

### III

## SPHERES OF INFLUENCE

### I. "*Spheres*" in China

The years which witnessed the opening up of the vast resources of China to international capital also witnessed the entrance of two new powers into the arena of imperialism: Japan, which was thrust into the foreground by her victory in the Chino-Japanese War of 1895; and the United States, which emerged as a first class power with her victory over Spain in 1898. In that same year the first great "battle of concessions" was waged in China.

China with her abundant resources and her population of four hundred millions was an ideal place for the investment of the surplus capital in the hands of European and American business men and bankers. A new technique of imperialism was evolving. "The days of territorial expansion by discovery and colonization or conquest by force of arms" gave way to the "more crafty kid-gloved methods of dominating weak and improvident nations through the insidious operations of political finance."<sup>1</sup> A new terminology including such phrases as "sphere of interest" and "sphere of influence" was evolved to describe the new "conquest by railway and bank."

A sphere of interest is "a portion of territory wherein a nation has expressly or impliedly declared that it will permit no other nation to exert political influence, and that itself will lead in the exploitation of natural resources."<sup>2</sup> The control of a sphere of interest was exerted in the following way:

First, the foreign investors secured a strategic base on the seacoast; this was followed by building a railway for the

<sup>1</sup> "Far Eastern Review," v. 11, p. 277.

<sup>2</sup> Reinsch, "World Politics," p. 114.

successful exploitation of the natural resources and the domination of the economic life of the "sphere." The next step was to establish a bank or to obtain a first option on loans or concessions, especially those covering railways and mines. To safeguard their particular interests, the governments behind the investors then forced China to agree not to alienate the territory under their economic control, and entered into mutual agreements to respect each other's spheres of interest.

## 2. *The American Sphere of Interest: Manchuria*

This new imperialist technique was applied to the economic subjugation of China after the Chino-Japanese War of 1894-5 had demonstrated the helplessness of the Celestial Empire. Russia acquired as her sphere of interest North Manchuria and Outer Mongolia, with Port Arthur as a strategic base;<sup>1</sup> Japan acquired South Manchuria and Inner Mongolia with Formosa and the Pescadores as a strategic base;<sup>2</sup> Germany leased Kiaochow, and thus obtained the Shantung peninsula as her sphere of exploitation;<sup>3</sup> Great Britain by the acquisition of Waihaiwai laid claim to the Yangtse Valley, Thibet and the Szechwan province;<sup>4</sup> while France controlled Southwestern China, including Kwangtung, Kwangsi and Yunnan, and Kwangchowang.<sup>5</sup>

In this "battle of concessions," lasting up to 1900, the United States obtained no strategic base, but her victory in the Spanish-American War had given her the Philippines. These islands, combined with its large Pacific seaboard, made the United States a Far Eastern power. Furthermore, her merchants had been carrying on an extensive trade, chiefly with Manchuria, for over half a century. Hence, when the financiers of the various powers made bids for the construction of the great central trunk line from Peking to Canton by way of Hankow, the American Chinese Development Company entered the race.

<sup>1</sup> MacMurray, "Treaties and Agreements," v. 1, p. 119.

<sup>2</sup> *Ibid.*, pp. 19-20.

<sup>3</sup> *Ibid.*, p. 112.

<sup>4</sup> *Ibid.*, pp. 1, 94, 104, 152.

<sup>5</sup> *Ibid.*, pp. 28, 124, 128.

This company had among its participants the Standard Oil Co. and the American Sugar Refining Co.<sup>1</sup> The American interests obtained the concession for the southern portion of this line in 1898.<sup>2</sup>

The contract for the northern section of the railroad was given to a Belgian concern. The American China Development Company went to the expense of making two surveys and building about thirty miles of railroad from Canton north; but the death of its directing spirit, Ex-Senator Brice, forced it to suspend work. In 1905 J. P. Morgan purchased the Belgian interest<sup>3</sup> but did not go on with the project, not being interested at that time in Chinese investment. Eventually the Hankow-Canton railway contract was cancelled, and the Chinese Government bought out all the property of the American China Development Company.<sup>4</sup> This first venture of American finance in China ended badly, but it was used later as a precedent for claims to the exploitation of Manchuria, and proved to be the beginning of a tenacious fight carried on by bankers and by the State Department for economic control of that area.

### 3. *The Open Door Policy*

One year after the American China Development Company obtained the concession for the Hankow-Canton railway, Secretary of State John Hay announced to the great powers the policy which the United States Government would follow in regard to the international battle for the exploitation of China. With a view to preventing the partition of China, and especially the absorption of Manchuria, which American business men considered their particular sphere of interest, Secretary Hay in 1899 made the formal declaration of the Open Door Policy.<sup>5</sup>

<sup>1</sup> Reinsch, *supra*, pp. 128-9.

<sup>2</sup> MacMurray, "Treaties and Agreements," v. I, pp. 519-22.

<sup>3</sup> Croly, "Willard Straight," p. 287.

<sup>4</sup> U. S. "Foreign Relations," 1905, pp. 124-5. MacMurray, *supra*, pp. 519-22.

<sup>5</sup> Overlach, "Foreign Financial Control in China," p. 199.

The Open Door Policy recognized special interests and spheres of influence, but insisted on equal opportunity in trade. In its formal aspects, the proposition submitted by Secretary Hay requested a declaration from "the various powers claiming 'spheres of influence' in China to the effect that each in its respective spheres of interest or influence—

"First. Will in no way interfere with any treaty port or any vested interests within any so-called 'sphere of interest' or leased territory in China.

"Second. That the Chinese treaty tariff of the time being shall apply to all merchandise landed or shipped to all such ports as are within said 'sphere of interest' (unless they be 'free ports') no matter to what nationality it may belong, and that the duties so leviable shall be collected by the Chinese government.

"Third. That it will levy no higher harbor dues on vessels of another nationality frequenting any port in such 'sphere' than shall be levied on vessels of its own nationality, and no higher railroad charges over lines built, controlled, or operated within its 'sphere' on merchandise belonging to citizens or subjects of other nationalities transported through such 'sphere' than shall be levied on similar merchandise belonging to its own nationals transported over equal distances." <sup>1</sup>

The purpose of the Hay doctrine was clear enough. American business men had no other means of gaining entrance into the markets of China. "There were created, through a variety of circumstances," according to Thomas W. Lamont, "a series of 'spheres of influence,' all tending to impair the independence and sovereignty of China. This policy served to divide up China commercially into almost water-tight compartments, and the nations like the United States which had no compartment could not do much trading." <sup>2</sup>

#### 4. *The Boxer Rebellion*

This doctrine was communicated at a time when the Chinese were beginning to grow restless under foreign exploitation.

<sup>1</sup> U. S. "Foreign Relations," 1899, pp. 131-133, 142.

<sup>2</sup> Lamont, "New Consortium for China," p. 2.

The restlessness culminated in the Boxer uprising of 1900. The revolt was crushed by the Powers, but its aftermath had important consequences on American policy in China. Secretary Hay took advantage of the occasion to reaffirm the Open Door doctrine in a circular communication sent to Great Britain, France, Russia, Germany, and Japan on July 3, 1900, in which he urged the Powers to co-operate to "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 the world the principle of equal and impartial trade with all parts of the Chinese Empire".<sup>1</sup> This doctrine was accepted on paper by the Great Powers, chiefly because the "balance of world power was delicately adjusted" and "they feared the consequences of independent action."<sup>2</sup>

Despite the formal acceptance of the Open Door doctrine, American interests in Manchuria continued to be threatened by Russian capitalists. In 1901, Russia, taking advantage of the Boxer Rebellion, established a measure of military control in the province. More important, she opened in the same year the Chinese Eastern Railway and established the Russo-Chinese Bank. She secured the privilege of importing oil free of tax into China. As a result the sales of the Standard Oil Company in Manchuria fell off.<sup>3</sup>

The policy of the United States toward China was clearly formulated by President Roosevelt in a speech delivered at San Francisco in 1903, in which he proclaimed that the United States was a great Asiatic Power:

"The extension of the area of our domain has been immense; the extension in the area of our influence even greater. America's geographical position in the Pacific is such as to ensure peaceful

<sup>1</sup> U. S. "Foreign Relations," 1901; "Appendix. Affairs in China," p. 12.

<sup>2</sup> Straight, "Politics of Chinese Finance," p. 3.

<sup>3</sup> Plebs League, "Outline of Modern Imperialism," p. 48. Pan, "Trade of the U. S. with China," pp. 227-232.

domination of its waters in the future, if we only grasp with sufficient resolution the advantages of that position."<sup>1</sup>

### 5. *The Manchurian Bank Project*

The fight of American capital for control of Manchuria did not begin in earnest, however, until the Russo-Japanese War of 1905, and seemed temporarily to sidetrack one of the chief contestants in that sphere. In this war, which was the result of Russian and Japanese rivalry in Manchuria, the Japanese were in part financed by Edward H. Harriman and his bankers, Kuhn, Loeb & Co.<sup>2</sup> The American government took an active part in the negotiations. The completion of the Panama Canal at this time gave the United States a strategic point for the struggle for commercial and political supremacy in the Pacific. The treaty of peace was signed on American soil at Portsmouth, New Hampshire. These facts were not without significance. American interests were conciliated by a reaffirmation of the Open Door doctrine in Articles III and IV of the treaty, applying specifically to Manchuria, America's sphere.<sup>3</sup>

Immediately after the signing of the Portsmouth Treaty, Harriman concluded a memorandum for an agreement with Marquis Ito and Marquis Katsura of Japan for joint American and Japanese ownership of the South Manchurian Railway, together with the various coal, timber and mining concessions which went with the railroad. At the time this agreement was made, the railroad was still Russian property, but was due to be transferred to Japan by Article VI of the then unratified Portsmouth Treaty. Harriman wanted the South Manchurian Railway as part of his scheme to build a railway line around the world; Japan was willing to agree to share the road with Americans while the treaty was still unratified. But one month after the ratification of the treaty, Japan and China signed

<sup>1</sup> Roosevelt, "Works," v. I, p. 393.

<sup>2</sup> Croly, "Willard Straight," p. 239.

<sup>3</sup> Bland, "Recent Events in China," p. 306.

the King agreement of December 22, 1905, by which American capital was to be excluded from the South Manchurian railroad. The scheme was opposed by powerful Japanese statesmen and never went through.<sup>1</sup>

American financiers did not give up their fight for the control of Manchuria. When the South Manchurian Railway scheme fell through, Harriman laid the plans for another line which would meet his purpose. His plans received powerful assistance from the State Department, particularly from the American consul-general at Mukden, the principal city in Manchuria. After conference with Harriman in the United States, the American consul-general reached an agreement with Governor Tang Shao-Yi of Manchuria for the creation of a Manchurian Bank with a capital of 20 million gold dollars to act as financial agent for the Manchurian government. This bank was to be established by American financiers and was to stabilize the Manchurian currency and promote railway and industrial enterprises, particularly the line from Hsin Mintung to Aigun, to be part of Harriman's round-the-world scheme. A memorandum to that effect was forwarded to Harriman in the United States on August 7, 1907. On that day the consul-general at Mukden wrote these significant and prophetic words in his diary: "Tang approves draft. Letter mailed! Fraught with tremendous possibilities. If adopted it means we play principal part in the development of Manchuria. Our influence in China tremendously enhanced."<sup>2</sup>

Consul-General Straight returned to New York in 1908 with the draft of the agreement for the Manchurian Bank. A series of conferences followed involving E. H. Harriman, Jacob H. Schiff, and Otto Kahn for the bankers; the United States State Department and the Chinese representative, Governor Tang of Manchuria, who had come to the United States expressly for the purpose of putting through the Manchurian bank deal. At

<sup>1</sup> Bland, *supra*, pp. 309-10. Straight, *supra*, p. 4. Croly, *supra*, p. 239. MacMurray, *supra*, v. 1, p. 554.

<sup>2</sup> Croly, *supra*, p. 241.

no time did the Chinese representative negotiate directly with the American financiers; all these negotiations were carried on through the State Department.<sup>1</sup>

The negotiations for the Manchurian Bank fell through, however, owing to the death of the Emperor of China and Empress Dowager in November, 1908, and the fall of the party in power which was negotiating the loan for China.<sup>2</sup>

In the same month—on November 30, 1908—Secretary of State Root and the Japanese ambassador at Washington entered into an agreement pledging their governments to respect each other's spheres of interest in China. The Root-Takahira agreement reaffirmed the Open Door principle in the Pacific, and pledged Japan and the United States to maintain the status quo in that region.<sup>3</sup>

#### 6. *The Battle for Manchurian Railways*

The death of the Empress Dowager of China and the fall of Yuan-Shi-Kai from power in 1908 brought the manoeuvres for a Manchurian bank controlled by American financiers to a standstill. But Edward H. Harriman and his bankers, Kuhn, Loeb & Co., were not ready to give up their plans for the exploitation of Manchuria. Harriman was still intent on his plan of a railroad which should girdle the globe. For such a railroad he needed a line running from some point on the trans-Siberian line to a port on the Pacific free from ice most of the year. He had been carrying on since 1906 a series of negotiations with the Russian Government for the purchase of the Chinese Eastern Railway. Russia was willing to sell this line, provided Japan, her rival in Manchuria, would give up her strategic advantage by selling to the American Bankers the South Manchurian Railway. Japan refused to do this. Harriman's next move was to plan for a parallel line running from Chinchow at the head of the Gulf of Pechili to Aigun on the Amur River.<sup>4</sup>

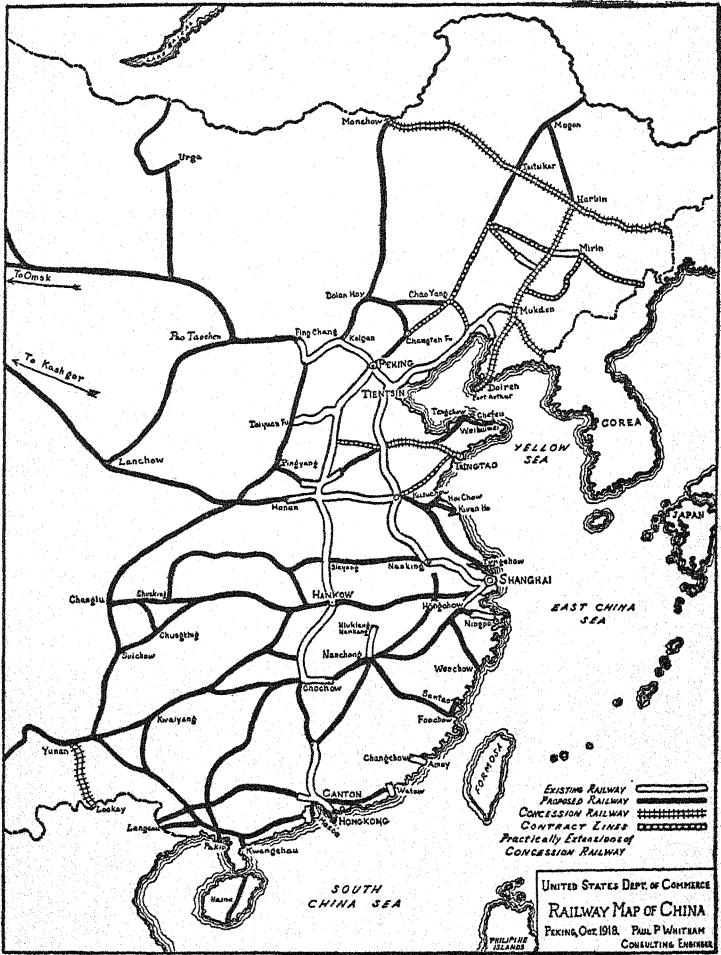
<sup>1</sup> Croly, *supra*, p. 277.

<sup>2</sup> Bland, *supra*, p. 314. Straight, *supra*, p. 5.

<sup>3</sup> U. S. "Foreign Relations," 1908, p. 510; see also Appendix III.

<sup>4</sup> Croly, *supra*, p. 297.





For the successful carrying out of this plan and of other and more important moves in Manchuria, the American bankers interested would need the fullest possible co-operation from the State Department. Assistance was promised them by the new administration. In advising against a reduction in armaments, President Taft, in his inaugural address of March 4, 1909, declared:

"In the international controversies that are likely to arise in the Orient growing out of the question of the open door and other issues the United States can maintain her interests intact and can secure respect for her just demands. She will not be able to do so, however, if it is understood that she never intends to back up her assertion of right and her defense of her interest by anything but mere verbal protest and diplomatic note."<sup>1</sup>

This declaration of intentions was the first avowal of the policy which, under the Taft administration, won the title of "Dollar Diplomacy." An opportunity soon presented itself. In May, 1909, the Chinese Government made an agreement with German, British, and French bankers for a loan to construct the Hukuang railways, involving the lines from Hankow to Szech and from Hankow to Canton.<sup>2</sup> Immediately a group of American bankers was organized to finance any concessions for railroads which American capitalists might obtain from the Chinese Government. This group was headed by J. P. Morgan & Co., to whom the management of the business was entrusted, and included Kuhn, Loeb & Co., the First National Bank, the National City Bank, and Edward H. Harriman.<sup>3</sup> The American bankers at once began to struggle for admission into the international group of bankers which was to float the Hukuang loan. Secretary Knox, four days after the announcement that China had signed an agreement with the German, British and French bankers, applied to China for the admission of the American group.<sup>4</sup>

<sup>1</sup> U. S. "Congressional Record," v. 44, p. 3.

<sup>2</sup> Blakeslee, "Recent Developments in China," p. 127.

<sup>3</sup> Croly, *supra*, p. 281.

<sup>4</sup> U. S. "Foreign Relations," 1909, p. 144.

However, as the loan had been under negotiation for several years, the Tripartite bankers and the Chinese Government objected to the delay which would be involved in reopening negotiations for admitting the American bankers. But the State Department was insistent.<sup>1</sup> While the financial representative of the Morgan group was negotiating with the Tripartite bankers in London, Secretary Knox brought diplomatic pressure to bear upon China. The American Chargé d'Affaires at Peking was ordered by the State Department to "solemnly warn the Government of China that there appears no reason to doubt that, as a result of early meetings in Paris and Berlin, the American group will reach with the European bankers an agreement for participation in the present loan by American capital." The American envoy was also to inform China that "Americans would welcome an opportunity to arrange for the whole loan, if necessary, by reason of further persistency of the individuals who refuse to meet the situation broadly."<sup>2</sup>

Other emissaries of the United States Government were equally busy fighting for participation by American bankers in the Hukuang loan. Ambassador David Jayne Hill informed the German foreign minister that he did not think his government "would find it possible to neglect the interests of American capital and enterprise in the East."<sup>3</sup>

All these diplomatic efforts seemed futile. The Chinese Government drifted, hoping the Powers would quarrel among themselves. At this point President Taft stepped in. Breaking all diplomatic precedent, he sent a personal message to Prince Chun, regent of the Chinese Empire, in which he stated:

"I am disturbed at the reports that there is certain prejudiced opposition to your Government's arranging for equal participation by American capital in the present railway loan . . . I send this message not doubting that your reflection upon the broad phases of this subject will at once have results satisfactory to both countries. . . . I have resorted to this somewhat unusually direct communication with your Imperial Highness, because of the high

<sup>1</sup> U. S. "Foreign Relations," 1909, pp. 144-178.

<sup>2</sup> *Ibid.*, p. 179.

<sup>3</sup> *Ibid.*, p. 151.

importance that I attach to the successful result of our present negotiations." <sup>1</sup>

As a result of this pressure, China and the four powers made a virtue of necessity. The American group was admitted. A preliminary agreement for the Hukuang loan was drawn up by the German, British, French and American bankers at Paris on May 23, 1910.<sup>2</sup>

The final agreement for the Hukuang loan, however, was not signed until May 20, 1911.<sup>3</sup> It was signed by the Imperial Government of China, the Deutsch-Asiatische Bank, the Hongkong and Shanghai Banking Corporation, the Banque de l'Indo Chine, and the American group, J. P. Morgan & Co., Kuhn, Loeb & Co., First National Bank, and the National City Bank. In this agreement the Imperial Government of China authorizes the bankers of the four Powers to issue a five per cent Gold Loan for six million pounds sterling. The term of the loan was forty years. The security was to be the likin, salt, and rice taxes. British, German, and American engineers were to work on the sections in which their groups were interested. The loan was made that year.<sup>4</sup>

#### 7. *Chinchow-Aigun Railway Concession (1909)*

Willard Straight, former consul-general at Mukden, was now agent for the Morgan group in China. He had been active in obtaining participation in the Hukuang loan. He was also negotiating with the Manchurian authorities for the proposed Chinchow-Aigun Railway, which was to give American capital a strategic point against its Russian and Japanese rivals. On October 2, 1909, an agreement was signed by which the Morgan group was to furnish the sum necessary to build a railway between Chinchow and Aigun, to be constructed by a British firm, Pauling & Co.<sup>5</sup>

<sup>1</sup> U. S. "Foreign Relations," 1909, p. 178.

<sup>2</sup> Ibid., 1910, p. 280.

<sup>3</sup> MacMurray, "Treaties and Agreements," v. 1, p. 866.

<sup>4</sup> Lamont, "New Consortium for China," p. 3.

<sup>5</sup> MacMurray, "Treaties and Agreements," v. 1, p. 800.

The Chinchow-Aigun agreement was signed on October 2, 1909, between the Viceroy of Manchuria and the Governor of Fengtien and the representative of the American group. The group consisted of J. P. Morgan & Co., Kuhn, Loeb & Co., the First National Bank, and the National City Bank. The contract was also signed by the British engineers, Pauling & Co. By this agreement, the provinces of Manchuria and Fengtien were to borrow from the American bankers the sum necessary to construct the railway from Chinchow to Aigun at a rate not to exceed five per cent. The interest and amortization were guaranteed by the Imperial Government. The security was to be the railway line. At the same time an agreement was drawn up between the American bankers and Pauling & Co. that at least one-half the material and equipment purchased in Europe and America for the construction of the railway should be American and that certain American engineers to be recommended by the American bankers should be employed to work on the construction of the road.<sup>1</sup>

When the Morgan representative returned with the agreement for the Chinchow-Aigun line in his pocket, the State Department thought it saw its way to realize Harriman's old scheme of neutralizing the Manchurian railways by placing them in the hands of an international group. On November 6, 1909, therefore, Secretary Knox sent a note to Britain, calling attention to the new agreement between the Chinese Government, the American financiers, and the British construction company, and making the following proposals: That China should be given a large international loan from the interested Powers (1) to bring the Manchurian Railways under an economic, scientific, and impartial administration by some plan vesting in China the ownership of the railroads through funds furnished for that purpose by the interested powers willing to participate. (2) Such loan should be for a period ample to make it reasonably certain that it could be met within the time fixed and should be upon such terms as would make it attractive to bankers and investors. (3) Nationals of the participating powers

<sup>1</sup> MacMurray, "Treaties and Agreements," v. 1, p. 802.

should supervise the railroad system during the term of the loan, and the governments concerned should enjoy for such period the usual preferences for their nationals and materials upon an equitable basis *inter se*. (4) Japan and Russia should participate in the plan as well as Great Britain and Germany.<sup>1</sup>

In this way American bankers, with the help of the State Department, hoped to prevent the absorption of Manchuria by Russia and Japan. But once more Japan refused to give up her advantage in Manchuria, and Russia would not give up the Chinese Eastern so long as Japan held on to the South Manchurian.<sup>2</sup>

France, Russia's ally, and Britain, Japan's ally, backed up their allies, and thus Knox's neutralization scheme was turned down by the Powers involved. Instead of prying their rivals loose in Manchuria, the American financiers, as a result of the Knox diplomacy, had forced Russia and Japan, who five years before had fought a bloody war, into an entente. On July 4, 1910, Russia and Japan signed an agreement to respect each other's spheres of interest in Manchuria.

Balked once more in their attempt to acquire shares in the Chinese Eastern and South Manchurian railways, the American bankers returned to their contract of October 2—that is, they proceeded with the Chinchow-Aigun railway. But Japan and Russia were not only unwilling to let American bankers control their railroads; they would not allow a rival road to be built. Although the contract of October 2 had been ratified by a Chinese Imperial Edict, and China was nominally a sovereign nation, Russia and Japan both protested to the State Department that the proposed Chinchow-Aigun railway was inimical to their interests in Manchuria. Britain tacitly supported her ally; and since the United States was not in a position to oppose the three great Powers single-handed, the Chinchow-Aigun scheme was allowed to lapse temporarily.

But by this time America's rôle in the Far East and the intimate connections between the State Department and the

<sup>1</sup> U. S. "Foreign Relations," 1910, p. 234.

<sup>2</sup> *Ibid.*, pp. 249, 251.

financial houses with investments in that part of the world had become firmly established. The policy was clearly expressed by W. W. Rockhill,<sup>1</sup> United States minister to China during the Hukuang loan and Chinchow-Aigun negotiations, when he said :

"It seems clear to me that so long as we shut our eyes to the undoubted fact that, in the East at least, from Stamboul to Tokyo, politics, finance, and trade go hand in hand, and that neither the profits of trade can be fully reaped nor our influence and prestige be adequately upheld without incurring the responsibilities incident to political and financial activity, we must be content to play a modest effaced rôle in the Far East, unworthy, in my opinion, of our great country and its vast interest in the Pacific."

#### 8. *The Six Power Loan*

The international battle for financial concessions in the Hukuang loan had two immediate effects on China: first, the Celestial Government was impressed by the power of American bankers, backed by the government at Washington, to break their way into European combinations for the exploitation of China; second, the empire was confronted with the apparition of possible and probable bankruptcy and the possibility of the complete control of China's finances by foreign capitalists.<sup>2</sup> The Manchu dynasty was tottering under the strain of foreign exploitation; unless it could stabilize the currency of the country, ruin seemed likely. A plan for a loan of 50 million dollars for the purpose of stabilizing the currency and developing the resources of Manchuria was worked out. The financial concession was offered to the American group. This plan was a new version of the agreement drawn up by Governor Tang of Manchuria and the American consul-general at Mukden in 1907 for the creation of a Manchurian bank. In effect the American group was making another attempt to carry through its plan for obtaining an "economic stranglehold" on Manchuria.

When this plan became known in the chancelleries of Europe,

<sup>1</sup> Overlach, "Foreign Financial Control in China," p. 214.

<sup>2</sup> Bau, "Foreign Relations of China," p. 63.

the British, French and German bankers suggested that the Manchurian currency and development scheme be undertaken jointly by the financiers of the four Powers. At first, the American group refused, although it had just invoked the Open Door Policy in order to obtain a share in the Hukuang loan. Later it was forced to accede to the demand for several reasons: (1) the desire of American finance to strengthen its position in Manchuria against Russia; (2) the necessity for limiting financial competition; (3) the inability of American banks to float any large volume of Chinese securities on the American market, as America was not yet a large investor in foreign securities and big industries were still absorbing American capital.

The era of international financial trusts had begun.<sup>1</sup>

On April 15, 1911, an agreement was drawn up by the bankers of the United States, Great Britain, Germany and France for floating the Manchurian currency and development loan.<sup>2</sup> The agreement was signed by the Imperial Chinese Government, J. P. Morgan & Co., Kuhn, Loeb & Co., the First National Bank, and the National City Bank; the British Hongkong and Shanghai Banking Corporation; the German Deutsch-Asiatische Bank; and the French Banque de l'Indo Chine. The agreement provided for the loaning of 10 million pounds sterling (approximately 50 million dollars) for rendering uniform the Imperial Chinese currency and providing funds for the promotion and extension of industrial enterprises in the three Manchurian provinces. The rate of interest was to be five per cent and the time of the loan was forty years. As security the bankers of the four Powers were to have a mortgage on the taxes on tobacco, production, consumption, and salt. These taxes were declared in the agreement to be free from all other loans, liens, charges or mortgages. The bankers were to have first claim on them in case of default. China could not abolish nor decrease these taxes without the permission of the bankers.

<sup>1</sup> Croly, "Willard Straight," p. 370. Bland, "Recent Events in China," p. 324.

<sup>2</sup> MacMurray, *supra*, v. 1, p. 841.



This drastic agreement was known as the Chinese Currency Loan. It marked a new stage in the financial control of China. Willard Straight, the American consul-general who had engineered the Manchurian Bank agreement, was the financial representative of J. P. Morgan & Co. and had engineered the Currency Loan. Two days after the signing of the loan, he wrote to Morgan: "The significance of the Loan Agreement signed on Saturday will be better realized five years hence than it is today. It is the first tangible result of the new policy inaugurated by Secretary Knox." In his diary, on the day the agreement was signed, he wrote: "The Currency Loan is finished. Dollar diplomacy is justified at last."<sup>1</sup> The agreement, in fact, laid the foundation for the first Chinese Consortium, which later developed into the present Consortium. It attempted to create a monopoly for the bankers of the four Powers involved. Article XVI provided that "should the Chinese Government decide to invite foreign capitalists to participate with Chinese interests in the Manchurian business contemplated under this loan, or to be undertaken in connection therewith, the contracting Banks shall first be invited so to participate." In this way, the American bankers were ready to disregard the Open Door Policy which had proved so useful to them when other Powers attempted to set up a monopoly for the exploitation of Manchuria. Against the monopoly engineered by American finance, Russia and Japan protested, demanding to be admitted on equal terms.

In the midst of these discussions the Chinese revolution of 1911 broke out. The Boxer uprising eleven years before had been a protest against the first scramble by European and American business men for concessions. The revolution of 1911 was a protest against the Manchu dynasty under whose weak and corrupt rule the intrigues of the second scramble for concessions had rendered China a vassal of foreign finance. When the Chinese Republic was established and the various Chinese factions had finally adjusted their differences, the coalition government under Yuan Shi-Kai informed the Four

<sup>1</sup> Croly, *supra*, p. 402.

Power Consortium that China proposed to borrow \$125,000,000 for general administrative reorganization. The respective governments of the groups were informed also that it was desirable that Russian and Japanese bankers be included in the consortium.<sup>1</sup> After long and complicated negotiations the Chinese were prepared to sign a contract embodying all the important demands of the bankers of the six Powers. The terms of the draft agreement were approved by the governments, who insisted in addition that foreigners be employed in important administrative posts, and as tax collectors and customs supervisors.<sup>2</sup>

This was in 1913. In that year Woodrow Wilson began his first term as President of the United States. The American bankers asked the new president what his attitude toward the proposed Six Power Loan would be. The form of the inquiry was a request that the new administration ask the American group to participate in the loan. Two weeks after taking office, President Wilson issued a statement on the new policy of the American Government toward investments in China, in which he withdrew official support from the American group headed by J. P. Morgan & Co. The statement read in part:

"We are informed that at the request of the last administration a certain group of American bankers undertook to participate in the loan now desired by the Government of China. . . . The present administration has been asked by this group of bankers whether it would also request them to participate in the loan. . . . The administration has declined to make such request because it did not approve the conditions of the loan or the implications of responsibility on its own part which it was plainly told would be involved in the request.

"The conditions of the loan seem to us to touch very nearly the administrative independence of China itself; and this administration does not feel that it ought, even by implication, to be a party to those conditions. The responsibility on its part which would be implied in requesting the bankers to undertake the loan might conceivably go to the length in some unhappy contingency

<sup>1</sup> Straight, "Politics of Chinese Finance," p. 11.

<sup>2</sup> Blakeslee, "Recent Developments in China," pp. 119-161. U. S. "Foreign Relations," 1913, pp. 170-171.

of forcible interference in the financial, and even the political, affairs of that great oriental state, just now awakening to a consciousness of its power and of its obligations to its people. The conditions include not only the pledging of particular taxes, some of them antiquated and burdensome, to secure the loan, but also the administration of those taxes by foreign agents. The responsibility on the part of our government implied in the encouragement of a loan thus secured and administered is plain enough and is obnoxious to the principles upon which the government of our people rests." <sup>1</sup>

This official indictment of the tactics and aims of financial imperialism contained an important passage which showed that the chief motive behind it was the fact that the first Wilson administration represented the industrial, rather than the financial, interests of the country. "The government of the United States," the passage declared, "is earnestly desirous of promoting the most extended and intimate trade relations between this country and the Chinese Republic. The present administration will urge and support the legislative measures necessary to give American merchants, manufacturers, contractors, and engineers the banking and other financial facilities which they now lack, and without which they are at a serious disadvantage as compared with their industrial and commercial rivals." <sup>2</sup>

As a result of the withdrawal of government support the American banking group dropped out of the Six Power Consortium, indicating the necessity of the diplomatic support for financial imperialism. The withdrawal of the American group left a Five Power Consortium, "under whose auspices the so-called Reorganization Loan of 25 million pounds was made in 1913." <sup>3</sup> Again, though the ambition of American finance to exploit China did not materialize at the time, it served to bring out clearly the dominant rôle which American capital was beginning to play in the Far East. This rôle was bringing it into sharper and sharper conflict with Japan, which was also striving to dominate the Pacific. An editorial on the Six Power

<sup>1</sup> "American Journal of International Law," v. 7, pp. 335-341.

<sup>2</sup> Ibid., pp. 338-9.

<sup>3</sup> Lamont, "New Consortium for China," p. 4.

loan in the *Asahi Shimbun* (a Japanese paper) of Osaka of May, 1912, declared:

"The United States, having no territorial concessions and no geographical facilities, has assumed the political and financial guidance of China. . . . By bold and skillful diplomacy she has outmanœuvred Japan, Russia, and England, whose rights and interests are predominant, and forced them to take a back seat."<sup>1</sup>

The outbreak of the World War in 1914—a climax in the clash of imperialist interests in various parts of the world, and not least in China—put a stop to active concession hunting. The United States, for a time the only investing country not involved, did a slight business during the carnage. In May 1916 the American International Corporation, a Morgan subsidiary organized for foreign business, obtained a contract for a loan from the Chinese Government for the improvement of the South Grand Canal in Shantung province. The agreement provided for a loan of \$3,000,000 at seven per cent for thirty years secured by the land and the taxes on the land affected by the improvement on the canal and by the tolls and taxes on the canal.<sup>2</sup> In the same month the Siems and Carey Co. of Chicago obtained a concession for building 1500 miles of railroad in China.<sup>3</sup>

The year 1917 found the United States an active participant in the World War. It also found Russia in the midst of a social revolution, and thus definitely out of the imperialistic race in China. The two remaining rivals in Manchuria could now come to an understanding. It has already been pointed out that at the height of competition for spheres of interest the competing groups agree to respect each other's spheres. For the purpose of reaching an understanding on China a Japanese mission headed by Viscount Ishii arrived in the United States and on November 2 signed a secret agreement with Secretary Lansing that was to have far-reaching effects.

The Lansing-Ishii agreement frankly committed the United

<sup>1</sup> Bland, "Recent Events in China," p. 331.

<sup>2</sup> MacMurray, "Treaties and Agreements," v. 2, p. 1287.

<sup>3</sup> *Ibid.*, pp. 1313-1324.

States to an acceptance of imperialism in the Far East. Under its terms the United States recognized "that Japan has special interests in China, particularly in the parts to which her possessions are contiguous." While disclaiming any intention of infringing on the "independence or territorial integrity of China," both governments pledged themselves to adhere to the Open Door Policy or "equal opportunity for commerce and industry." The two governments also agreed to oppose the acquisition by any other power of privileges which would infringe on such independence as China had or impair the Open Door principle.<sup>1</sup> Such an agreement was obviously an interference in the political affairs of "that great oriental state" against which Wilson had set his face four years before. In fact China protested against the Lansing-Ishii agreement, declaring that she "would not be bound by any agreement entered into by other countries, and that she would respect special interests of another nation due to territorial propinquity only in so far as they are provided in the existing treaties."<sup>2</sup>

Attempts to solve the contradictions raised by the conflict of imperialistic interests in China were made at the 1919 Peace Conference in Paris. One of the most acute problems involved the province of Shantung. This had been the German sphere of influence since 1898. In 1914 Japan took advantage of the outbreak of the war to seize the leased port of Kiauchow in Shantung and to extend her control to other parts of the province, stationing troops at strategic points. On January 18, 1915, Japan presented twenty-one demands to China, calling for a transfer of Germany's privileges in Shantung to Japan and demanding additional privileges, giving Japan complete control of the province. Japan demanded, among other things, control of South Manchuria and Eastern Inner Mongolia, including a practical monopoly of railway, mining and financial concessions, as well as police and military control.<sup>3</sup> These

<sup>1</sup> U. S. Congress, 66:1; "Sen. Doc." 106, p. 225.

<sup>2</sup> Bau, "Foreign Relations of China," p<sup>e</sup> 81.

<sup>3</sup> MacMurray, "Treaties and Agreements," v. 2, p. 1231.

demands were followed by an ultimatum threatening action. China was forced to sign treaties on May 25, 1915, granting the demands.<sup>1</sup>

During the negotiations, the government at Washington notified Japan and China that the United States "cannot recognize any agreement or undertaking which has been entered into or which may be entered into between the Governments of China and Japan impairing the treaty rights of the United States and its citizens in China, the political or territorial integrity of the Republic of China, or the international policy relative to China commonly known as the Open Door Policy."<sup>2</sup>

Japan, determined to keep Shantung if the Allies won the war, fortified herself by a secret agreement with Great Britain supporting her designs.<sup>3</sup> When the Paris peace conference considered the Shantung question, the Japanese delegation threatened to withdraw from the conference and boycott the proposed League of Nations unless Japan's claims to Shantung were ratified. President Wilson agreed to sustain Japan, chiefly for fear that if Japan withdrew from the peace conference she "would begin building up alliances of her own in the East."<sup>4</sup>

### 9. *The New Consortium*

Japan's victory at the peace conference was a blow to America's Open Door Policy, and the attempts of American business and finance to break down spheres of influence in China. The victory was offset, however, by the formation of the Chinese Consortium of 1920. Under American pressure China had entered the war on the side of the Allies in 1917. In order to finance China, the Department of State on June 30, 1918, called together representatives of the American bankers who had been interested in Chinese investment. The group consisted of thirty-six banks, headed by a managing committee of seven institutions consisting of: J. P. Morgan & Co.,

<sup>1</sup> MacMurray, "Treaties and Agreements," v. 2, p. 1216.

<sup>2</sup> Ibid., p. 1236.

<sup>3</sup> Baker, "Woodrow Wilson and World Settlement," v. 2, p. 250.

<sup>4</sup> Ibid., p. 258.

Kuhn, Loeb & Co., the National City Bank, the First National Bank, the Chase National Bank, the Continental and Commercial Trust and Savings Bank of Chicago, Lee, Higginson & Co., and the Guaranty Trust Co. of New York.<sup>1</sup> The bankers were willing to organize a combination for the purpose of floating Chinese loans, under conditions stated in a letter which they wrote to the State Department on July 8, 1918.<sup>2</sup> These conditions were:

(1) That Chinese loans be floated by a Four Power Group consisting of "financial members to be recognized by the respective Governments of Great Britain, France, Japan and the United States."

(2) That all members of the American Group should relinquish any concessions to make loans which they now hold, and all loans to China should be considered as Four Power Group business.

(3) That the United States Government "should be prepared in principle to recognize the change in our international relations, both diplomatic and commercial, brought about by the war."

(4) That the United States Government should "at the time of issue . . . make it clear to the public that the loan is made at the suggestion of the Government."<sup>3</sup>

To this frank request that the Government support the bankers in their Chinese business Secretary of State Lansing agreed. In a letter sent the following day, July 9, he declared:

(1) That "the Government has suggested that this loan be made and would have no hesitancy in formally stating that fact at the time of issue."

(2) That the Government "is willing to aid in every proper way and to make prompt and vigorous representations and to take every possible step to ensure the execution of equitable contracts made in good faith by citizens in foreign lands."<sup>4</sup>

<sup>1</sup> Lamont, *supra*, p. 4.

<sup>2</sup> Carnegie Endowment for International Peace, "The Consortium."

<sup>3</sup> *Ibid.*, p. 2.

<sup>4</sup> *Ibid.*, pp. 3-5.

The governments involved in the plan were formally notified by the State Department, and in the correspondence which followed we are able to see how completely the Government had changed its policy since Woodrow Wilson withdrew support from the old Six Power Loan of 1913. Not only was Washington willing to support the bankers, but the British Foreign Office was notified on October 8, 1918, that

"It can be definitely stated that the United States Government did not mean to imply that foreign control of the collecting of revenues or other specific security pledged by mutual consent would necessarily be objectionable, nor would the appointment under the terms of some specific loan of a foreign adviser—as, for instance, to supervise the introduction of Currency Reform."<sup>1</sup>

While the governments were exchanging notes on the Consortium, the bankers of the four Powers involved met in Paris to discuss terms. Thomas W. Lamont of J. P. Morgan & Co., who was in Paris at the time as financial adviser to the American delegation, took a leading part in the bankers' conference as representative of the American group. On May 12, 1919, the conference drew up a preliminary agreement.

Two serious obstacles had to be overcome before any real agreement could be reached. In meeting these obstacles the American bankers and the State Department combined forces. "In the succeeding months, among the four Governments involved, the United States taking the lead in the matter, there followed a long diplomatic correspondence."<sup>2</sup>

The first obstacle was the unwillingness of the French and British governments to guarantee exclusive diplomatic support to their respective groups. The draft of the bankers' agreement drawn up at Paris on May 12 stated that the groups involved were entitled to the exclusive diplomatic support of their respective governments. The United States was willing to give the Morgan group such support. It must be remembered in this connection that by this time the war had made American bank-

<sup>1</sup> Carnegie Endowment, *supra*, p. 15.

<sup>2</sup> Lamont, *supra*, p. 7.



ers the creditors of all the European Powers, and that they had already declared that Japan and the United States would have to finance the French and British groups of the Consortium. France and Britain, however, were not willing to grant their groups a monopoly of Chinese loans. They urged that other British and French groups willing to invest in China should be permitted to operate. The plan of the Morgan group finally prevailed. A compromise proposed by the State Department and accepted by the British and French governments provided that:

"The Governments of each of the four participating groups undertake to give their complete support to their respective national group members of the Consortium in all operations undertaken pursuant to the resolutions and agreements of the 11th and 12th of May, 1919, respectively, entered into by the Bankers at Paris. In the event of competition in the obtaining of any specific loan contract the collective support of the diplomatic representatives in Peking of the four Governments will be assured to the Consortium for the purpose of obtaining such contract."<sup>1</sup>

The second obstacle was, from the point of view of the American bankers and of international relations, even more serious. Japan, seeking to monopolize Manchuria and Mongolia, proposed that these two regions be excluded from the operations of the Consortium. Britain and the United States at once protested against the proposal. The American group of financiers also protested. Intricate negotiations were carried on jointly by the Morgan interests and the Department of State. Thomas W. Lamont notified the Japanese bankers that "Mongolia and Manchuria are important parts of China, and any attempt to exclude them from the scope of the Consortium must be inadmissible."<sup>2</sup> Secretary Lansing wrote to the Japanese Government that in view of the Lansing-Ishii agreement, Japan could "with entire assurance rely upon the good faith of the United States and of the other two Powers associated in the Consortium to refuse their countenance to any operation

<sup>1</sup> Great Britain, "Miscellaneous," no. 9 (1921), p. 32.

<sup>2</sup> Carnegie Endowment, *supra*, p. 21.

inimical to the vital interests of Japan."<sup>1</sup> Meantime Lamont "with the approval of the State Department at Washington"<sup>2</sup> went to Japan in person. After protracted negotiations a compromise was reached which was accepted by all the Powers involved. The rôle of the State Department in financial negotiations of an international character is tersely expressed in its memorandum of April 3, 1920, declaring that "the American Government is prepared to agree to the terms of the compromise proposed by Mr. Lamont in Tokyo."<sup>3</sup> By this compromise the South Manchurian railway and a number of other lines "upon which substantial progress had already been made by the Japanese"<sup>4</sup> were excluded from the scope of the Consortium; but the projected Taonanfu-Jehol railway and the projected railway connecting a point on the Taonanfu-Jehol railway with a seaport were to be included in the operations of the Consortium.<sup>5</sup>

Japan having waived the reservations regarding Mongolia and Manchuria, the American group was now in a position to close the deal. On October 15, 1920, the Chinese Consortium agreement was drawn up and signed in the Chamber of Commerce Building in New York City by representatives of the Hongkong and Shanghai Banking Corporation, the Banque de l'Indo Chine, the Yokohama Specie Bank Limited, and the American Group consisting of J. P. Morgan & Co., Kuhn, Loeb & Co., the National City Bank, the Chase National Bank, the Guaranty Trust Co. of New York, Lee, Higginson & Co., and the Continental and Commercial Trust and Savings Bank of Chicago.

After the agreement was signed, China received her first formal notification of the Consortium.<sup>6</sup> Up to that point that "great oriental state" whose sovereignty had been so often guaranteed by the State Department had not been consulted.

<sup>1</sup> Carnegie Endowment, *supra*, p. 39.

<sup>2</sup> Lamont, *supra*, p. 8.

<sup>3</sup> Carnegie Endowment, *supra*, p. 54.

<sup>4</sup> Lamont, *supra*, p. 9.

<sup>5</sup> Carnegie Endowment, *supra*, p. 61.

<sup>6</sup> *Ibid.*, p. 73.

*10. China as an American Sphere of Influence*

The Consortium agreement, backed by America's dominant economic position, achieves the end toward which American investors and the State Department have been striving since 1900. China has become an American sphere of influence.<sup>1</sup>

The purpose of the Consortium, according to the agreement, is to negotiate and carry out Chinese loan business, more specifically loans to the "Chinese Government or to Chinese Government Departments or to provinces of China or to companies or corporations owned or controlled by or on behalf of the Chinese Government or any Chinese Provincial Government." Articles 3 and 4 provide for complete equality among the groups in all business undertaken by the Consortium, and reserve freedom for each group to decline to participate in any business which it does not desire to undertake. Article 5 provides that, so far as possible, the parties to any operation shall not be jointly liable, but that each group shall be obliged to liquidate its own engagements. Under Articles 6 and 7 any group which cannot issue Chinese bonds in its own market may request the other groups to include its share in their own issue. This last provision indicates the true situation in the Far East today. America, creditor of half the world, has leaped to the front as the dominant western Power in the Orient.

"Owing to the war the British and French markets may be unable for some few years to come to purchase any large amount of foreign securities either of China or of any other nation. The American group, therefore, has by force of circumstances, jumped from an inconspicuous position in the old Consortium to one of prime importance in the new.

"In this, America, as represented through the group, should be equipped to play a very active part. If so equipped she will be able . . . to lay out, with her experienced partners of Great Britain, France and Japan, a sound and comprehensive plan for the economic and financial development of China. . . . Through her

<sup>1</sup> Carnegie Endowment, *supra*, p. 67.

representatives at Peking she will be able sympathetically to wield influence upon the present confused elements.”<sup>1</sup>

The new Consortium is thus the fruition of the two major policies attempted by the State Department in regard to China. First, it marks the triumph of the Open Door, since it gives American capital free access to the markets of China; second, it revives the Knox neutralization scheme, since all the railroads and other public utilities constructed by the Consortium will be internationally controlled, with America and Japan playing the leading rôle.<sup>2</sup> The old spheres of influence will be abolished and China will be turned into one sphere of influence to be exploited by an international financial trust. “We shall see no more ‘spheres of influence’ set up in China.”<sup>3</sup> Since President Roosevelt turned the Boxer indemnity into a fund for the education of Chinese students in the United States, this country has been the traditional friend of China, a pose which has not been modified by incidents like the Chinese Exclusion Act of 1905. Nevertheless the new Consortium must not be looked upon as “an eleemosynary institution,” according to Thomas W. Lamont, for “it cannot possibly function unless it has a fair margin of profit.”<sup>4</sup> Under the new Consortium the American group becomes the leading factor in the construction of the Hukuang Railways, for a share in which it fought so hard in 1909. The formation of the Consortium was fostered by the Wilson administration; on March 31, 1921, Secretary of State Charles E. Hughes notified J. P. Morgan & Co. that he approved of the objects of the Consortium.<sup>5</sup> The success of the American financiers in making China an international sphere of economic influence, thereby giving American capital free access to it, received international diplomatic recognition at the Washington Arms Conference which met from November 12, 1921, to February 6, 1922. It

<sup>1</sup> Lamont, *supra*, pp. 17-18.

<sup>2</sup> *Ibid.*, p. 14.

<sup>3</sup> *Ibid.*, p. 17.

<sup>4</sup> *Idem.*

<sup>5</sup> Carnegie Endowment, *supra*, p. 74.

is significant that the Conference dealt with the question—Armaments and the Far East.

The agreements reached by the Conference regarding the Far East marked the triumph of American policies. The Open Door was reaffirmed once more, and the old Knox scheme of halting the battle for spheres of influence was realized.

The Four Power Treaty signed at the Conference by the United States, France, Great Britain and Japan, bound the Powers to maintain the status quo in the Pacific. The four governments pledged themselves to "respect their rights in relation to their insular possessions and insular dominions in the region of the Pacific Ocean." A supplementary treaty stipulated that the term "insular possessions and insular dominions" shall, in the case of Japan, apply only to the southern portion of Sakhalin, Formosa and the Pescadores.

For the United States the most important section of the Four Power Treaty was Clause IV, providing that as soon as the treaty was ratified by the four Powers, "the agreement between Great Britain and Japan, which was concluded at London on July 13, 1911, shall terminate."<sup>1</sup> With Japan the most formidable rival of American financial and political interests in the Far East, Senator Lodge could frankly tell the Senate on March 8, 1922, that "the chief and most important point in the treaty is the termination of the Anglo-Japanese Alliance. That was the main object of the treaty." Senator Lodge added that "the Anglo-Japanese Alliance was the most dangerous element in our relations with the Far East and with the Pacific."<sup>2</sup>

The Nine Power Treaty signed at the Washington Conference dealt with China directly. The United States, Belgium, Great Britain, France, Italy, Japan, the Netherlands, Portugal and China signed the treaty. The Powers agreed to respect the sovereignty, independence, and territorial and administrative integrity of China; they once more pledged themselves to observe the Open Door principle. None of the Powers was to

<sup>1</sup> U. S. Congress, 67:2, "Sen. Doc." 126, pp. 889-91.

<sup>2</sup> U. S. "Congressional Record," v. 62, March 8, 1922, p. 3547, 3552.

take advantage of the chaos in China to obtain special privileges inimical to the other Powers. Regarding spheres of influence and the race for concessions the treaty provided that no government would seek, or support its citizens in seeking, special commercial or economic advantages over the citizens of the other Powers. The governments involved were not "to support any agreements by their respective nationals with each other designed to create Spheres of Influence or to provide for the enjoyment of mutually exclusive opportunities in designated parts of Chinese territory." China pledged herself not to discriminate unfairly against any of the Powers in the use of her railroads.<sup>1</sup>

China requested the Powers represented at the Washington Conference to express their avowed respect for her territorial and administrative integrity by restoring her right to fix her own tariff, and abolishing foreign courts on Chinese soil. China's tariff in the treaty ports was fixed at a maximum of five per cent ad valorem by the Anglo-Chinese treaty of Nankin signed in 1842. This tariff agreement was embodied in the treaty of 1844 between China and the United States.<sup>2</sup> Foreign supervision of the collection of Chinese customs dates back to 1853, when Shanghai was captured by the Taiping rebels and the customs were closed. The foreign consuls began to collect the customs, and the following year the American, British and French consuls obtained treaties from China providing for the establishment of a foreign board of customs inspectors. In 1858 foreigners began to enter the Chinese customs administration, and by 1922 the Chinese foreign minister was able to declare that not one of the forty-four tariff commissioners in the treaty ports was a Chinese.<sup>3</sup> At the Washington Conference the Chinese delegation maintained that the present five per cent tariff was a continual financial loss to their government, and that China could not be as stable as the Powers said they wanted her to be unless she regained her tariff autonomy.

<sup>1</sup> U. S. Congress, 67:2; "Sen. Doc." 126, pp. 893-6.

<sup>2</sup> *Ibid.*, p. 172.

<sup>3</sup> *Ibid.*, p. 187.

The Conference did not restore China's right to fix her tariff, but provided for a revision of the tariff so as to really equal five per cent under present world financial conditions, and for a conference to consider the tariff question.<sup>1</sup>

Similarly, the Chinese delegation complained that the extraterritorial courts maintained by the foreign Powers in China were a violation of her sovereignty, and asked for their abolition. Extraterritorial rights were obtained by the United States from China by the treaty of 1844. Other Powers obtained the same privilege shortly afterward. In the commercial treaty of 1903 with China the United States promised to give up extraterritorial rights "when satisfied that the state of the Chinese laws, the arrangements for their administration, and other considerations warrant it in so doing."<sup>2</sup> The same words were embodied in the British-Chinese commercial treaty of 1902<sup>3</sup> and the Japanese-Chinese commercial treaty of 1903.<sup>4</sup> The Washington Conference did not abolish extraterritorial rights, but adopted a resolution providing for a commission to consider the question, specifying that the foreign Powers are free to accept or reject the commission's recommendations.<sup>5</sup>

In many ways the Washington Conference achieved politically what the Morgan group of bankers had already achieved economically by the Chinese Consortium. Not only was the Open Door Policy strengthened, but the Powers agreed not to seek further spheres of influence in China. The last point was emphasized by President Harding in a letter urging the Senate to ratify the Washington Conference treaties. He also declared that the Nine Power Treaty superseded the Lansing-Ishii agreement of 1917 recognizing Japan's special interests in China.<sup>6</sup> On April 16, 1923, it was announced that the governments of Washington and Tokio had formally agreed

<sup>1</sup> U. S. Congress, 67:2; "Sen. Doc." 126, pp. 897-901.

<sup>2</sup> MacMurray, "Treaties and Agreements," v. I, p. 431.

<sup>3</sup> *Ibid.*, p. 351.

<sup>4</sup> *Ibid.*, p. 414.

<sup>5</sup> U. S. Congress, 67:2; "Sen. Doc." 126, pp. 903-4.

<sup>6</sup> U. S. "Congressional Record," v. 62, p. 3559.

to cancel the Lansing-Ishii agreement. However, the Root-Takahira agreement of 1908, pledging the United States and Japan to maintain the status quo in the Pacific, is still in effect.<sup>1</sup>

The influence of the Chinese Consortium made itself felt in the Shantung agreement which was a by-product of the Washington Conference. The negotiations between China and Japan regarding Shantung were attended first by Secretary of State Hughes and Sir Arthur Balfour, later by other American and British representatives. The result was an arrangement which deprived America's chief rival in the Far East of an important strategic base, and turned over some of the concessions which Japan had monopolized to the Consortium. The agreement between China and Japan provided for the restoration of Shantung to China and the withdrawal of Japanese troops from the province. China was also to buy from Japan the Shantung railway running from Tsingtao to Tsinanfu with money borrowed from Japan for a term of fifteen years.<sup>2</sup> However, it was agreed that "the concessions relating to the two extensions of the Tsingtao-Tsinanfu, namely the Tsinanfu-Shunteh and the Kaomi-Hsuchowfu lines, will be thrown open for the common activity of an international financial group."<sup>3</sup> As the Consortium has a monopoly on Chinese loans, American bankers may become heavily interested in these railway extensions.

America's openly declared aim of achieving ascendancy in the Pacific, which has been rigorously pursued by the inseparable combination of finance and diplomacy, has brought her into collision again and again, first with Russia and Japan, and later with Japan alone. As far back as 1907 Baron Kaneko declared: "We must do our utmost in disputing this command of the Pacific with the United States, and also do our best in the control of the Far Eastern markets."<sup>4</sup> More recently (1919) Prof. John Dewey, returning from the Far East, wrote:

<sup>1</sup> "New York Times," April 16, 1923, p. 3:1.

<sup>2</sup> U. S. Congress, 67:2; "Sen. Doc." 126, pp. 125-31.

<sup>3</sup> *Ibid.*, p. 128.

<sup>4</sup> "Pacific Era," v. 1, p. 15.



"In the interests of truth it must be recorded that every resident of China, Chinese or American, with whom I have talked in the last four weeks has volunteered the belief that all the seeds of a future great war are now deeply implanted in China."<sup>1</sup>

Japan looks upon the Far East as her exclusive economic empire. She has developed an Asiatic Monroe Doctrine proclaiming "Asia for the Asiatics." Her attempt to keep Mongolia and Manchuria out of the operations of the new Consortium were in effect part of her struggle to reserve for herself exclusive economic domination in the Far East much as the United States reserves to herself the exclusive right to dominate the Western Hemisphere. The pressure brought to bear by the Morgan group and the State Department for Japan to withdraw her claims were a challenge to Japanese imperial plans.

## II. *The Near East Sphere of Influence*

American investments in the Near East, chiefly in tobacco and oil, have turned that section of the world into an American "sphere of influence." The extent to which the government at Washington has been willing to back up American investors in that region is described in the following statement issued by the United States Bureau of Naval Intelligence.

"We have extensive interests in the Near East, especially in tobacco and petroleum. Early in 1919 several American destroyers were ordered to Constantinople for duty in the Near East. . . . The possible development of the economic resources of this part of the world were very carefully investigated by representatives of American commercial interests. These representatives were given every assistance by the Navy, transportation furnished them to various places, and all information of commercial activities obtained by the naval officers in their frequent trips around the Black Sea given them. . . . The Navy not only assists our commercial firms to obtain business, but when business opportunities present themselves, American firms are notified and given full information on the subject. . . . One destroyer is kept continually at Samsun, Tur-

<sup>1</sup> Dewey, "China, Japan, and the U. S. A."

key, to look after the American tobacco interests at that port. . . . The American tobacco companies represented there depend practically entirely on the moral effect of having a man-of-war in port to have their tobacco released for shipment."<sup>1</sup>

One of the naval officers stationed in Turkish waters obtained a concession which placed enormous sources of wealth at the disposal of American investors. In 1909 this officer, Rear-Admiral Colby M. Chester, obtained a preliminary agreement from the Turkish Government for the building of a port and railways and the exploitation of mines by American capital. President Roosevelt fostered the enterprise. On its way home from its trip around the world, the American fleet was directed to stop at Smyrna and take a number of Turkish officers on board "in the interest of the American concession."<sup>2</sup> The attempts of the Chester interests to have the agreement ratified met with serious rivalry from the Bagdad Railway Company, a group of German capitalists. Ratification was also delayed by the Turkish revolution. In 1910 the grant was signed by the new Minister of Public Works, and submitted to the Turkish Parliament for ratification. This victory of American over German capitalists was due in large measure to the assistance of the State Department.

During the negotiations, Secretary Knox, ready to extend "dollar diplomacy" to all spheres in which American finance might be interested, informed Admiral Chester of his deep interest in the concession; and Assistant Secretary of State Huntington Wilson, who arrived in Constantinople in 1909 to attend the coronation ceremonies of the new Sultan, publicly stated that the object of his visit was to aid the Chester Claim.<sup>3</sup> Furthermore . . . "After the convention was submitted to the Turkish Parliament, every Government in Europe, through the Chancelleries in Constantinople, recognized the successful termination of the contest by sending congratulations to John Ridgely Carter, the Acting American Ambassador in Constan-

<sup>1</sup> Bierstadt, "Great Betrayal," p. 97.

<sup>2</sup> "Current History Magazine," v. 16, p. 955.

<sup>3</sup> Ibid., p. 957.

tinople, for his diplomatic efforts in securing the concession."<sup>1</sup>

But again the Chester interests were confronted by difficulties. In rapid succession Turkey was involved in a war with Italy (1911), in the two Balkan wars of 1912, and finally in the World War. These did not affect the plans of the Chester group, however. In 1912 the Ottoman American Development Company was organized to exploit the concession. The company was organized with the understanding that it "would receive the strong backing of the home Government," according to Henry Woodhouse, who adds that "no attempt to open up trade for American citizens in a foreign country ever received more cordial and helpful cooperation from the Federal Government than that accorded to the Chester group."<sup>2</sup>

During the World War, the Chester grant was in abeyance, but in 1922 it came to the front again. The Ottoman American Development Company was reorganized with General George W. Goethals as president. On April 11, 1923, the Turkish National Assembly extended the Chester concession and on April 30, a convention putting the concession into effect was signed at Angora by the Turkish Minister of Public Works and by the American company. The new concession was three times as large as the old and one of the richest in the world.<sup>3</sup>

By this agreement, the Chester group is to build three systems of railways aggregating 2,714 miles so laid as to interconnect with the present railroads. One section is to extend from Alexandretta Bay to Harput, then to Arghana, where the great copper mines are located, then to Bitlis; then on through Mosul to Kerkuk and to Suleimanieh. To this a section would be added to extend from Harput to Sivas by way of Chalty and from Harput to Van, crossing two great oil fields.

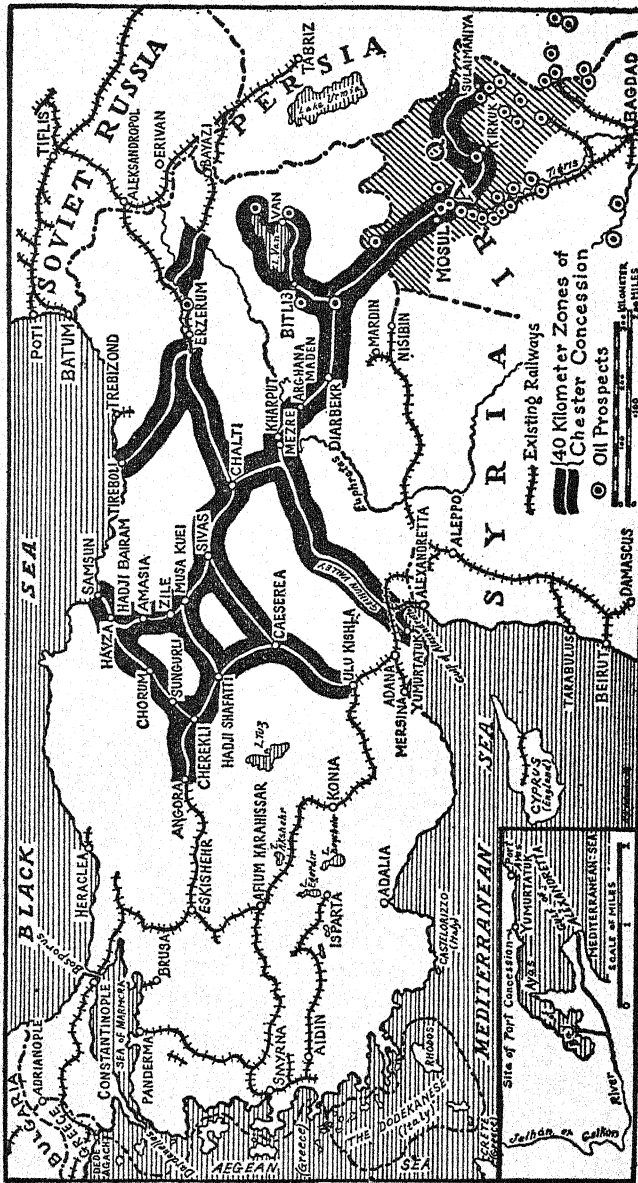
The second division is to run from Angora to Sivas to Samsun, which is destined to become the outlet and inlet for commerce on the Black Sea; and from Chalty to the Black Sea, with a parallel branch from Trebizond to Erzerum.

<sup>1</sup> "Current History Magazine," v. 16, p. 957.

<sup>2</sup> Ibid., p. 958.

<sup>3</sup> Ibid., v. 18, pp. 393-490.

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Redrawn from Map in N.Y. Times Apr. 22, 1925

The third division is to connect Angora with Samsun by way of Yozgad, and the Angora-Sivas line with the Uhr Kishla terminal of the Bagdad Railway by way of Cesaria with a branch to Sivas and a section to extend from Erzerum to Bayezed on the Persian Border.<sup>1</sup> In this the American group would lay out a network of railways covering the country.

But more than that, the Chester interests obtained the mineral rights to the territory 20 kilometers on each side of the railroads. These mineral resources are valued at ten billion dollars. The oil fields of Erzerum, Bitlis and Van are estimated to have potentially over eight billion barrels of oil. The Arghana copper mines are estimated to have 200 million tons of high grade copper ore. These territories are also rich in oil, gold, platinum, silver, iron, lead, zinc, tin, mercury, cobalt, manganese, nickel, antimony, coal and salt.<sup>2</sup>

### 12. *The Struggle for Oil*

In its advance in the Far East American capital met the opposition chiefly of Japan; in its attempts to exploit the Near East it was bound to collide with Great Britain, which for years has had a sphere of influence there. The fate of the Chester grant was complicated by the conflict of the Standard Oil Company and the British oil interests for the enormously rich petroleum area in Mesopotamia. The vilayet of Mosul, which was included in the Chester grant, was also included in a concession obtained before the war by the Turkish Petroleum Company, a British concern. In addition, this section was marked off as a British sphere of influence by an Anglo-French agreement signed during the war, and after the armistice when British troops occupied Mosul. By the Treaty of Sevres, drawn up by the San Remo Conference of 1920 to settle the Turkish question, Mesopotamia, which later became the Kingdom of Iraq, was made independent. Britain was given a mandate over it by the League of Nations. The Mosul area, included in the Chester grant, thus became British territory.

<sup>1</sup> For map see "Current History Magazine," v. 17, p. 395.

<sup>2</sup> *Ibid.*, p. 393 ff.

Furthermore, at San Remo, France and England signed on April 25, 1920, an agreement by which the French were given a 25 per cent interest in the Turkish Petroleum Company, with a concession to the oil rights of Mosul.<sup>1</sup>

At this point, the Standard Oil Company put in its claim for a share in the exploitation of the Mosul field on the basis of the Open Door Policy. Behind the attempts of Standard Oil to penetrate into the fields of the Near East, the entire government machinery at Washington lined up. On March 12, 1920, the Senate requested information as to what restriction foreign countries were putting upon citizens of the United States "in the matter of prospecting for petroleum or in the acquisition and development of land containing the same" and what steps the Government was taking to secure the removal of these restrictions. During the summer of 1920 a vigorous correspondence over the question of oil was carried on between Washington and Downing Street. When the news of the San Remo agreement became public, Secretary of State Bainbridge Colby on November 20, 1920, dispatched a protest to Great Britain against the exclusion of American interests from mandates established under the League of Nations, even though the United States was not a member of the League.<sup>2</sup> Secretary Colby maintained that the San Remo oil agreement violated the Open Door principle, and constituted a premature recognition of the Turkish Petroleum Company's concessions to which the United States Government could not subscribe. Lord Curzon replied that the concession in Mesopotamia had been obtained by the Turkish Petroleum Company before the war; to which Colby countered that "such information as this government has received indicates that prior to the war the Turkish Petroleum Company . . . possessed in Mesopotamia no right to petroleum concessions or to the exploitation of oil."<sup>3</sup> The controversy became even sharper with the inauguration of the Harding

<sup>1</sup> Great Britain, "Miscellaneous," no. 11 (1920). "Political Science Quarterly," v. 39, pp. 265-279.

<sup>2</sup> "London Times," April 6, 1921, p. 9.

<sup>3</sup> Davenport and Cooke, "Oil Trusts," p. 103.

administration. The State Department also made strenuous efforts to open up Palestine to the Standard Oil Company, which had claims there, and also carried on a struggle with the British Foreign Office over the oil fields in Djambi—again in behalf of Standard Oil.<sup>1</sup> The Department even went so far as to demand on February 1, 1921, that the League of Nations Council which was meeting in Paris reconsider the question of the mandates over former German colonies. Meantime, the Standard Oil Company was carrying on private negotiations with the oil magnates in London with the result that in July, 1922, the American trust was offered a share in the Turkish Petroleum Company.<sup>2</sup> Thus Mosul was now contested by the Turkish Petroleum Company, in which the Standard Oil Company had a hand, and by Chester's Ottoman American Development Company. To cap the climax, the Turks demanded back the oil fields not only of Mosul, but of two other fields comprised in the Chester grant; while the French produced a pre-war claim to a railway from Samouv to Sevas, also included in the Chester grant. The validity of the Turkish Petroleum Company's claims depend, in part, on the final disposition of Mosul.<sup>3</sup>

The first Lausanne Conference, which met from November, 1922, to February, 1923, was devoted primarily to straightening out conflicting oil claims in the Near East. On behalf of the Standard Oil Company, the State Department had already invoked the Open Door Policy. Now, at the Lausanne Conference, Richard Washburn Child, the American ambassador at Rome, who attended as an "unofficial observer," declared that the American Government once more repudiated the San Remo agreement and would "protect its rights and assure the Open Door." The Conference settled very little and another conference was called at Lausanne lasting from April until July 1923. The convening of this Conference was marked by the public announcement that the Chester grant had received its

<sup>1</sup> U. S. Congress, 68:1; "Sen. Doc." 97. •

<sup>2</sup> L'Espagnol, "World Struggle for Oil," p. 170. "Political Science Quarterly," v. 39, p. 275. •

<sup>3</sup> Ibid., p. 276.

final approval by the Angora Government. Mosul again became the battleground of the Anglo-American-French interests united in the Turkish Petroleum Company and the Chester group. The State Department officially threw its support to the American interests by instructing its "unofficial" representative at the conference, Joseph C. Grew, to reaffirm that the United States did not recognize the validity of the Turkish Petroleum Company's concession.

Secretary Hughes at this time denied that the Chester group "had been promised moral or political endorsement or have received assurances that in the event of any dispute this Government would be bound to defend the validity of the concession."<sup>1</sup>

Recent reports indicate that after a two-year fight between American and British investors in the Ottoman American Development Company, control has been definitely vested in the hands of Americans headed by Admiral Chester and his sons. Of the Company's stock, 3,000 shares are in the hands of Americans as against 7,000 shares controlled by British interests. Negotiations are being conducted for taking over most of the 7,000 shares, giving the Chester group almost 100 per cent control of the company. The company's concession having been approved by the Angora Government, the Chester group is planning to carry out its plans for building the Bagdad Railway, and to work its oil and mineral claims.<sup>2</sup>

In March, 1925, it was officially announced that the cabinet of the Kingdom of Iraq had signed an agreement with the Turkish Petroleum Company granting it a concession to exploit the oil fields in Mosul and Bagdad for seventy-five years. The negotiations begun in 1922 to admit American groups into the Turkish Petroleum have been completed. As the company is organized at present it consists of the Anglo-Persian group with 25 per cent of the stock; the French groups, 25 per cent; the Royal and Shell, 25 per cent; The Standard Oil Co. and the Sinclair Consolidated Oil Corporation, 25 per cent.<sup>3</sup> Thus the

<sup>1</sup> "Current History Magazine," v. 19, p. 485.

<sup>2</sup> "New York Times," May 28, 1925, p. 25:2.

<sup>3</sup> "Investor's Review," v. 48, p. 273.



Chester group and the American Oil groups have definitely established a sphere of influence in the Near East.

### 13. *An International Trust*

The policy of cut-throat competition for "spheres of influence" in the Far East has been replaced by the American policy of an international trust for the exploitation of China. In this trust, known as the Chinese Consortium, the American group of bankers plays the leading rôle owing to America's dominant economic position in the world. This trust will handle all future loans and concessions in China. It has been backed up by the Nine Power treaties signed at the Washington Arms Conference. This attempt at the financial annexation of China by the Morgan group of banks will leave the United States and Japan dominant rivals in the Far East.

In the Near East, the State Department has succeeded in opening a sphere of influence for the Standard Oil Company. In addition American warships are stationed there to assist American traders and investors. Again an international trust of British, French and American interests has been formed, in the shape of the Turkish Petroleum Company, for the exploitation of Near Eastern oil fields.

"It is surely obvious," wrote Franklin K. Lane, former Secretary of the Interior, in 1920, "that if not only nationals, but States themselves, represented by Governments, take part in economic competition, and turn themselves into business houses or manufacturing firms, there is no hope of appeasing the conflicts which will constantly arise from commercial rivalry."<sup>1</sup>

<sup>1</sup> L'Espagnol, "World Struggle for Oil," p. 183.