requested Wilson's approval to form an American banking group that would be assured of government support and diplomatic backing.

Wilson's approval, with reservations, came one day later.

I approve of the course proposed in this letter. I take it for granted that everything necessary would will be done to protect the Chinese Government against such unconscionable arrangements as were contemplated by the former consortium, because I am afraid it is not less but rather more likely that the Chinese Government would permit unfair advantage to be taken of it at the present time of stress than formerly.<sup>65</sup>

At last, Lansing had his "green light" and he instructed Brechinridge Long to so advise the interested bankers and

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<sup>64</sup> State Papers Relating to China, 893.51/2494-2758, Roll 154, Frames 85-91; Foreign Relations, 1918, pp. 169-71.

<sup>65</sup> State Papers Relating to China, 893.51/2494-2758, Roll 154, Frame 83.

begin negotiations<sup>66</sup> while the Department informed McAdoo of Wilson's approval.<sup>67</sup>

A reluctant Wilson had been persuaded. The continued flow of Japanese capital into China had convinced Lansing that if the open door and the economic interests of the United States and Europe were to be protected, American capital would have to go to China. In order to persuade American bankers to assist in this endeavor, the United States Government would have to provide political support and diplomatic backing. Investment in countries with unstable political conditions required governmental guarantees of protection. Military opposition to Japanese aggression in China was unthinkable, but action of some nature was necessary. The course the State Department would follow, an attempt at international financial cooperation, in essence returned American foreign policy in China to the "dollar diplomacy" of the Taft administration. America's return, to dollar diplomacy in 1918, unlike 1909, was not concerned exclusively about United States investment. It was also concerned about European investment. The success of the effort would be closely tied to the economic and political conditions of post World War I times.

There can be no doubt that the application of the open door policy during the years 1899 to 1918 had altered

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<sup>66</sup>State Papers Relating to China, 893.51/2494-2758, Roll 154, Frame 82.

<sup>67</sup>Ibid. Frame 92.



the original concept and intentions of John Hay. Hay's policy evolved from one which originally intended to protect equal commercial opportunity to a respect for the territorial and administrative integrity. By 1918 State Department application of the policy also included equal investment opportunities for the United States and Europe. As historian Raymond Esthus points out, the concept of the open door policy changed.

## CHAPTER IV

### The Formation of the Second Chinese Banking Consortium

Once the State Department received Wilson's approval, plans for the establishment of a new banking group proceeded rapidly. Assistant Secretary of State Brechinridge Long, working under Lansing's close supervision, organized an American group with a larger membership than the old group. The State Department worked at pooling the numerous project options granted American financiers by the Chinese Government. The Department also wanted to include industrial and railway loans and as a result broaden the scope of consortium activities.

The State Department and American bankers reached agreement for the formation of a new group on June 26, 1918. The bankers asked for and received assurances that the American public would be notified that the loans were being made at the request of the American Government.<sup>1</sup> Attending the meeting to form the new group were: J. P. Morgan; J. P. Morgan and Company; Mortimer L. Schiff, Kuhn, Loeb, and Company; Frank A. Vanderlip, National City Bank of New York; George F. Sabin, Jr., the First National of New York; E. R. Tinker, Chase National Bank; John Jay Abbott, Continental

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<sup>1</sup>State Papers Relating to China, 893.51/2193-2493, Roll 153, Frames 951-54.

and Commercial Trust and Savings Bank of Chicago; and Charles H. Sabin, Guaranty Trust Company of New York.<sup>2</sup>

By July 8, the group agreed to form a new international consortium, a four power group, including France, Great Britain, Japan and the United States. At Lansing's insistence, the American bankers agreed to relinquish any loan options they held with the Chinese Government. Both the bankers and the Department agreed that all loans by any of the four members be considered four power business.<sup>3</sup> Naturally, Japan would find fault with the latter stipulation and as a result postpone the completion of an agreement. Negotiations, however, were delayed at first by Great Britain, not Japan.

On July 10, Lansing notified London, Paris, Tokyo and Peking of the Department's decision to take up the matter of an international consortium.<sup>4</sup> A July 20 memorandum from the British Ambassador, The Earl of Reading, to the Department inquired whether the scope of the new consortium's financial activities included industrial and railway loans as well as administrative loans. The British noted that industrial loans had been excluded from the existing consortium and the British would not agree to prohibiting independent

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<sup>2</sup>State Papers Relating to China, 893.51/1836-1999, Roll 151, Frame 412. Lansing invited Lee, Higginson and Company of Boston to attend the June 26 meeting, but they did not come. The banking firm did, however, sign the agreement on July 8, that formalized the new Group.

<sup>3</sup>Foreign Relations, 1918, p. 173.

<sup>4</sup>State Papers Relating to China, 893.51/1836-1999, Roll 151, Frame 435.

loans for industrial purposes.<sup>5</sup> Continued correspondence from the State Department indicated that the United States did intend to broaden the scope of the consortium to include industrial loans.<sup>6</sup> This position prompted the British Secretary of State for Foreign Affairs, Arthur James Balfour, to issue a policy statement. In a memorandum that Walter H. Page forwarded to Lansing, Balfour listed the Foreign Office's objections to the United States' outline of policy for the new consortium.

Balfour's first objection noted that the only administrative loan which fell into the scope of the existing consortium would be the currency reform option. The currency loan had, with the consent of British and French groups, been incorporated into the Supplementary Reorganization Loan. If the United States cared to participate in this loan with the British, French and Japanese groups, they could join and enjoy the advantages that the option held. If, however, the American Government intended to invite the British, French, and Japanese to relinquish their existing industrial and railway option rights to the new consortium, the British would object and a further study would be needed.<sup>7</sup>

The second major British objection centered around the United States' position that they would object to any terms or conditions of a loan which sought to impair the

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<sup>5</sup>Foreign Relations, 1918, pp. 179-80.

<sup>6</sup>Ibid. pp. 184-86.

<sup>7</sup>Ibid. p. 190.

political control of China or lessen the sovereign rights of that Republic.<sup>8</sup> Britain could not agree to this if it meant that no foreign control could be used to collect revenues earmarked for securities of the loan. Thirdly, Britain objected to America's position that no foreign adviser be used to supervise the implementation of currency reforms. If the appointment of a foreign adviser infringed upon China's sovereignty the British could not join with the new consortium. A final issue raised dealt with whether or not the United States would allow Belgian banks to join once the war had terminated.<sup>9</sup>

The three latter British objections proved to be no problem.<sup>10</sup> Broadening the consortium to include industrial and railway loans did. When Lansing and others in the State Department conceived the idea of a new consortium, they did so with the intention that it should absorb the essentially political loans made recently by Japan under the guise of industrial loans.<sup>11</sup> Lansing intended to force the Japanese to surrender the special loan concessions they had acquired from China. The major principle of the new consortium would be surrendered if industrial and railway loans were excluded, and this the United States refused to do.

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<sup>8</sup>See Chapter III, page 70. It is to be noted that Wilson gave his approval to the new consortium with the reservation that the new group would not "permit unfair advantage to be taken" of the Chinese Government.

<sup>9</sup>Foreign Relations, 1918, p. 190.

<sup>10</sup>Ibid. pp. 194-96.

<sup>11</sup>Ibid. p. 188.

To defend the Department's position, Lansing wrote the Foreign Office that the United States did not object to the exclusion of industrial loans from the First Consortium because the American Group had withdrawn from active participation by September 26, 1913, and could not object. Now, Lansing insisted, a new group was to be formed, and therefore the question might be reconsidered.<sup>12</sup> Britain caustically reminded the State Department on July 29 that it would be dangerous to consider the new consortium "an established fact" until the planned meeting of the four powers.<sup>13</sup> The British also warned that it would be premature to dissolve the old consortium until it was certain the Chinese Government would not raise objection to the transfer of the existing rights in the Reorganization and Currency Loan Agreement to the new international group.<sup>14</sup> Clearly international cooperation would not be without discord. Consortium negotiations remained at a standstill when the Armistice concluded the war in November 1918.

Records indicate the State Department preferred a rapidly negotiated agreement with the three other members, but did not press the issue with Great Britain. Apparently

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<sup>12</sup>Foreign Relations, 1918, p. 196.

<sup>13</sup>State Papers Relating to China, 893.51/2759-3040, Roll 155, Frame 956.

<sup>14</sup>Memo by Charles S. Addis to Walter H. Page, August 14, 1918. F O 405/127. Great Britain, Public Record Office, Correspondence Respecting the New Financial Consortium. Hereafter cited by the Foreign Office number.

the Department reasoned that the British attitude was dictated by the need to placate her ally, Japan.<sup>15</sup> Lansing believed that once the war ended, Britain would accept the American view. Previous correspondence with the Foreign Office indicated London intended to have the United States assist them in resisting Japanese aggression. The Foreign Office had already invited American capital into Britain's spheres of influence, and asked the United States to take the lead in reviving an international consortium.<sup>16</sup>

Even though consortium plans remained at a deadlock during the summer and fall of 1918, Japanese loans to China did not. On July 7, the Japanese issued the Telegraph Loan. This loan held as security all property and income of China's telegraph lines.<sup>17</sup> On July 13, the Japanese Industrial Development Bank gained railway concessions for a railway from Kirin to Hueining. John V. A. MacMurray notified Lansing on July 27, of the completion of the Kirin and Heilungkiang Forestry and Mines Loan. For 30,000,000 yen the Chinese Government gave securities to all the forests and gold mines of the two provinces, without the individual provinces' consent.<sup>18</sup> The Japanese tried in various ways to disguise their loans. The forestry and mines loan came

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<sup>15</sup>Foreign Relations, 1918, p. 188.

<sup>16</sup>See Chapter III, pp. 56, 57 and 65.

<sup>17</sup>State Papers Relating to China, 893.51/2000-2192, Roll 152, Frame 219.

<sup>18</sup>Foreign Relations, 1918, pp. 162-63. State Papers Relating to China, Roll 152, Frame 216.

under the guise of the Chung Hua Trading Company making what the Japanese called a "commercial venture" in China.<sup>19</sup>

Japan seemed anxious to lend, and the financially desperate Peking Government yielded not only valuable securities, but also political control. By September 20, MacMurray warned the Department of the Peking Government's unreliability,<sup>20</sup> and of the rumored loan with the Industrial Bank of Japan for the construction and extension of the Shantung Railway. MacMurray believed that Japan meant to obtain in substance the demands of 1915, and if the United States wanted to exert influence over the situation, it would be best to pressure Japan.<sup>21</sup> Considering the position taken by the State Department, the situation warranted attention.

Lansing wrote the American Legation in Peking on September 28, and asked for a full and prompt report by mail concerning the external and internal loans of both the central and provincial governments. Time, Lansing wrote, was valuable, and if necessary the Legation should engage expert assistance in obtaining this information.<sup>22</sup>

MacMurray replied that Dr. Charles Gattrell of the American International Corporation was the best expert available and

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<sup>19</sup>State Papers Relating to China, 893.51/2000-2192, Roll 152, Frame 45.

<sup>20</sup>Ibid. Roll 153, Frame 67.

<sup>21</sup>Ibid. Roll 152, Frames 65 and 67.

<sup>22</sup>Ibid. Roll 153, Frame 105.



he had engaged his services. MacMurray also urged that there be no delay in American loans to China.<sup>23</sup>

In response to the situation, Lansing informed J. P. Morgan of the American Group that the British Government suggested an immediate advance of 5,000,000 pounds to the Chinese Central Government for relief of the immediate financial crisis. The British asked if the American Group would be prepared to participate following the terms of the First Consortium as far as possible. Morgan believed it would be possible if negotiated in New York and favorable security could be allocated.<sup>24</sup> Discussion of Britain's suggested 5,000,000 pound loan would be discontinued until October 1919. Reports continued to come in on the political disorder in China and the increasing Japanese influence over the Peking Government and their Minister of Finance, Tsao Ju-lin.

United States financial assistance to China did not materialize in 1918 and the year closed with J. P. Morgan's announcement that he would travel to Britain and France in early 1919, to urge his foreign colleagues to support the American Consortium. Reinsch's plea in December for immediate action to alleviate China's financial distress met with the Department's public position; that is, the United

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<sup>23</sup>State Papers Relating to China, 893.51/2193-2493, Roll 153, Frames 98 and 103-04.

<sup>24</sup>Ibid. Role 154, Frames 111-12.

States remained ready to act, but could not proceed until the Governments of France, Britain and Japan agreed to the new consortium.<sup>25</sup>

The year 1919 brought renewed hopes for the success of the new consortium and the United States' China policy. Japan announced she would withdraw from Siberia, and if Japan would cooperate, Britain would surely go along too. France, the Department believed, would acquiesce easily. As Lansing left for the Peace Conference in December 1918, he hoped to use the Conference "to put the finishing touches on his scheme to bring Japan into line with American Policy."<sup>26</sup> Lansing, however, achieved much less in Paris than he anticipated.

While Lansing attended the Paris Peace Conference, Acting Secretary of State Frank L. Polk took control of much of the Department's Far Eastern correspondence. On January 3, 1919, the American Group informed Polk that they were granting a Department request, and they were preparing to send John Jay Abbott to Japan as a representative of the American Group.<sup>27</sup> Once in Japan, Abbott's activities produced favorable progress. Through MacMurray, on February 16, Abbott informed Polk that as a result of conferences with the Japanese Minister of Finance and the Acting Minister of

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<sup>25</sup>Foreign Relations, 1918, pp. 197-99.

<sup>26</sup>Beers, Vain Endeavor, pp. 147-48.

<sup>27</sup>Foreign Relations, 1919, Vol. I, p. 421.

Foreign Affairs, he could announce Japan's agreement with the United States' plan for the organization of the consortium. Abbott noted that the Japanese agreed to both industrial and administrative loans and the surrender of options held by Japan.<sup>28</sup> While this announcement would cause misunderstanding when the United States sought a final settlement of the consortium concerning Japan's spheres, for the meantime it offered encouragement.

Another American Group representative, J. P. Morgan, met with more conclusive results in Great Britain. Ambassador Davis notified the Department on February 25, the British would no longer offer objections to the United States' conditions for the formation of the new consortium.<sup>29</sup> It appeared that a settlement could be reached and a new consortium formed.

On March 29, the Department telegraphed the Embassies in Tokyo, Paris and London that, due to developing favorable circumstances, they recommended a preliminary meeting of the interested bankers be held by May 15.<sup>30</sup>

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<sup>28</sup>Ibid. p. 423.

<sup>29</sup>Telegram of John W. Davis to the Earl of Curzon. F O 371/6678. With the lifting of their objections to the conditions established by the United States, Britain requested that a Belgian group be added to the consortium. Britain had made an agreement with the Belgian Government to admit their group in 1917. The United States, however, informed the British Embassy that the admission of a fifth member would only slow negotiations, and it would be best to wait until a formal agreement was signed before admitting the Belgians. Foreign Relations, 1919, Vol. I, pp. 428-29.

<sup>30</sup>Foreign Relations, 1919, Vol. I, pp. 430-31.

After considerable correspondence, a meeting was scheduled in Paris where a large number of interested parties were already attending the Peace Conference. Hugh D. Marshall was sent to represent the State Department since he had been studying the Consortium for several months. At the conference, held May 12, the bankers agreed to joint investment in China.<sup>31</sup>

Encouraged by the success of the bankers' conference, Polk notified Reinsch that he could tell the Chinese Government orally that any negotiations for a large loan should be conducted in America or Europe rather than with representatives in China. Brechinridge Long added a note of caution by suggesting that word not be sent to representatives and engineers to proceed until the bankers received full approval from their respective governments.<sup>32</sup> Long's advice proved most realistic. Objections from respective governments did arise. Disapproval of the agreement came first from France, and second, and more seriously, from Japan. The optimism of May dwindled into seventeen months of discouraging debate before an agreement was finally signed.

The French objections centered around a member government's right to choose one private bank and support it while other banks were excluded. If all banks interested and doing business in China were not allowed membership, the French Government would be creating a monopoly. The

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<sup>31</sup>Ibid. pp. 435-36.

<sup>32</sup>Ibid. pp. 436-38.

British agreed with France and also revived the old question of allowing industrial loans within the consortium. The French then offered their own formula to clarify what role they thought the government should plan in supporting private bankers.<sup>33</sup>

Attempting to reassure the French, the State Department informed them that it did not "contemplate the entire elimination of industrial activities of private persons or of financial or industrial corporations." The United States Government would only support public loans to China's Central Government and provinces that had Chinese Provincial Government guarantees.<sup>34</sup>

The United States then offered a redefinition of the scope and nature of the consortium. The second definition went beyond what the bankers had in mind. It read: "The government of each of the four participating Groups undertake to give their complete support to their respective national group members of the Consortium. . . ." <sup>35</sup> The Department thereby advocated complete support of their own national group, and not the consortium collectively.

The French, British, and Japanese agreed to adopt the American definition.<sup>36</sup> The disagreement with the French

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<sup>33</sup>Foreign Relations, 1919, Vol. I, pp. 443-45.

<sup>34</sup>Ibid. pp. 447-49.

<sup>35</sup>Ibid. pp. 461-63.

<sup>36</sup>Ibid. pp. 466-70 and 492-93.

and British caused considerable alarm in the State Department because the old consortium expired on June 18, 1919. If the old consortium expired before a new agreement could be reached, officials feared all projects of the old consortium would be lost. Peking honored a request by the British Government, and extended the old agreement for one year or until the new consortium began operation.<sup>37</sup>

Objections from the Japanese Government to the May 15 Agreement proved more formidable. The Japanese insisted that Eastern Mongolia and Manchuria be excluded from the scope of the new consortium. The other three members would not accept this position, and a lengthy debate ensued. On June 13, 1919, a leading Japanese banker, Masunosuke Odagiri, who represented the Japanese Group, wrote Thomas Lamont, chairman of the American Group. Odagiri insisted that principals in Japan were instructed

that all the rights and options held by Japan in the regions of Manchuria and Mongolia, where Japan has special interests, should be excluded from the arrangements for pooling provided for in the proposed agreement.

Such instruction, he pointed out, was derived from Japan's special relations geographically and historically in these regions. These relations, he pointed out, had been recognized by the German, British, United States, French and Russian Governments on many occasions.<sup>38</sup>

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<sup>37</sup>Ibid. pp. 450-51.

<sup>38</sup>Letter of Mr. M. Odagiri to Thomas Lamont. June 18, 1919. China Collection. TS China C 762. Hoover Institute on War, Peace and Revolution.

Lamont denied Japanese claims in a letter to Odagiri dated June 23:

Mongolia and Manchuria are important parts of China, and any attempt to exclude them from the scope of the Consortium must be inadmissible. The Special Interests you allude to have, in our opinion, never had to do with economic matters.<sup>39</sup>

Lamont then informed the State Department that he did not believe the private Japanese bankers agreed with their government, but were obliged to support their government publicly. Lamont believed if the United States with France and Britain took a firm negative stand, the Japanese might recant their opposing position.<sup>40</sup> Japan, however, continued to interpret the loosely worded Lansing-Ishii Agreement as a recognition of her exclusive special rights in Manchuria and Mongolia.

The American Government then proposed concluding a consortium agreement without the Japanese, but the American bankers refused to accept this proposal because it meant the American banks would have to carry all the loans by themselves. British and French banks were economically unable to carry their share, and had agreed to the new consortium only if the United States and Japan temporarily financed their portion of the loans.<sup>41</sup>

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<sup>39</sup>Ibid.

<sup>40</sup>Foreign Relations, 1919, Vol. I, pp. 451-53.

<sup>41</sup>Ibid. 453-55.

Erechinridge Long, now in charge of the Consortium for the State Department, wanted to persuade the bankers to proceed with the consortium. While American bankers met on June 26, and concluded that every effort should be made to bring Japan into the consortium, Long contemplated what the Department should do about Japanese claims. After persuasion from Long and John Jay Abbott, recently back from China, the American Group resolved to proceed with the consortium and hoped that the Japanese would concede and join after all.<sup>42</sup>

Complicating the situation further were conflicting reports on Japan's consortium position. Lamont, having had conversations with Odagiri in Paris, insisted Odagiri would do all in his power to persuade the Japanese Government to abandon its claims to Eastern Mongolia and Manchuria. Hugh D. Marshall, the Department's representative in Paris, reported a different point of view. In a July 1 communication he expressed the fear that the Japanese were not favorable to the organization of the consortium and would do all they could to delay or prevent its completion.<sup>43</sup>

While officials in Paris, such as Marshall, Lansing, and Lamont, continued to wrangle over Japan's role in the peace negotiations and Shantung,<sup>44</sup> Long prepared a memorandum

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<sup>42</sup>Ibid. p. 455.

<sup>43</sup>State Papers Relating to China, 893.51/2494-2758, Roll 154, Frames 123-27.

<sup>44</sup>One of the United States' most difficult problems with Japan at the Paris Peace Conference centered around Japan's claims to Germany's sphere, Shantung. To Lansing's disappointment, Wilson finally conceded to Japan's claims to keep his hopes for the League of Nations with Japan as a member. Beers, Vain Endeavor, pp. 160-61.



for the Japanese Government. Before Long send the strongly worded message, he submitted it to President Wilson, Lansing, and Lamont for their approval. In the memorandum, Long rejected all Japanese reservations and intimated the British, French and the American Groups intended to proceed in organizing the consortium without Japan. He added a new feature and suggested the admission of Belgium and Russia to the consortium. Long sent the memorandum to Japan on July 30.<sup>45</sup>

After reading Long's memorandum the British and French made it clear to the State Department they did not favor a consortium without the Japanese bankers. Both governments sent notes to Japan, and expressed opposition to Japan's reservations, but the British did not indicate they wanted to proceed with the consortium without Japan. The French considered Japan's reservations a political question that could not be decided by banking groups.<sup>46</sup> Japan's replies to France and Britain on September 1 reaffirmed its claims to special rights and interests in Eastern Mongolia and Manchuria. Britain would again try to persuade the Japanese in November, and it appeared the Japanese position had weakened a little. Japan now indicated its reservations did not affect Manchuria and Mongolia as a whole, but only certain districts of the provinces.<sup>47</sup>

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<sup>45</sup>Foreign Relations, 1919, Vol. I, pp. 470-73.

<sup>46</sup>Memo of Foreign Office to the Japanese Ambassador, August 11, 1919, F O 371/6678. Foreign Relations, 1919, Vol. I, pp. 478-79.

<sup>47</sup>Ibid. September 1, 1919. F O 371/6678.

In view of Japan's continued reservations, Long attempted to organize the consortium without that country. He sent a memorandum to the Chinese Government on September 1, requesting that Peking agree to negotiate future loans only with the consortium. The Chinese replied that China intended to apply for a loan from the old consortium and if that failed, the Chinese Government desired to make the American Group of the new consortium their exclusive agent for all government loans. If, however, the Chinese warned, no financial aid came from America, then China would be compelled to go to Japan. Reinsch explained China's actions by saying the Chinese could not commit themselves to the new consortium without arousing the hostility of Japan. This would be Reinsch's last advice as Minister to China. He stayed on for a while in China, but he resigned effective September 15.<sup>48</sup> The United States' attempt to "squeeze" Japan out had little effect on Tokyo. If Japan feared being left out of the new consortium, as the State Department hoped, they did not let their fear be known.

To complicate the situation further, in August the Chinese made an attempt to revive the Continental and Commercial Trust and Savings Bank's option to loan money to China. The Chinese Prime Minister and Minister of Finance sent Hsü En-juan to the United States on a mission to enlist the aid of the consortium. If no offers for loans were made there, the desperate Chinese Government would welcome an

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<sup>48</sup>Foreign Relations, 1919, Vol. I, pp. 480-81.

immediate loan from any source.<sup>49</sup> After an unsuccessful attempt to acquire money from the American Government or the American Group, Hsu went to the Chicago firm. Under Abbott's guidance, Hsu signed a contract on October 11, for a \$5,500,000 loan. They renegotiated an enlarged loan on October 20, for \$30,000,000. Unused portions of the proceeds from the tobacco and wine taxes were to serve as security for the loan. If this security proved insufficient, then surplus salt Gabelle would be assigned to secure the loan. All three security options had prior liens on them.<sup>50</sup>

On October 21, Lansing gave his personal assurance to John Jay Abbott that the United States Government looked favorably on their proposed loan and that the Government would take the necessary steps to assure equitable contracts.<sup>51</sup> Then Lansing cabled Peking:

In order to clear up any question of conflict with the option of the old consortium, it is hoped that the Chinese Government will without delay give notice that it considers all such rights and options under the Reorganization Loan Agreement have lapsed by reason of the failure to exercise that option when so requested by the American Government.<sup>52</sup>

Apparently, Lansing wanted to establish a policy of ignoring the old consortium, and used the Chicago loan to do it.

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<sup>49</sup>Ibid. pp. 485-86 and 520-21.

<sup>50</sup>Ibid. pp. 525-27.

<sup>51</sup>State Papers Relating to China, 893.51/2494-2758, Roll 154, Frame 43.

<sup>52</sup>Ibid. Frame 5.

The Board of Directors of the Continental and Commercial Trust and Savings met on October 30, and chose to reject the October 20 loan. Their reasons were twofold. First, the Chinese Government refused to confirm the security of the salt Gabelle for the loan. Second, the American investment market exhibited signs of decline and Chinese bonds would be hard to sell. The board gave approval to the October 11 loan for \$5,500,000. The fact that the larger loan failed to receive board approval would not be publicized.<sup>53</sup> Perhaps, the State Department reasoned, if the Japanese believed American banks were making large loans to China, they would reconsider their reservations on Manchuria and Mongolia.

Due to the frustration resulting from the failure to complete consortium negotiations, and China's new contracts with the Continental and Commercial Trust and Savings, the British on October 29, proposed a 5,000,000 pound loan. Lansing agreed to the British loan if it did not prejudice the consortium negotiations.<sup>54</sup> By late 1919 it appeared that independent loans to China might be revived. Following this new trend, on November 26, the Pacific Development Company signed a contract with the Chinese Government for a loan of \$5,000,000 with a \$20,000,000 option. Wine and tobacco taxes were to be used as security and an American

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<sup>53</sup>State Papers Relating to China, 893.51/2494-2758, Roll 154, Frames 320-21. Foreign Relations, 1919, Vol. I, pp. 530-33.

<sup>54</sup>Ibid. Frames 48-52. Ibid. pp. 500-01.

administrator would supervise collection. The money was to be allocated for payment of wages due to Chinese troops. Hopefully, paying and disbanding troops would aid in restoring political stability to China by reducing her large military.<sup>55</sup>

Protests from Britain, France, and Japan arrived soon after the signing of the Pacific Development loan. Since the French already held a lien on wine and tobacco taxes, they were especially unhappy with the appointment of an American to administer those taxes. Japan's protest centered around the issue of a loan outside the consortium. Britain suggested an immediate advance by the four powers of 5,000,000 pounds with a stipulation that the factions in China settle their differences and disband their troops.<sup>56</sup>

The American Government chose to issue a statement of non-approval of the Pacific Development loan, and on November 29, Lansing notified Paris and London accordingly. He added that the new loan would receive no diplomatic support.<sup>57</sup> Both the American Group members and the American Government conferred with and attempted to persuade the American Development Company to stop the loan. Even though the American Government did not approve the Pacific

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<sup>55</sup>Foreign Relations, 1919, Vol. I, pp. 541-43 and 606-15.

<sup>56</sup>Ibid. pp. 546-51.

<sup>57</sup>State Papers Relating to China, 893.51/2494-2758, Roll 154, Frames 365-67.

Development loan, Lansing wrote the Japanese that the loan exhibited "evidence of the growing interest of American financiers in the situation in China," and the American Government would not restrain private American concerns except in the interests of a consortium.<sup>58</sup> The Department continued to try to force Japan to give up their claims to special interests in Mongolia and Manchuria. The Pacific Development loan gave a new leverage, and the Department would use every tool available to keep the door open in China for American investments and to curb Japanese aggression.

The interest and willingness of private American firms to loan money to China without State Department support apparently nudged consortium members into cooperating with Japan in making a 5,000,000 pound loan on February 3, 1920. The Japanese and American bankers agreed to carry the French and British share until they were financially able to participate.<sup>59</sup> Consortium members reached an agreement to settle the joint loan without resolving their disagreements concerning Japan's reservations.

To complicate the loan situation further, when future money advances from the Pacific Development Company failed to materialize, the Chinese began negotiations with Okura and Company, a private Japanese banking firm. The

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<sup>58</sup>Foreign Relations, 1919, Vol. I, p. 542.

<sup>59</sup>Ibid. 1920, Vol. I, pp. 620-23.

firm made an advance of 9,000,000 yen. The Okura loan included security of the wine and tobacco tax, and this conflicted with the Pacific Development contract.<sup>60</sup>

In late February 1920, another private Japanese firm advanced 9,000,000 yen which, according to the Japanese, represented only one-half the needs of the Peking Government. If the American Group wanted to advance the other one-half needed, the Japanese would welcome the American loan. The American Ambassador to Japan, Roland S. Morris, informed the State Department on February 25, that the Japanese claimed to have made the loans only because of the desperate financial conditions of the Peking Government.<sup>61</sup> The reasons for, and the intentions of the Japanese, are debatable. What is certain is that the new loans resulted in a temporary deadlock in consortium negotiations.

Japan's refusal to negotiate a consortium agreement without special privileges in Manchuria and Mongolia combined with the difficulties of private firms making loans to China led to the departure of Thomas Lamont for the Orient. On February 7, Lansing wrote Ambassador Morris in Tokyo of Lamont's pending arrival in Japan on about March 3 and noted that Lamont traveled as a representative to the American Group and had no connections whatsoever with the

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<sup>60</sup>Ibid. pp. 622-25.

<sup>61</sup>Ibid. p. 635.

United States Government. Even though Lamont traveled as a private citizen, Lansing asked that he be given all the help he needed.<sup>62</sup> It now appeared the Department intended to use private American bankers to reach some formula for agreement for investment in Manchuria and Mongolia. Efforts continued in an attempt to define Japanese interests in China and hopefully to preserve the open door policy.

Corresponding to Lamont's arrival in Tokyo, the Japanese Government released a memorandum to the four consortium powers outlining a formula for general agreement relating to the consortium. Japan maintained that the exclusion of Manchuria and Mongolia from the consortium did not result from a desire of "exclusive political pretensions," or a wish to establish a sphere of interest. Instead, Japan wanted to protect their existing enterprises in the two disputed areas, and agreed to accept and support the resolutions of the May 1919 Preliminary Consortium Agreement. In matters relating to loans affecting South Manchuria and Eastern Inner Mongolia, however, the Japanese Government reserved the right to take what steps it deemed necessary to guarantee the "security of the economic life and national defense of Japan."<sup>63</sup>

The Japanese outlined in detail on March 20 the activities they wanted to exclude from and include in the

<sup>62</sup>Ibid. p. 497.

<sup>63</sup>Ibid. pp. 500-23.



consortium. Japan wanted to include the South Manchurian Railway, its branches and subsidiary mines, the Kirin-Changchun, the Shinminfu-Mukden, and the Ssupingkai-Chenchiatun Railways, which Japan claimed were complete and in operation. Those railways to be included in the consortium because they were not complete were the Kirin-Huining, the Chengchiatun-Taonanfu, the Changchu-Taonanfu, the Kaiyan-Kirin, the Taonanfu-Jehol and a railway connecting Taonanfu with a seaport. These railways were considered branches or feeding lines of the South Manchurian Railway.<sup>64</sup>

After studying the Japanese proposal, Lamont, Morris, and the British Minister in China, decided to take a firm position and hope the Japanese would retreat further. They maintained the railway exclusions the Japanese desired still threatened the independence and territorial integrity of China. The three, however, agreed that Japan's claims to food and raw material sources vital to their economy and the need to protect the Korean frontier were legitimate. They concluded the Taonanfu-Jehol Railway remained outside their vital needs.<sup>65</sup>

In hopes of resolving the conflict, Lamont remained in Japan to consult influential Japanese officials and bankers and seemed to achieve agreement with them. The military clique that dominated Japan's central Government,

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<sup>64</sup>State Papers Relating to China, 893.51/3050-3328, Roll 156, Frames 20-23.

<sup>65</sup>Foreign Relations, 1920, Vol. I, pp. 505-07.

however, overruled the agreement.<sup>66</sup> Finding that the Japanese military intended to remain firm, Lamont hoped to turn the situation around by an exchange of letters between the Japanese and American bankers. Lamont believed once the facts were made available to the Japanese public it would be a matter of time before public sentiment forced the military dominated Japanese Government to alter its position. In his letter Lamont pointed out the economic needs of Japan in the areas of Manchuria and Mongolia, but noted the disadvantages of Japan's political control over them.<sup>67</sup>

Lamont remained confident the American Group would approve the letter exchange. His schedule would take him on to China to discuss the proposed consortium and if an agreement could be reached first with the Japanese, the stop in China would bring better results. Before he left for China, Lamont outlined a proposal from the American Group. The proposal, which he gave to the Japanese Group, recognized Japan's economic views in reference to Manchuria and Mongolia, especially as a source of food for the growing population of the Japanese islands and as a source of raw materials necessary for manufacturing. Lamont's proposal also recognized Japan's need for railroads in Manchuria and Mongolia, but denied Japan's rights to construct new lines

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<sup>66</sup>State Papers Relating to China, 893.51/2759-3040, Roll 155, Frames 127-28.

<sup>67</sup>Ibid. 893.51/2494-2758, Roll 154, Frame 1309.

without the approval of the consortium. If the other members of the consortium declined to participate in such activities in Manchuria and Mongolia, then Japan would be free to proceed on her own.<sup>68</sup>

According to the American Group's proposal, all railroads already complete and in operation could be recognized as outside the scope of the consortium. By the time the consortium negotiations concluded, this would include all the railways mentioned in the Japanese proposal of March 2, except the Taonanfu-Jehol line.

On March 30, the State Department notified both London and Paris of Lamont's new proposal. The Department agreed with Lamont and urged the British and French to concur with the proposal. The Department hoped the British would waive their protest of the exclusion of three lines west of the South Manchurian Railway.<sup>69</sup> In essence, the State Department now recognized Japan's economic rights in Manchuria and Mongolia, and asked the French and British to do likewise.

Both the French and British complied within the month.<sup>70</sup> By the end of April 1920, it appeared that the four consortium powers had reached an accord, and Lamont, now assured of Japan's entry into the consortium, left for

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<sup>68</sup>State Papers Relating to China, 893.51/2494-2758, Roll 154, Frame 1278.

<sup>69</sup>Ibid. Frame 1328.

<sup>70</sup>Ibid. 893.51/2759-3040, Roll 155, Frames 144 and 147.

China. After a series of meetings and speeches in both North and South China, Lamont concluded that loans to the Chinese Government would not yield a return until the Chinese put their political house in order. Typical of China's economic and political situation was her default on the Hukuang Railway loan.<sup>71</sup> J. P. Morgan informed Lamont on April 9, that the Chinese must pay all coupons<sup>72</sup> of the Hukuang loan.<sup>73</sup> This the Chinese could not do, and under these circumstances future loans to China would be jeopardized by the fact that the conditions of the loans would be too strict for the Chinese Government.

Japan and the United States formally reached accord in their difference by the exchange of the so-called Lamont-Kajiwara notes. In a note dated May 11, 1920, Nakaji Kajiwara, President of the Yokahoma Specie Bank, on behalf of the Japanese Group agreed to the terms the Japanese believed essential to consortium activities in Manchuria and Mongolia. On the same day, Thomas W. Lamont, representing the other banking groups, conceded that specific railway enterprises in Mongolia and Manchuria should remain solely in the hands of the Japanese.<sup>74</sup> The May 11 exchange of notes merely formalized the agreement reached in March. It should be pointed out that the projected Taonanfu-Jehol

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<sup>71</sup>The Hukuang Railway Loan was agreed to by the old Four-Power Consortium in which the United States had participated.

<sup>72</sup>Payment certificates.

<sup>73</sup>State Papers Relating to China, 893.51/2759-3040, Roll 155, Frame 71.

<sup>74</sup>Ibid. Frame 828.

Railway with a seaport terminus remained within the consortium. This would be Japan's only concession, and Lamont confessed that the Japanese would probably construct this railway on their own and would not need assistance from the other consortium members. No mention of Japan's special rights or interests appeared in the notes.<sup>75</sup> Even though Japan had essentially won the battle concerning their reservations in Manchuria and Mongolia, the other three powers claimed victory because there had been no mention of special rights or interests.

On July 22, 1920, Lamont wired the State Department that the four powers agreed and the Department should schedule a New York consortium meeting in October.<sup>76</sup>

From July to September, the major disagreement centered around whether or not the Chinese should be given copies of the Lamont-Kajiwara notes, and other consortium correspondence. The dispute arose on July 7 when Charles R. Crane, the new Ambassador to China, gave copies of the notes to the Chinese Government. Japan protested the action. To settle the dispute all powers concerned sent identical notices. When the State Department suggested that all correspondence regarding the consortium be turned over to the Chinese Government, the Japanese, of course, protested. Japan insisted that no mention be made concerning Japan's

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<sup>75</sup>Foreign Relations, 1920, Vol. I, pp. 555-57.

<sup>76</sup>State Papers Relating to China, 893.51/2759-3040, Roll 155, Frames 833 and 850.

relinquishment of special interests in Mongolia and Manchuria. To settle the differences, the United States agreed that all correspondence be withheld until the formal organization meeting in October.<sup>77</sup>

Once it became apparent in June 1919 that the four banking groups would be able to reach an agreement concerning the scope of the new consortium's activities, the next order of business, the bankers agreed, would be to settle three banking problems. The three problems needing attention were outlined and J. P. Morgan sent a copy in mid-June to the Acting Secretary of State, Norman H. Davis. First, the State Department would have to warn the Chinese Government that no loans would be forthcoming from the consortium until the Chinese settled the matter of defaulting on payments of the Hukuang Railway loan. Second, arrangements would have to be made to extend the Pacific Development Loan contract so the Consortium could assume this loan option. Third, the Chinese Government would have to agree to turn over the management of the Chinese Eastern Railway to the American Group, and agree to expand the agreement to include all four banking groups at a later date.<sup>78</sup>

The State Department agreed to work on the problem areas and, accordingly, on June 22, the Department referred the issue of the Chinese Eastern Railway to Japan, and the

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<sup>77</sup>Foreign Relations, 1920, Vol. I, pp. 545-70.

<sup>78</sup>State Papers Relating to China, 893.51/2759-3040, Roll 155, Frame 588.

Hukuang default to Britain, France and Japan.<sup>79</sup> Pacific Development Corporation's contract presented a minimal problem because the corporation agreed to surrender its loan option, with the Chinese Government's approval, to the Consortium. On July 20, the Pacific Development Company turned over its option, and with it the wine and tobacco securities, to the American Group. On July 24, the State Department recognized and lent official support to the contract, and the Chinese extended their option.<sup>80</sup>

With the scope of the activities of the Consortium determined, and the existing banking conflicts temporarily resolved, representatives of the banking groups from Japan, Great Britain, France, and the United States met in New York on October 5, 1920 to conclude the Consortium agreement. The new venture into cooperative financing can be considered an attack upon spheres of influence. Consortium formulators, such as Robert Lansing and Brechinridge Long, hoped to limit, if not eliminate, Japan's existing spheres by placing Japanese railway and mining investments and other preferential rights in China under the control of the new consortium. Japan, new to the position of a world power, displayed diplomatic talent by essentially forcing the United States to agree to their terms, which permitted Japan to retain control of the railways, mines, and other investments they considered

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<sup>79</sup>State Papers Relating to China, 893.51/2759-3040, Roll 155, Frames 596-599.

<sup>80</sup>Foreign Relations, 1920, Vol. I, pp. 649-61.

essential to their economic development. American bankers and government officials eventually accepted Japan's reservations because they hoped to accomplish in the Consortium what they failed to accomplish outside the consortium agreement. The agreement failed to limit or eliminate spheres, and if anything, the four signatories of the Second Chinese Banking Consortium assured Japan they would guarantee her spheres.

The new consortium, an attempt to keep the door open for United States investment in China, in reality was an expanded version of dollar diplomacy which included the concept of eliminating Japan's spheres of influence. America's architects of the Second Consortium witnessed Japan's rise to the stature of a world power, and they responded to Japan's aggressive challenge in China by the means they believed would be the most effective, that is, cooperative financing of the economic needs of China. Clearly, the method chosen by the State Department favored the Japanese, and the fact that Japan maintained a favored position remained the central problem of the new consortium.



## CHAPTER V

### The Consortium in Operation 1920-1939

To understand the events that followed the signing of the October 15, 1920 Consortium Agreement, it is necessary to examine certain elements of the Agreement. The Agreement followed the terms of the 1919 agreement, except for Japan's reservations. First, even though the activities to be pursued in China and the governmental guarantees were quite comprehensive, they were still inadequate. According to the Agreement all existing and future loans to the Chinese Government, Chinese Governmental Departments, and the Chinese Provinces would be public, including business companies or corporations owned by the Chinese Government. Exceptions were industrial undertakings that showed "substantial progress," and they reserved the right to remain outside the Consortium.<sup>1</sup>

The activities of the new Consortium were therefore comprehensive, and so were the rules and regulations governing the members of the banking Consortium. Members agreed to participate on equal terms with cooperative action because the existing political and economic conditions in China necessitated such cooperative action and substantial joint loans. Each group reserved the right to increase or

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<sup>1</sup>Foreign Relations, 1920, Vol. I, pp. 576-78.

decrease their number of banks if the member banks received the approval of their respective governments. It must be noted that the new agreement included the phrase "their respective Governments have undertaken to give their complete support to their respective national groups," but it did not provide the previous assurance that each group would receive "exclusive diplomatic support" of the respective Governments. By the end of November all governments of the respective banking groups had publicly announced their approval of the new banking arrangement.<sup>2</sup>

The Agreement seemed to defeat its purpose of cooperative action; instead of resolving the difficulties surrounding the issuance of loans to China, it seemed to create further difficulties centering around two points. First was the unstable political conditions in China. Not only did there exist two major political factions in China, a Northern faction headquartered in Peking and a Southern faction headquartered in Canton, but warlords were exerting control over various areas of China. Consequently, it was difficult to secure loans and if the Consortium loaned any monies it would most undoubtedly go for military expenditures.

The second difficulty involving the scope of activities outlined in the Consortium Agreement needs some illustration. For example, on January 9, 1921, the United

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<sup>2</sup>Ibid. pp. 575-77. For a listing of the signatories to each of the categories of the Second Consortium Agreement, see Foreign Relations, 1920, Vol. I. pp. 576-89.

States Minister in China, Charles Crane, telegraphed the Department and inquired whether the Consortium barred

private initiative from constructing all the communication transportation including railways, roads, canals, telegraphs, telephones, aeroplanes, et cetera, also large commercial and industrial joint undertakings.<sup>3</sup>

Crane, requesting information for private businessmen, asked where the line between private and public flotation should be drawn. Crane asked that private American initiative not be discouraged.<sup>4</sup>

Unable to answer Crane's inquiry, the Department requested clarification from the American bankers. On January 17, J. P. Morgan replied the "Consortium has no power, and would in no event wish, to curb private initiative." Morgan explained that the American Group preferred that large projects, especially those involving transportation be reserved for the Consortium; projects rejected by the Consortium could be given to private institutions. There were no limitations at present on Consortium activities, but Lamont could "hardly imagine any enterprise involving the expenditure of less than \$1,000,000" as being necessary to implement Consortium activity.<sup>5</sup>

Morgan's explanation of the issue apparently raised some questions regarding the issue and, on February 1, the

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<sup>3</sup>Foreign Relations, 1920, Vol. I, pp. 596-99.

<sup>4</sup>Ibid. 1921, Vol. I, pp. 355-56.

<sup>5</sup>Foreign Relations, 1921, Vol. I, pp. 356-57, and State Papers Relating to China, 893.51/3050-3328, Roll 156, Frames 651-53.

American Group amended the January 17, reply by the following statement:

Of course, nobody can write a detailed program and charter for the Consortium. We shall, I hope, adhere to our purpose of developing things basically in China in the knowledge that private enterprise may enjoy wider opportunity and greater stability. The policy as to particular questions and concrete enterprises will have to be determined as those questions present themselves.<sup>6</sup>

The statement still did not resolve the issue because Lamont had apparently stated the position without consultation of the other members of the group. On March 29, Crane sent another inquiry to the Department as to whether or not existing railway loans and projects came under the Consortium, listing such loan examples as the Yellow River Bridge and the Peking-Mukden double track loan. He also noted that unless "such loans are restricted to conform to the spirit and letter of the Consortium they can be made to extend present control of railways indefinitely."<sup>7</sup>

In hopes of resolving the dilemma, the British and French Groups on May 14 submitted a proposal defining the scope of the Consortium. They proposed the formation of a council, consisting of a delegate from each banking group; such a council would function as an advisory and consultive body and would meet at least three times a year. The council could then define the industrial contracts to be included in the Consortium and those that were public issue.<sup>8</sup>

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<sup>6</sup>Foreign Relations, 1921, Vol. I, pp. 355-60.

<sup>7</sup>Ibid. pp. 361-62.

<sup>8</sup>Ibid. p. 365.

After some debate the proposed council received approval on July 27, 1921 with the appointment of Thomas W. Lamont for the American Group, Sir Charles S. Addis, for the British Group, Rene T. de la Chaume for the French Group, and T. Okubo for the Japanese Group as delegates.<sup>9</sup> This council would continue to function as the central part of the Consortium for the next four years.

The dispute over the scope of the Consortium's activities, centered around whether or not American firms would have equal opportunity to invest in the various Chinese projects and not be forced to give these opportunities to the cooperative efforts of the Consortium. Yet on December 13, 1921, the American Group defined its reasons for joining the Consortium "as a measure to serve the Chinese people and to contribute to more stable economic and financial conditions in the Far East."<sup>10</sup> Members of the American Group apparently believed that the Chinese people could best be served by the Consortium's cooperative action. Woodrow Wilson no longer held the position of President of the United States, but the official statement of the American position would surely have pleased him, even though it obviously distorted the real intentions of the American Group.

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<sup>9</sup>Ibid. p. 369.

<sup>10</sup>Ibid. pp. 373-74.

After signing the Consortium Agreement, the groups dealt with two pending technical issues. First, the question needing attention was the issue of enlarging the membership of the Consortium to include Belgium,<sup>11</sup> and Italy. Belgium's membership had been deferred until after the signing of the agreement and, with the approval of all participating groups, Belgium became a member. While agreeing to admit any Chinese Group that wished to join,<sup>12</sup> they denied membership to an Italian Group because they were not able to "render substantial assistance to the Consortium."<sup>13</sup> Membership therefore remained at five with Belgium joining the original four groups.

Second, they had to deal with the loan options still retained by the old Consortium. A decision was needed as to whether or not these options should become part of the new Consortium's projects. These options included the Hukuang Railway loan of 1911, involving the British, French and American Groups; the Reorganization Loan of 1913, involving Britain, France and Japan; and the 1913 Currency Reform and Industrial Loan, involving the British and French. Options assumed by the new Consortium were Britain's 1913 Pukow-Sinyang Railway Loan Agreement, and the 1914 Nanking-Hunan Railway Loan Agreement. The Japanese also

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<sup>11</sup>See Chapter IV, footnote on p. 82 and p. 88.

<sup>12</sup>Foreign Relations, 1920, Vol. I, pp. 582-83.

<sup>13</sup>State Papers Relating to China, 893.51/3050-3328, Roll 156, Frames 203-04.

transferred two minor concessions, the proposed Jehol-Taonan Railway and the Tsinan-Shunteh and Kaomi-Hsuchan Railways branches of the South Manchurian Railway, to the Consortium. According to Japan, the Shantung Railways required a special arrangement because the Railways, transferred from Germany to Japan at the Paris Peace Conference, presented special or technical difficulties.<sup>14</sup>

In contrast to the other members, the Americans made major concessions. All concessions acquired independently by Americans during the Wilson Administration were pooled in the Consortium: the Siems-Carey concessions of 1916, the Grand Canal Improvement contract of 1917, the Continental and Commercial Trust and Savings Bank Loan, and the Pacific Development Development Loan Agreement of 1919.<sup>15</sup>

In the case of the Siems-Carey contracts, little progress had been made, and the Chinese expressed displeasure over this fact in October and November 1920. T. C. Sun, Minister of Communications, warned Ambassador Crane that failure in this enterprise would "seriously damage American prestige in China," and complained that "American financiers were taking a too purely business point of view in the present instance."<sup>16</sup> There were also difficulties with the Continental and Commercial Trust and Savings Bank Loan Agreement because of the possibility of Chinese default on

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<sup>14</sup>Foreign Relations, 1920, Vol. I, pp. 575-82.

<sup>15</sup>Ibid. pp. 584-89.

<sup>16</sup>Ibid. pp. 674-79.

this firm's loan. If China defaulted on the Chicago firm's loan it would be virtually impossible to float Chinese Government bonds on the American Market. Problems also surrounded the Pacific Development Corporation's loan agreement. In June 1921, the State Department attempted to persuade the American Group to lend money to China, thereby preventing default of the Pacific Development Corporation's loan.<sup>17</sup>

Once the Consortium resolved the issue of options, they focused their attention on China's railway contracts. Consortium members resolved in October 1920 to resume as soon as possible railway construction in China citing as the first priority construction of Hankow-Canton section of the Hukuang Railways. The Consortium, however, wanted a loan agreement that would be more satisfactory to its members.<sup>18</sup> No railway loans were to be issued until the group could reach an agreement with China concerning the problem of the German issue of Hukuang bonds.<sup>19</sup> Some of the bonds ended up on the American market, and the Chinese Government claimed control over the bonds. Consequently the Groups advanced no money for Hykuang Railway construction.<sup>20</sup>

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<sup>17</sup>Foreign Relations, 1921, Vol. I, pp. 346-51.

<sup>18</sup>Foreign Relations, 1920, Vol. I, pp. 579-89.

<sup>19</sup>For an outline of the events surrounding the Hukuang Railway Loan see pages 16-18. The four countries, France, Great Britain, the United States and Germany, participating in the loan sold bonds to acquire the necessary capital, and in the case of Germany a number of the bonds were purchased by Americans. After the defeat of Germany, China claimed control over all German bonds issued to finance the Hukuang Railway.

<sup>20</sup>Foreign Relations, 1920, Vol. I, pp. 670-71.



In the case of the Chinese Eastern Railway, in October 1920, the Consortium Groups passed a resolution, in an assembly of the whole, which stated the Groups would consider a loan application for \$10,000,000 with satisfactory security. The resolution required payment of the debts due the Allied and Associated Powers, no military interference, and the appointment of representatives of the Consortium to all administrative bodies. The Japanese reserved approval because they considered the "matter as technically lying" outside the Consortium.<sup>21</sup> Japan's reservation blocked effort to loan money for the development of the Chinese Eastern Railway. Consortium efforts to prevent Japan from gaining control of the Chinese Eastern Railway coincided with American foreign policy until the January 1920 proposal to withdraw American troops from Siberia.<sup>22</sup>

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<sup>21</sup>Ibid. pp. 575-89.

<sup>22</sup>Following the Bolshevik coup late in 1917 the Allies anxious to rally the Russians against Germany, to prevent Russian munitions from reaching Germany, and to rescue Czechoslovakian troops stranded in Russia, sent two allied military expeditions into eastern Siberia. Simultaneously, an Inter-Allied Railway Commission, headed by an American engineer John F. Stevens, was assigned to study the railway situation in Siberia and Manchuria. Stevens and the commission would have preferred that consortium funds be used for development of the Chinese Eastern to prevent Japanese control of another Manchurian Railway. For an examination of both the Allied Expedition and the Inter-Allied Railway Commission see Betty Miller Unterberger, America's Siberian Expedition, 1918-1920: A Study of National Policy, (Durham, N. C.: Duke University Press, 1956).

The withdrawal of American troops forced the State Department to reconsider its opposition to Japan's attempt to gain control of the Chinese Eastern Railway, and J. P. Morgan, speaking for the American Group, declined to participate in a loan to the Chinese Eastern Railway without better security. Secretary of State Charles Evans Hughes, however, did not support Morgan's position.<sup>23</sup>

It is interesting to note, in the case of the Chinese Eastern Railway, that the American bankers' position did not support the open door policy, even though the State Department still maintained vocal support of the policy. On June 17, 1921, Lamont wrote Charles Evans Hughes:

The members of the American Group, have I believe, without exception entered into the Consortium because they desired to be of service in assisting a situation in China difficult economically and politically. They are endeavoring to carry out in good faith the principles that the Department has laid down, and shall always welcome frank discussion over any question that arises.<sup>24</sup>

While the many details of the Consortium were being discussed, a change in the Administration of the United

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<sup>23</sup>According to different historical analyses there is more than one viewpoint of why President Wilson dispatched American troops to Siberia. Betty Miller Unterberger, in America's Siberian Expedition, 1918-1920, pp. 87-88 and 204-22, best expresses the viewpoint that Wilson inaugurated the Siberian Expedition to prevent the Japanese from monopolizing East Asia, and when the troops were withdrawn it signaled a change in United States' policy concerning the Chinese Eastern Railway. See also A. Whitney Griswold, The Far Eastern Policy of the United States, (New York: Harcourt Brace and Co., 1933), p. 234.

<sup>24</sup>State Papers Relating to China, 893.51/3329-3548, Roll 157, Frames 270-73.

States took place. The American Group, concerned about President Warren Harding's position, wrote the State Department on March 10, 1921.<sup>25</sup> Less than two weeks later, on March 22, the State Department again endorsed the operations of the Consortium as outlined by the American Group, and expressed hope that the Consortium would

be effective in assisting the Chinese people in their efforts towards a greater unity and stability, and in affording to industrial enterprises of all nationalities equality of commercial and industrial opportunity and a wider field of activity in the economic development of China.<sup>26</sup>

Apparently the Harding Administration desired to continue to be an instrument of the open door policy and to utilize the Consortium in the achievement of such an end.

At the Conference on the Limitation of Armaments held in Washington, D. C. from December 1921, through February 1922, the delegates considered the validity of the International Consortium in terms of the open door policy. Wellington Koo, a Chinese delegate, insisted the Chinese delegation could not recognize the assurance given by the American, British, and French Governments that the "vital interests of Japan in Manchuria shall be safeguarded." Sir Auckland Geddes, a British delegate, said that the open door policy in no way interfered with the operation of the Consortium, "which in its provisions for cooperative effort

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<sup>25</sup>Foreign Relations, 1921, Vol. I, pp. 358-60.

<sup>26</sup>Ibid., p. 361.

would not in any way infringe the principles adopted by the conference."<sup>27</sup>

On February 22, 1922, Baron Shidehara, a Japanese delegate, assured the Conference:

Japan is ready to throw open to the joint activity of the International Financial Consortium recently organized, the right of option granted exclusively in favor of Japanese capital, with regard, first, to loans for the construction of railways in South Manchuria and Eastern Inner Mongolia, and, second, to loans to be secured on taxes in that region.

Questioning Shidehara's statement, Hughes noted that he hoped the Japanese Government's declaration indicated a willingness to relinquish its claims to special privileges secured in the 1915 treaties between China and Japan.<sup>28</sup>

Although the Conference adopted a resolution reaffirming the open door policy in China, including Manchuria, Japan's specific position in Manchuria and Manchuria's relationship to the Consortium were not any more clearly defined than the scope of the Consortium's activities.

In China, news of the formation of a new Consortium met with negative reaction. In general, Chinese officials believed the Consortium intended to accelerate the progress of foreign control, especially Japanese, over Chinese finances. Chinese newspaper editorials and articles therefore attacked the consortium as a tool of Japanese aggression.

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<sup>27</sup>Conference on the Limitation of Armaments, 67th Congress, 2nd Session, Senate Document No. 126, Vol. 10 (Washington, D. C., 1922.)

<sup>28</sup>Ibid.

According to Frederick W. Stevens, the American Group's representative in Peking, Chinese Press opinion expressing anti-Consortium statements should be taken "with a grain of salt," until more is known in China about the aims and methods of the Consortium.<sup>29</sup>

Because the Chinese press and public opinion seemingly opposed the new Consortium, the financially destitute Peking Government sought funds from the old Consortium, but soon learned that the 1911 Agreement no longer existed after the signing of the new Consortium. Chinese officials, however, hesitated to deal with the new Consortium due to the "stringent terms" outlined by the participating bankers. When informed that the Chinese regarded the terms of the new Consortium as "stringent," the American Group cabled Ambassador Crane in China, the Consortium's three principles of action:

- (1) its first object shall be the benefit of the Chinese people, (2) loans shall be made for constructive purposes and the objects of same shall be carefully specified, (3) some reasonable safeguard shall be adopted to provide that the proceeds of loan funds are expended for the purposes intended.<sup>30</sup>

Funds from Europe remained impossible to acquire, and the American bankers made it clear that they could not or would not loan funds without assurances of some return. Apparently

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<sup>29</sup>Memo of Frederick W. Stevens to the State Department, January 21, 1921. China Collection. TS China S844, Hoover Institute on War, Peace & Revolution.

<sup>30</sup>Foreign Relations, 1920, Vol. I, p. 665.

American bankers were less interested in preserving the open door and halting aggression if it meant the sacrifice of their investment, or perhaps the bankers believed Japanese aggression was eminent with or without loans. In order to provide proper conditions for investment, guidelines and methods of convincing China of the positive attitude of the Consortium were needed. On May 15, 1922, a full meeting of the Council of the Consortium convened in London and a general policy emerged which proposed to set "guiding principles of the Consortium, and to meet some of the unfounded reports recently current in China." This policy stated the Consortium existed as a "substitution of international cooperation for international competition in economic and financial affairs in China," and as recognition that its position had "now been definitely affirmed and endorsed in a larger sense by China and the Powers in the Treaty signed at Washington on February 6, 1922."<sup>31</sup>

The policy statement emphasized that the Consortium would not be permanent, but it would continue to remain the chief barrier to spheres of influence. As a large underdeveloped field for commercial expansion, the Governments involved in the Consortium believed restraint through cooperation a necessary tool to protect the vested interests of their nationals. The Council agreed it was "more in the interests of China for the powers to deal with her China

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<sup>31</sup>Foreign Relations, 1922, Vol. I. pp. 773-75.

as a whole rather than separately, in cooperation rather than competition with one another."<sup>32</sup>

There was Council agreement not to interfere in the internal affairs of China. Although political conditions in China prohibited administrative loans, administrative loans could be made if China should establish a stable government. The Consortium could also make railroad and industrial loans with adequate security, but adopted a policy statement rejecting China's ostensible assumption that the Consortium intended to control her finances and railways. A program of unifying China's railways was endorsed by the group, and they denied that the Consortium intended to secure a loan on the Chinese Land Tax.<sup>33</sup>

In sum, the Council stated its policy to be one to assist in building up the general credit of China on such secure foundations that all outside intervention may be generally eliminated and the entire control of loan service and expenditure may finally pass into the hands of China herself.<sup>34</sup>

With all the denials issued concerning the intentions of the Consortium regarding control over China, this policy statement admitted that external control over China's economic and financial life would be present for an indefinite period. Paradoxical as it seems, it is evident the concern

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<sup>32</sup>Ibid. p. 775.

<sup>33</sup>Ibid. pp. 776-77. The October 1920 Agreement referred to a new source of security for loans, the land tax. In June 1921 Secretary of State Hughes asked that the American Group disassociate themselves from the consideration to use the land tax as security because it had an "intimate relationship" with the domestic affairs of China. The American bankers agreed to refer the issue to the Consortium Council for a final decision. Foreign Relations, 1921, Vol. I. pp. 368-69.

<sup>34</sup>Ibid. pp. 778-79.

for the open door of foreign investment outweighed consideration for China's administrative integrity.

China's political situation prevented Consortium negotiated loans, and in August 1922, the American Group believed it necessary to draft a detailed China loan policy for use by the State Department when replying to Chinese inquiries concerning American loans. In the draft the bankers reiterated their position that the past record of Chinese loans made it impossible to offer bonds to the American investor; further, due to unstable political conditions in China, it appeared the present administration would fail.

The upshot of all this is that if and when there is a Chinese Government that is able to discuss . . . some tangible consolidation plan which takes care of Chinese Government obligations, due and overdue, and which provides for a reasonable scheme of sound finance for the future, then and only then we feel that the American Group is in a position to render a very large service to the situation. As we see it, however, it is worse than useless to give any Chinese Government the impression that we can interest ourselves actively in half-way measures that really fail to meet the situation.<sup>35</sup>

The Japanese Government concurred with the American position; however, the British concluded the Consortium must act immediately if the Chinese were to be convinced of its "beneficent intentions." Britain contended that in spite of the lack of unification, the present Chinese Government appeared to be "well-intentioned and deserving of assistance,"

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<sup>35</sup>Ibid. pp. 783-85.



and if the Consortium remained inactive the "policy of cooperation for which it stands, will in the end, be wrecked."<sup>36</sup>

After consideration, Secretary of State Hughes decided to accept Britain's suggestion and make an immediate loan. He therefore notified the Japanese Government that the American Government would support the American Group if it intended to participate in a loan. Hughes reasoned that all negotiations had been with Peking, the government the powers held responsible for agreements made, and to insist that this government uphold these responsibilities while denying it the means it considered essential to administer the loans they deemed necessary to fulfill China's political and financial obligations would be wrong.<sup>37</sup>

Japan replied to Hughes' memorandum and acknowledged that Hughes was correct in saying the Peking Government was the sole governmental agency in China, but they could not agree with Hughes' suggestion that an immediate loan be made to China.<sup>38</sup> Japan insisted that financial assistance should be given to the Peking Government if it insured the protection of the general welfare of the Chinese people. Neither did Japan share Britain's feeling of urgency and expressed the opinion that any loan would influence the political.

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<sup>36</sup>Ibid. pp. 793-94.

<sup>37</sup>Ibid. pp. 794-96.

<sup>38</sup>Ibid.

situation in China such that it would be equivalent to supplying arms. Japan's aversion to the proposed loan to China may have been based upon the fact the loan made no provisions for refunding of the Nishihara loans.<sup>39</sup>

In spite of what it called the "ambiguity" of the Japanese position, the State Department continued to pursue the matter of a loan to China. Eventually the Japanese Government consented to a conference of Consortium members for the purpose of discussing a loan to consolidate Chinese debts, but would not endorse direct negotiations with the Chinese Government. As always the State Department remained willing to negotiate with the Consortium members of other nations and to support the American Group if the Group chose to make a loan. The Department would not, however, support unsecured loans, such as the Nishihara Loans, because of their relationship to political questions.<sup>40</sup>

If the Department called a Special Conference, the American Group expressed a willingness to take part in it, but indicated it thought political conditions too chaotic to warrant a monetary advance. The American Group warned the Department that in order to protect the investor a salable Chinese bond would have to be "so well secured as to be salable by or for the foreign creditors without much, if any, loss."<sup>41</sup>

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<sup>39</sup>Foreign Relations, 1923, Vol. I, pp. 526-27.

<sup>40</sup>Ibid. pp. 527-37.

<sup>41</sup>Ibid. pp. 538-39.

On April 27, 1923, in Peking, without official Consortium or Council approval, Consortium Group Representatives met with the Chinese Minister of Finance and agreed to a Consortium loan as soon as the Chinese Government would be willing to recognize and deal with a cooperative loan. Group representatives at the meeting considered a loan necessary to allow the central government of Peking to continue functioning, and if reasonable assurances of control could be made, they agreed a monetary advance should be issued. Japan's Charge d'Affaires in Peking agreed that the central Chinese Government should be helped, but said he would have to seek advice from his government on the matter of a cash advance.<sup>42</sup>

Before the State Department could respond to the sequence of events in Peking, the British and American Groups objected to monetary advances originating in Peking. They based their objections first, on the fact the Consortium Council had agreed not to make administrative advances, and second, on the lack of stability of the Chinese Central Government.<sup>43</sup> Again loans were blocked by bankers interested in their economic investment rather than political considerations.

A special conference desired by the State Department took place when the Consortium Council convened in Paris on May 28, 1923. Although the Council reiterated many of the

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<sup>42</sup>Ibid. pp. 539-40.

<sup>43</sup>Ibid. pp. 441-43.

resolutions adopted in May, 1922, they announced a resolution considering a Chinese "consolidation of indebtedness" loan, and proposed that no monetary advances be given in the immediate future. The Council concluded:

It is the settled policy of the Consortium to refrain from interference in the internal political affairs of China. The present political upheaval in that country precluded the immediate hope of giving practical effect to any Consortium proposals for an administrative loan. Conditions, however, change so rapidly that the Groups must always stand prepared for action in anticipation of the time when China shall have again attained to such degree of political peace and security as to afford a reasonable prospect of a stable government.<sup>44</sup>

Finally in the May, 1923 Conference the Council settled once and for all the debate as to whether or not there would be cash advances or administrative loans. There would be none because the Chinese Central Government could not provide sufficient political stability necessary to secure any investment. Of course the State Department would have preferred loans without assurances of a stable government to protect investment, but the bankers would not invest unless they were assured a return on their investment. Cooperative finance in China did not operate as planned, and Japan continued to move troops into Manchuria until, by 1932, she completely controlled that area of China.

Fortunately or unfortunately, according to one's point of view, the Peking Government did not entirely disintegrate, and the Consortium did not disband until 1939.

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<sup>44</sup>Ibid. pp. 443-47.

No loans, however, were negotiated. From 1923 to 1939, the Consortium continued to exist, but American bankers demonstrated little or no interest in Chinese loans and little interest in continuing the Consortium arrangement.

The State Department, however, differed with the American bankers in regard to the Consortium and continued to pursue its existence. On June 26, 1924, Hughes wrote the American Group he approved the

continued application to the field of Chinese finance of the Principles which that Agreement embodies, namely, that loans made to China should be based upon sound investments, and that this result be assured by a mutual undertaking among the principal national financial groups to abstain from reckless competition. While it is no doubt true that the results of the past few years have been purely negative, and that it is of course impossible to appraise the value of such results, I nevertheless venture the opinion that, but for the existence of the Consortium during this period, the financial situation of the Chinese Government would present an even more difficult problem than it now does.<sup>45</sup>

Despite the negative attitude of the bankers and the unstable political conditions in China, the Consortium Council continued to meet; another Council Meeting was held in London on July 15, 1924. With the Consortium Agreement due to lapse in October, 1925, the Council decided to abrogate the expiration date of the agreement. The Council also agreed if any group wanted to withdraw from the agreement they could do so by giving twelve months' notice. Minutes of the meeting indicate some optimism that the Chinese Government would eventually invite the Consortium

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<sup>45</sup>Foreign Relations, 1924, Vol. I, pp. 548-50.

to participate in both a debt consolidation scheme and a railway development plan. A resolution was passed by the Council which attempted to get a Chinese banking group to join the Consortium.<sup>46</sup>

In October 1925, the Consortium Council again outlined its position concerning China's finances; it further agreed to meet in special conference in Peking on October 26, 1925, to discuss China's political situation. Even though China's political condition remained ostensibly outside the Consortium, Council representatives agreed the political condition could not be separated from China's financial problems. Under these circumstances the Council agreed to participate in the Peking Conference being held primarily to consider the revision of the British, Japanese, and American Commercial treaties of 1902-03.<sup>47</sup>

The Consortium Council further stated that "no scheme of financial reform can be considered adequate which does not include provision for the settlement of China's indebtedness as a whole."<sup>48</sup> To solve this problem it appointed a committee to study the entire debt situation in China.

Actions of the Consortium indicated that the reluctance to

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<sup>46</sup>Foreign Relations, 1924, Vol. I, pp. 544-50. All during negotiations, 1918-20, the Four powers attempted to get a Chinese Group to accept membership, but no Chinese bankers were willing to join. This resolution was another attempt to make the Consortium more agreeable to the Chinese; there never would be a Chinese banking group willing to become a member.

<sup>47</sup>Foreign Relations, 1925, Vol. I, pp. 866-67 and 883.

<sup>48</sup>Ibid. p. 884.

grant loans was due primarily to China's inability to secure them, and as a result no loans were forthcoming from the Consortium.

For the next ten years, the Consortium continued to exist, but in limbo. The Chinese Government did not apply to the Consortium for loans, and the Consortium members, due to the continued instability of the Chinese Central Government, made no attempt to loan China money.

Stanley Hornbeck, Chief of the Division for Far Eastern Affairs, revived the issue of the Consortium in 1934. As Hornbeck viewed the political situation in China, he concluded that there could be no peace until China's economic situation improved. Although the League of Nations had initiated a program providing China with technical assistance, China again sought financial assistance from sources that excluded Japan. Hornbeck believed the answer to China's economic dilemma would be the adoption of an "attitude favorable in principle toward international action through the agency of the Consortium."<sup>49</sup>

Later in 1934, the State Department consulted President Franklin D. Roosevelt, Secretary of State Cordell Hull, and Thomas W. Lamont concerning the advisability of using the Consortium. Roosevelt and Hull agreed the American Group should remain in the Consortium, but requested that no loans be issued because they ultimately would fall into Japanese control. The administration adopted an attitude of

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<sup>49</sup>Foreign Relations, 1934, Vol. III, pp. 388-90.

"watchful waiting until China invites . . . action and Japan or Great Britain takes the lead in suggesting a favorable response by the Consortium."<sup>50</sup>

Thomas Lamont told Hornbeck in August 1934 the national groups comprising the Consortium, including Japan, were willing to continue the arrangement. He warned Hornbeck that the American Group would have difficulty floating bonds because only three or four of the original thirty-some member banks of the American Group were able to handle securities due to the Roosevelt Administration's Securities Exchange Act. Lamont also reminded Hornbeck that many banks wanted to dissolve the Consortium because the American Group's participation had been expensive and nonprofitable.<sup>51</sup>

Again in 1939 the American Group discussed the issue of dissolution; however, both the British Government and Group disagreed with the American Bankers because they considered continued contact with Japan as essential. The State Department, through Hornbeck, announced the time inopportune for Consortium withdrawal.<sup>52</sup>

In February 1939, the State Department notified Great Britain that it recommended that the Consortium not be dissolved.

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<sup>50</sup>Ibid. pp. 390-91.

<sup>51</sup>Ibid. pp. 391-95.

<sup>52</sup>Foreign Relations, 1939, Vol. III, pp. 721-24.



In the opinion of the American Government there should be no need for discussion at this moment of a possible dissolution of the Consortium, and, in the light of the facts as understood by the Department, it would seem that further consideration of this question should be deferred.<sup>53</sup>

Even though the State Department hoped to continue the arrangement, the American Group halted the Consortium's operation by announcing they would withdraw their banking representative from Peking effective January 1, 1940.<sup>54</sup>

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<sup>53</sup>Ibid. pp. 730-31.

<sup>54</sup>Ibid. pp. 731-34.

## CONCLUSION

An examination of the events surrounding the Second Chinese Banking Consortium reveals a pattern of American diplomacy, which State Department officials publicly called a defense of the open door policy. There can be no doubt, however, that the open door policy the Department claimed to defend was no longer the policy initiated in 1899. Through his first notes Secretary of State John Hay asserted the principle of equal commercial opportunity for all nations in China. He never intended to eliminate existing spheres of influence in China or create spheres for Americans. Hay's second circular in July 1900, informed the world powers that the policy of the American Government was to seek a solution that would provide permanent peace and safety to China and preserve China's territorial and administrative entity. Hay's notes publicly and officially defined the two China policy objectives which the United States was to pursue, intermittently and not too effectively, for the next fifty years.<sup>1</sup>

America's open door policy in China between 1902 and 1914 underwent further change in concept and

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<sup>1</sup>For a study of America's China policy and its relationship to the open door policy see Chapter I, Tang Tsou, America's Failure in China, 1941-1950, (Chicago: University of Chicago Press, 1963), pp. 1-30.

interpretation that included a search for a balance of power in the Far East during Theodore Roosevelt's administration and a quest for equal investment opportunity during William H. Taft's tenure. President Woodrow Wilson rejected his predecessor's policy of using economic pressure to eject Japan and Russia from their dominant positions in Manchuria; however, the power changes brought about by World War I resulted in the United States and Japan assuming the roles of world powers. Japan's position as a power in the Far East and her subsequent actions of aggression to assure her position as a world power resulted in the American State Department's revival of an international banking consortium to halt Japanese aggression and end Japanese spheres of influence in China. Even though, as historian Raymond Esthus points out, the State Department continued to refer to its foreign policy in China as the open door, this policy was far removed from the foreign policy espoused by John Hay.

The fate of the Second Consortium can be traced to its inception. In hopes of ending or limiting Japanese influence in China, the State Department, not the bankers, initiated the consortium effort and agreed to assume the financial responsibility, through the Consortium, for Great Britain and France. It would be necessary, however, for American bankers and the American investing public to risk their investment in order to secure any degree of Consortium success. This, as the lesson of Taft's "dollar diplomacy" exemplified, American bankers would not do.

Why then did the Wilson administration, with the prodding of the State Department, assume and broaden the unsuccessful diplomacy of Taft in the Far East? This diplomatic endeavor can probably be best explained by Japan's new position in the Far East after the initial years of the First World War. The issuance of the Twenty-One Demands, the continued flow of Japanese dollars to China through the Nishihara loans, and China's continued pleas for loans convinced the State Department to act. If China's request for loans persisted, loans would surely come from Japan, and with the loans Japanese control. To face the situation, the American Government called for independent loans which American financiers refused to make without government support. Another alternative would be cooperative investment and America's entrance into the old Consortium, or the formation of a new Consortium. The State Department chose a new Consortium because the Department wanted to establish their own terms to include the whole of China and industrial as well as administrative loans. Through joint cooperation in industrial loans the State Department planned to halt or limit the continued flow of Japanese monies into China, and the subsequent control of China's political and economic institutions by Japan.

After negotiations for the new Consortium began, certain factors emerged. First, the United States and Japan were the leaders of world finance: Japan in the Far East and the United States in the rest of the world. Second, the course of events at the Paris Peace Conference dictated

the United States would not assume a central position of authority. Third, the problem of increased armaments and the willingness to use these armaments greatly influenced how governments would act. Japan's and the United States' position as world powers convinced the State Department a financial consortium would be vital to America's political and economic future in China.

Through the machinery of the Consortium the American Government hoped to set aside political problems in favor of economic and financial barter. Reducing the political issue to an economic and financial level proved unworkable. American investors refused to invest without assurances of return, and China could not provide these assurances. In reality the Consortium served to prevent rather than provide loans to China, because within the confines of the Consortium there could be no independent loans to China and Consortium loan terms were so stringent the Chinese refused to borrow.

There was also a discrepancy between the long term diplomatic goals of the State Department and the short term investment goals of the banking members. The State Department wanted to stop or limit Japanese aggression in the Far East, while the bankers were interested in investment profits. It must be pointed out, however, that public explanation by the State Department for the activities which led to the Second Chinese Banking Consortium emphasized trade and political policy rather than investment. The State Department never encouraged American investment on grounds

that it was desirable in itself for economic reasons. In the end, the factor of investment security probably assured no loans would ever be issued, and hopes for American influence in China were shelved. This resulted in strained diplomatic relations between the United States and China, because the Chinese needed American loans if they ever hoped to stabilize their central government.

Events which surrounded the Consortium assured there would be discord between the United States and China. This discord found its basis in the different interpretations of the open door policy. Public policy statements of the open door by the State Department appealed to the Chinese because historically the open door policy referred to the protection of China's territorial and administrative integrity. Instead of the United States acknowledging their real foreign policy intentions in China, they called their policy enforcing the open door a policy statement that had been radically altered over years of abuse.

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