

March 29.

Carr, U.S. Minister at Prague, cabled a summary of the Prime Minister's speech of the 28th. After noting the reference in the speech to future minority measures, Carr said "no mention made of new measures though they are probable since in addition to Chamberlain's suggestion we know that British and German ministers think further measures and improved administration essential."

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Warsaw. No. 38, March 29, 4 p.m.

"One. I learn following in strictest confidence from Beck and his associates:

"(A) Beck gained distinct impression in conversations with Mussolini and Ciano during Beck's recent Rome visit that they both shared Beck's view in respect to Danubian Valley: whereas Italy focused its attention on the Mediterranean and Poland on the Baltic neither would like to see the hegemony of any country develop further in the Danubian Valley.

"(B) Of pertinent interest moreover during adjournment of Anglo-Italian conversations Mussolini had recently pointed out Italy was fundamentally interested in ascertaining the extent to which Britain would be interested in doing something to bring about economic and other appeasement in that area which had been disturbed by recent events (such as Austria). My informants added that in other words Mussolini's soundings on this score indicated Mussolini's interest in embarking on a potential counter policy vis a vis Germany's suspected aspirations in Danubian Valley; the counter policy envisaging economic assistance to rescue the Danubian and Balkan states from being swept into the German camp.

"Two. My informants added their opinion that Britain would probably be inclined to leave treatment of this problem in abeyance until current obstacles still retarding an Anglo-Italian solution of the problem in Spain will have been eliminated."

BIDDLE

*no. 45
I.E. McFarland
notary*

Kisseloff-24148

*For
PPA*

445

Government's Baltimore Exhibit 45

Japan

14

Government's Baltimore Exhibit 46

On March 30 the Department cabled to the U.S. legations at Costa Rica and at Panama:

"The Department has learned from a presumably reliable source that certain Japanese have approached the E.W. Creevy Trading Company with respect to the ~~possibility~~ possible purchase of a manganese mine said to be owned by that company on Cocos Island."

March 31. The U.S. legation at Panama replied:

"Neither of Creevys in Panama since December nor has shown active interest in Panama manganese although reported developing Guanacaste, Costa Rica, deposits. No manganese deposit or Creevy interest in Costa Rican Cocos Island heard of in presumably informed sources in Panama but confirmation by the Legation at San Jose is suggested.

"Creevys reputedly capable of such deal or of publicising fictitious foreign offer for promotion purchases."

April 1. U.S. Legation at San Jose, Costa Rica, cabled that there were no manganese deposits on Cocos Island, that the Creevys had available 4,000 tons on the Guanacaste coast of Cocos Bay.

March 31. The Fourth Regiment of U.S. Marines stationed at Peiping (?) cabled that one regular Japanese division had recently been transferred from Central China to Japan.

March 23. U.S. consul at Dairen in a cable referring to commercial treatment of American products stated that a few days before a permit entry had been granted for 1,000 American motor trucks purchased by the authorities in Hsinking.

*Mr. 46
L.S. M. Safford
Secretary*

Kisseloff-24149

*For
DPN*

246

74-1333-5254

6083

Kisseloff-24150

England

On March 25, Kennedy, U.S. Ambassador to London, cabled about the British desire to proceed without delay with discussions under paragraph 3 of Article 25. The cable added:

"Captain Wilson in conversation with Admiralty officials was told that the British are anxious to fix a limit of about 42,000 tons which they believe will give a well balanced ship carrying nine 16 inch guns. They feel that the next higher logical limit would be about 47,000 tons, providing a balanced ship of twelve 16 inch guns."

On March 30 Hull replied by cable agreeing to proceed at once with the discussions under paragraph 3 of Article 25.

A typed despatch of February 26 from the ~~Hague~~ American Minister to the Hague referred to his despatch No, 182, dated February 14, "wherein it was reported that a secret understanding has existed since 1934 between the Netherlands and ~~British~~ British air forces."

Germany

On March 30, Wilson, U.S. charge at Paris sent cable No. 497, 8 p.m., as follows:

"A German friend formerly in the diplomatic service who maintains relations with Von Neurath has just arrived here from Berlin. He tells me that the leaders of the party are urging Hitler to move quickly against Czechoslovakia in order to take advantage of the favorable situation created by French weakness and British unpreparedness. Their thought is that when the Czechoslovak proposal for dealing with minorities is known it should be treated as a sort of Berchtesgaden arrangement, denounced as unsatisfactory, disorders to take place in the Sudeten country with an appeal for the assistance of German troops."

"My informant said that Von Neurath and others were playing for time and counseling that no aggressive action be taken at least until after Hitler's visit to Rome."

Italy

April 1, Wilson, U.S. consul at Genoa, cabled:

"Have just heard from reliable confidential source that order issued last Tuesday placing fleet from La Spezia to French boundary under 6 hours sailing orders has now been cancelled."

Government's Baltimore Exhibit 47

Lw
PPN

No. 47
T. E. Kennedy

#47

74-1333-5354

0304

734

Kisseloff-24152

Rome, 77, March 29, noon

44-73

Government's Baltimore Exhibit 43

"My 69, March 20, noon.

"The Embassy learns that in the course of the conversations between Ciano and the British Ambassador on March 26 the British requested assurances that at the end of the war all Italian volunteers should leave Spanish territory and that all Italian war material would be withdrawn. These assurances were given the following day but the Italian Government has reserved the right to sell or to give certain quantities of war materials to the Franco Government when they are no longer needed by the Italian forces in Spain.

"The Ambassador also requested that some official Italian recognition be given to those passages in Chamberlain's recent speech which referred to the satisfactory progress of the negotiations with Italy. This was likewise agreed and the Informazione Diplomatica communique quoted in the Embassy's telegram No. 76, March 28, 6 p.m., was issued. The British Ambassador adds, however, that he had no prior knowledge of last paragraph containing the warning against French intervention.

"Assurances were also given by the Italian Government that it would start almost immediately to withdraw troops from Libya at the rate of a thousand a week until the normal peace strength or about one-half the present garrison has been reached.

"Several other minor points to be clarified but it is believed that only outstanding major question to be resolved relates to the form and publicity of the agreement. It has been agreed that it will take the form of a general protocol with separate instruments covering the various points included in the conversations to enter into force at a date to be set by the two governments. This would permit the British to determine what progress had been made in Spain and the Italians to await recognition by ~~Britain~~ Great Britain. The Italian Government is, however, anxious to make public the terms before Hitler's visit and is insisting upon some form of public pledge on the part of Great Britain with respect to the recognition of the Empire.

"It is not yet known whether the British Government will be willing to make such a public pledge before the League Council meeting.

"It has, however, been proposed that there be a public exchange of letters between the British Ambassador and the Italian Foreign Minister setting forth the understanding on the part of the British Government to go to Geneva with a view to ultimate recognition of the Empire and the reaffirmation of Italian commitments with respect to Spain. The Ambassador is seeking instructions on this point and believes that the negotiations may be speedily concluded if his Government is willing to accept this proposal."

PHILLIPS

*Mr 43
T.E.
Mrs J. Gould
M. T. J.*

*File
202*



Kisseloff-24153

March 28. Grew, U.S. Ambassador to Tokyo, cabled that the Commercial Attache had been informed by an official of the Bank of Japan of the following gold shipments (presumably to the U.S.): 20,000,000 yen on March 27 via the Kinkwa Maru, 20,000,000 yen via the Komaki Maru on April 8 and 30,000,000 yen via the Titibu Maru on April 9.

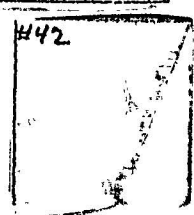
U.S. Marine detachment at Tientsin reported by naval radio on March 28 as follows:

"During 21-28 March approximately 700 Japanese wounded or sick evacuated via Chinwangtao. No unusual troop movements. Hospital ship unloading supplies, nature undetermined."

*Mr. 42
T. E. ...
...*

Kisseloff-24154

*Fur
DPA*



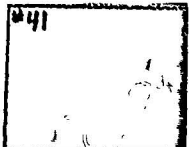
March 28. U.S. consul at Tampico, Mexico, in a cable describing the oil industry situation stated that a Japanese tanker was expected at Tuxpam the morning of March 29.

Government's Baltimore Exhibit 41

*Am. 41
L.E. Meifradel
Wolary*

Kisseloff-24155

*Fu
DPA*



ing to the communique's warning against French intervention in Spain, Phillips said:

"There is every evidence that the Italian Government is seriously preoccupied over the possibility that France may intervene actively in behalf of the Spanish Government forces. One such indication is the effort to speed up negotiations with Great Britain, two conversations between Ciano and Perth having taken place over the weekend."

Document's Baltimore Exhibit 40

*Ms. 40
Mrs. G. G. G. G.
231
W. G. G.*

*For
DPN*

440

March 26, Lane, U.S. Minister at Belgrade, cabled:

"Minister of War restated to me yesterday that construction of Yugoslav fortifications on German frontier which was initiated prior to anschluss is proceeding. Yugoslav Government now evincing active interest in coming to agreement with Standard Vacuum Oil Co. respecting duty on crude oil due to military necessity of gasoline reserves. General Maric discounted importance of recent incidents in northern part of the country attributing them to local political rather than to international causes.

"Assistant Minister for Foreign Affairs said to me this morning that general European situation appears calmer; that Hitler will not attack Czechoslovakia realizing that such action would lead to general coalition against Germany, and that war will probably be averted for 2 years at least."

#39

Nov. 3. 19
L. E. McFarland
Antony

Fw
den
Kisseloff-24157

March 26. Ravndal, U.S. consul at Buenos Aires cabled:

"According to best possible source, Germany is secretly purchasing large stocks of cereals and linseed in Argentina, presumably for excessive fees. Shipments since January 15, 1938, have been of unusual volume and local shippers are strictly prohibited from divulging any information regarding them."

*Mr 38
J.E. Wood
W. Long*

38

*DPN
Luv.*

London, No. 257, March 28, 8 p.m.

"My 241, March 23, 7 p.m.

"I have just finished an hour's talk with Grandi who recently returned from Italy.

"First, he is vitally concerned regarding America's opinion of Italy. Second, he informed me that the agreement with England will positively go through within the next few weeks; the Spanish situation will not stop the agreement, settlement of that problem being taken care of. Third, he impressed me with the fact that the Italians will heave a sigh of relief on making this deal with England which will relieve them of being so closely identified with Germany. In answer to Moffat's letter to me of March 14, I would say that in my opinion the successful conclusion of this agreement would definitely weaken Italy's connection with Germany.

"Grandi was not particularly flattering in his opinion of Goering. Hitler we did not discuss. He is very impressed with Chamberlain and says that he has enjoyed the last month in England more than the previous five and a half years because of the Prime Minister's attitude."

KENNEDY

Government's Baltimore Exhibit 37

DPN JW

#37

Mr. 37
L.E. Mc Donald
Notary

February 18, 1938.

German domination of Central Europe
and Czechoslovak trade agreement.

Mr. Vladimir Hurban, Czechoslovak Minister,
The Secretary,
Mt. Sayre.

Mr Hurban called on the Secretary by appointment in order to deliver to him a message just received from his Government. Mr. Hurban began by saying that the situation in Czechoslovakia is grave, - "very, very difficult". He went on to say that Germany is threatening to dominate Central Europe economically as well as in other ways. He said that his Government believed that the German Government intends the complete domination of Central Europe and that German activities seem to point to a plan of forming extensive clearing agreements with all the European countries of Central Europe except Austria and Czechoslovakia. Within the limits of such an extensive clearing agreement would be Hungary, Yugoslavia, Bulgaria, Rumania, Greece, and other countries similarly situated. The economic effect of such a union would be extensive bartering without money passing on the basis presumably of the German mark. In the words of the Czechoslovak Minister, it would be equivalent to a large monetary union. He said that Austria and Czechoslovakia would be left out of this because of German plans to dominate these two countries through political means. From the entire group trade from the other countries would be virtually excluded. In other words, the plan was German domination of Central Europe, with a closed door to the trade of every other country. The Czechoslovak Minister said that his Government had brought this matter to the attention of the British and French Governments within the last day or two and that he was now instructed to bring it to the attention of the United States Government.

In view of this development, the Czechoslovak Minister said that he hoped we would not be rigid in insisting upon the language in our trade agreement covering the Danubian preferences, for he said that some kind of a Danubian alliance seemed to be the only way successfully to prevent the achievement of such a German plan as he outlined.

F.B.S.

*See 35
L.S. McArthur
Secretary*

*See
DEN*

Government's Baltimore Exhibit 36

Kisseloff-24160

Dated February 17, 1938
Rec'd 3:35 p.m.

Government's Baltimore Exhibit 35

Secretary of State,
Washington.

269, February 17, 8 p.m.

The Foreign Office states that Francois Poncelet is seeing Ribbentrop at five o'clock this afternoon. The appointment was asked for the day before yesterday but Ribbentrop was unable to set an hour before this afternoon. Francois will request information concerning the exact significance of the meeting at Berchtesgaden on February 12 and will state that the French Government has a deep interest in whatever takes place in Central Europe.

The British Ambassador in Berlin saw Ribbentrop on the 15th and made a demarche along the lines of the foregoing. He was told that the discussion at Berchtesgaden with Schuschnigg had been concerned only with removing the causes of difficulties which had arisen from the working of the Austro-German agreement of July 1936 and that a communique would be issued shortly giving all pertinent information (this was before the final decision of the Austrian Government had become known).

The French do not expect to receive any more satisfactory or enlightening response from Ribbentrop than was given to the British. They state however that the fact that this step has been taken in Berlin by both the French and British Governments has some importance as manifesting the interest of both governments in what transpires in Central Europe.

It seems clear however that the French and British action in Berlin has been taken mainly for the sake of the record out of a feeling that they could hardly afford to pass by recent events in complete silence.

Copies to Berlin, Vienna.

BULLITT

*Jan 35
L. E. M. & Oswald
W. L. M.*

*For
DEN*

Kisseloff-24161

Secretary of State,
Washington

It's Baltimore Exhibit 34

60, February 17, 6 p.m.

This evening's press announces that the new Austrian Minister of the Interior Seyss-Inquart arrived in Berlin this morning "for a short visit" and was received by Hitler. It is learned that he also saw Ribbentrop and it is reported that the necessity was impressed upon him in both of these conversations of cleaning up in Austria what was described as "Communist elements". It may be further noteworthy that he spent some time at the offices of the secret police.

The circumstance of a newly appointed member of the Austrian cabinet who is known to be pro-German being thus in effect "summoned" to Berlin is construed here as sharply indicative of the nature of the new relationship between Germany and Austria.

GILBERT

*No. 34
F. E. McLaughlin
Notary*

*For
DEN*
#34

Gray
Tokyo
Dated February 17, 1938
Rec'd 9:10 a.m.

Government's Baltimore Exhibit 33

Secretary of State,
Washington.

111, February 17, 5 p.m.

The British Ambassador today furnished me with the following statement regarding smuggling in North China:

"His Majesty's Charge in China has received reliable confidential information that during the period January 24th to 31st over 17,000 packages were landed near Chinwangtao without payment of duty. The duty on sugar alone thus evaded was almost \$50,000 even at the new tariff rates".

Repeated to Shanghai.

GREW

*no. 33
I.E. Mc Donald
Secretary*

pen

Kisseloff-24163

Special Gray

Tientsin via N.R.
Dat@d February 17, 1938
Rec d 8:30 a.m.

Government's Baltimore Exhibit 32.

Secretary of State,

Washington

39, February 17, 2 p.m.
My No. 29, February 11, noon.

I have been reliably informed that 412,000 gallons of kerosene have been imported duty free at Tientsin under Japanese military auspices during February and that 354,000 gallons of duty free kerosene were forwarded to Peiping by the Japanese Takas Petroleum Company between January 1 and February 12 to be placed on the market there.

CALDWELL

*No. 32
1. E. No. 29
1. E. No. 29*

*for
292*

432

Kisseloff-24164

Austria, Germany

Government's Baltimore Exhibit 31

Feb. 16. Wiloy, U.S. charge at Vienna, cabled the cabinet changes approved by Miklas the preceding night, adding that he was informed through official sources that the German Government had demanded action on its requests by midnight and had staged an impressive military demonstration along the frontier.

Feb. 14. Gilbdrft, U.S. charge at Berlin, cabled that Hemmen, former German counsellor of Embassy at Buenos Aires and the negotiator of the Canadian-German commercial agreement of 1935 and the German-French agreement of 1937 and now in the economic section of the Foreign Office, was being sent to the United States. He would travel around securing economic information and would be available after the signature of the U.S. - British trade agreement to discuss possibilities of negotiating a trade agreement between Germany and the United States.

Feb. 17, Phillips cabled from Rome that Ciano said that while the inclusion of Seyss-Inquart in the cabinet meant "a pronounced increase of German influence in Austria he nevertheless felt that it was far better to have cooperation between the two governments since any increase of Austrian opposition or hostility to Germany might of itself be an invitation to Hitler to take some drastic step. Ciano also told me that there would be very much closer cooperation between the German and Austrian armies and that during the next year there would be an exchange of high ranking officers between the two armies."

Feb. 18. Gilbert, U.S. charge at Berlin:

"The Military Attache reports that as a result of numerous conversations and discussions with army sources he is convinced that the agreement reached with Austria as a result of the Hitler-Schuschnigg conversations contains military clauses providing for the gradual & assimilation" of the Austrian army into the German.

"Presumably this military agreement covers: (one) unification of tactical doctrine through adoption of similar text books, (two) Austrian adoption of German military organization, ~~xxxxxx~~ (three) gradual introduction of uniform weapons, (four) coordination of war plans.

"The Military Attache believes that within the relatively near future there will be evidence of a military alliance through the appointment of standing military missions by each country to the other country.

"As a corollary of the foregoing it is believed here that further changes in the Austrian Government will be announced shortly which will include the appointment of a "pro-German" Chief of Staff of the Austrian army."

for
DPA

No. 31
T. E. McFonald
Military

Kisseloff-24165

undertake some new ventures adventure within a few months which may precipitate European war. He stated that today the British Government had made representations at Berlin and that tomorrow the French Government would do likewise. He feared, however, that these representations were of a harmless informative nature not likely to serve as an effective deterrent.

I have also seen the Italian Minister who assumes the attitude that nothing unusual is going on and that Austrian independence is not menaced. Mussolini sent message last night approving proposed cabinet reorganization.

A prominent Austrian banker who is exceptionally well informed described the situation as most favorable possible outcome for Austria. Austria was threatened with radical action by Germany which could not be resisted. Present compromise would prove far less successful for German aims than Hitler expected. Seyss-Inquart was fundamentally weak and vacillating and would be out-manuevered by Schuschnigg and Skubl, the Secretary of State for Public Security. He was sure that Austria had gained six months during which time international situation might change in some way favorable to Austria.

Indirectly but reliably informed of views of their present Left Wing Leader. He does not expect immediate trouble from Austrian Nazis and believes that Austria will have some months of relative quiet during which Seyss-Inquart will be in constant and ineffective conflict with Skubl. There will be frequent threats of resignation from Seyss-Inquart and in due course another crisis in relations with Germany.

General consensus is that Schuschnigg deserves sympathy and admiration for the manner in which he came out of Berchtesgaden ordeal. It is felt that he yielded minimum and rendered great service to Austria and peace of Europe.

Pending Hitler's speech of February 20 and clarification of attitude of Austrian Nazis it is impossible to make any forecast.

WILEY

4/8/52 OEN Jw

30-82

Kisseloff-24166

Vienna
Dated Feb. 16, 1938
Rec'd 8:48 p.m.

Government's Baltimore Exhibit 30

Secretary of State,
Washington.

Rush

25, February 16, 10 p.m.

Strictly confidential

My 21, February 15, 5 p.m.

Have just seen Minister for Foreign Affairs Schmidt who seemed on the whole cheerful. He expressed confidence that a period of internal quiet would ensue but felt nevertheless that like the agreement of July 11 only temporary appeasement could be obtained. The task of Seyss-Inquart would be to bring into the fold those elements which have so far been irreconcilable. He did not know how this could be accomplished and foresaw that Seyss-Inquart would have difficulty with Nazi extremists. Probably several new councilors of state would be appointed but this had already been under deliberation with Seyss-Inquart for some time. I asked what further steps the Austrian Government would take in carrying out Berchtesgaden agreement. He replied that pensions would be given to ex-functionaries who were dismissed for Nazi activities. They would, however, not be reinstated. The amnesty did not apply to the Austrian Legionnaires in Germany. He desired that someone be appointed in administrative capacity to look after Austro-German press matters under the two governments. This move he said had not been dictated by Hitler.

Schmidt said that present German maneuvers on the Austrian frontier had been planned for two months. He did not believe that they were a military demonstration against Austria.

Also saw the French Minister who has interviewed Schuschnigg and Hornbostel with both of whom he has unusually close ~~connections~~ relations. Paux told me that formation of cabinet was bitterly contested. Papen made a last minute effort to have Glaise Horstenau made Vice Chancellor and an outstanding Nazi appointed Minister of Justice.

(I am reliably informed that Bishop Gfoellner of Linz rushed to Vienna despite illness and urged resistance upon President Miklas. In consequence Catholic Church claims credit for saving these posts from Nazis.)

Schuschnigg informed the French Minister that in Berchtesgaden conversation Hitler boasted to him of military prowess of Germany, deprecated French military equipment, alleged that everything he did with respect to Austria and the Sudeten Germans was in entire agreement with Halifax, (British Minister has telegraphed this to the Foreign Office) that in two years time Italy would no longer mean anything to Germany and that it was holy mission to unite 80,000,000 Germans into a nation which would rule Europe.

In contrast with Schmidt the Chancellor frankly resents German maneuvers as military demonstration against Austria. Also article in today's National Zeitung of Essen that reconstruction of Austrian cabinet is first step in Gleichschaltung.

French Minister believes immediate future unpredictable and hopes that there will be at least a temporary period of quiet. He remains, however, most pessimistic regarding the future of Austria and is apprehensive that present German success will encourage Hitler to

Kisseloff-24167

for OPA

Paris
Dated February 16, 1938
Rec d 4:34 p.m.

Government's Baltimore Exhibit 29

Secretary of State,
Washington

255, February 16, 9 p.m.

In conversation today the Belgian Ambassador who served in Berlin before coming to Paris said that in his opinion the Austrian situation might easily have found a worse solution than the temporary one actually reached. Everyone knew that in the absence of a determined stand by Great Britain and France Hitler could seize Austria whenever he wanted to. As a matter of fact he had not seized Austria but had come to an agreement with Schuschnigg by brutal methods, it is true, under which Austria would be allowed to continue as an independent state for the time being at least. Kerchov attached great importance to the fact that Skubl as Undersecretary of the Department of Security is apparently to continue in control of the Austrian police and felt that this as well as other points which Schuschnigg is reported to have obtained indicate that there has not by any means been complete abdication in the face of Hitler's demands.

BULLITT

*no. 29
- 1 -
McDonald
Secretary*

*for
OPR*

Kisseloff-24168

per cent Nazi by conviction although a devout Catholic and that he will insert Nazis gradually into all vital posts and strike for a decision in a few months.

BULLITT

Government's Baltimore Exhibit 28 (Concluded)

DPN for

28-2

Kisseloff-24169

Paris
Dated February 16, 1938
Rec'd 3:47 p.m.

Government's Baltimore Exhibit 28

Secretary of State,

Washington
249, February 16, 5 p.m.
Strictly confidential for the Secretary.

The Austrian Minister has just read to me a telegram which he received this morning from Schuschnigg. It indicated that Schuschnigg has by no means given up hope of maintaining Austrian independence.

Schuschnigg had confidence that Seyss-Inquart, although a pan-German, would not work in an underhand manner for the introduction of Nazis into the regime.

Amnesty would be extended at once not only to Nazis but also to Social Democrats. This amnesty would, however, not include those who had emigrated from Austria thus excluding from the country all those Austrian Nazis who are now in Germany.

The right to conduct political propaganda would be extended not only to the Nazis but also to the Monarchists and Social Democrats. Those Nazis who had been excluded from office and pensions because of their political opinions would have their pensions restored but would not be given their former offices.

The position of Schuschnigg was, I gathered, the following: that he would continue to struggle for Austrian independence; that he believed this independence could be maintained in the long run only if there should be reconciliation between England, France, and Italy; that he considered recognition of Ethiopia essential for any such reconciliation since the Italians were genuinely convinced that the British at some future date would attempt to drive the Italians out of Ethiopia which would mean the collapse of the Fascist regime in Italy.

Section Two. Schuschnigg felt that the actions which he was about to take would produce a temporary breathing period but in the end would prove to be just as unsatisfactory to Hitler as his actions which followed the accord of July 1936. He expected therefore that at some future date Germany would attempt again to repeat the Berchtesgaden coup and would mobilize if necessary on the Austrian frontier. He would make no further concessions. He could not attempt to fight Germany alone and if faced by German mobilization would have to resign.

The question of Austrian existence as an independent state therefore depended on the possibility that before Hitler again should become sufficiently irritated to mobilize on the Austrian frontier there might be reconciliation between England, France and Italy and an agreement between those states to support Austrian independence.

The Austrian Minister added that he believed the extension of amnesty to the Social Democrats would add greatly to the strength of Schuschnigg's regime as the Social Democrats would be the strongest opponents of a gradual Nazification of Austria.

In contradiction of the opinions expressed above with regard to Seyss-Inquart I was told this morning by a gentleman who says he knows Seyss-Inquart intimately that the latter is a hundred

Kisseloff-24170

GRAY
London
Dated February 16, 1938
Rec'd 3:02 p.m.

Department's Baltimore Exhibit 27

Secretary of State,
Washington.

136, February 16, 7 p.m.
Your 57, February 4, 7 p.m., and previous.
Strictly confidential.

Admiral Lord Chatfield talked informally but at some length yesterday with Captain Willson concerning escalation under the London Treaty. Based on this conversation it appears probable that the Admiralty will favor for this Year's programme raising the battleship limit to about 39,000 tons and making no change in cruiser limits. Captain Willson forwarded a full report by mail to the Navy Department in yesterday's pouch via QUEEN MARY.

JOHNSON.

No. 27
J. E. McFarland
Notary

DEN Tw

#27

Paris
Dated Feb. 15, 1938
Rec'd 5:03 p.m.

Government's Baltimore Exhibit 26

Secretary of State,
Washington.

241, February 15, 4 p.m.
Reference my 194, February 4, 6 p.m.
Confidential

The same informant in the Austrian Legation advised us today that for the past few weeks Italy has assured Austria that in the event of German aggression against Austria Italy will mobilize. Italy has, however, at the same time urged Austria to temporize as much as possible with Germany in order to gain time and not put Italy in the position of having to take such action.

Our informant likewise stated that he had talked over the telephone to Vienna this morning and that it was his impression that Chancellor Schuschnigg would probably appoint Seiss-Inquart as Minister of the Interior and head of public security but would have the control of the government police taken away from the latter department and put under the Prefect of Police in Vienna; thus outwardly acceding to Hitler's demands but actually not doing so in that the latter's real desire was to have a Nazi sympathizer control the police.

BULLITT

*Ms. 26
- 150
Seiss-Inquart
Secretary*

*for
den*

Kisseloff-24172

February 15, 1938
4 p.m.

Government's Baltimore Exhibit 25

Telegram sent

AMLEGATION
VIENNA

6.
Your No. 18, February 14, 9 p.m.

The Department has found your recent telegraphic reports, and in particular your telegram under reference, most enlightening and extremely helpful.

I am somewhat concerned, however, by the statements which you say you made to Schmidt, as reported by you in the sixth paragraph of your telegram. You should very carefully avoid, in the future, making any statements which can possibly be construed as implying that your Government is involving itself, in any sense, in European questions of a purely political character or is taking any part, even indirectly, in the determination of such questions.

HULL

no. 25
T. E. Mrs. Donald
Secretary

Jan
24

Kisseloff-24173

an intensification of British war preparations and incidentally an increase in American hostility to Germany.

Leger went on to say that both he and Francois Poncet were entirely convinced that if Schuschnigg should accept the first two demands of Hitler but reject the final two demands Hitler would not dare to use force. He would employ every means short of mobilization to make life uncomfortable and impossible for the Austrian Government but would not mobilize. Leger said that he was not sure that Chautemps and Delbos would agree with him in this diagnosis. It was possible to believe that Hitler would mobilize three or four divisions on the Austrian frontier and that Schuschnigg would be forced to give way at a moment of great European crisis.

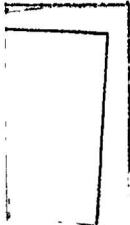
Section Four. If one adopted the latter interpretation, it would obviously be less dangerous to have Schuschnigg submit now rather than later. Leger said that there were indications that the latter interpretation might be the interpretation of the British Government. In that case France would do nothing.

Schuschnigg would have to be assured of at least moral support from France and England and perhaps also Italy in order to be in a position to resist.

Leger said that the French and British Governments would discuss the problem this morning. He added that Hitler had not delivered an ultimatum with a time limit to Schuschnigg and he believed that Schuschnigg would attempt to gain time by standing on his dignity for a brief space.

BULLITT

[Handwritten notes and scribbles]



[Handwritten initials: JW, DPK]

Kisseloff-24174

Paris
Dated February 15, 1938
Received 3:17 p.m.

Government's Baltimore Exhibit 24

Secretary of State
Washington

240, February 15, 3 p.m. Section One.

I have just discussed with Leger the situation created by Schuschnigg's visit to Berchtesgaden.

Leger said that Schuschnigg had informed the French Minister in Vienna very privately and confidentially that he had been received with the utmost brutality. Hitler had had three generals including Reichenau standing behind him throughout the conversation and had made the following four demands: (one) that the Austrian Government should declare an amnesty for all Nazis and permit those now in Germany to return to Austria; (two) that those Nazis who had been deprived of their pensions and positions because of their political affiliations should be restored to their pensions and positions; (three) that Seyss-Inquart should be appointed Minister of the Interior and given control of the entire Austrian police force; (four) that Austria should agree to take no action with regard to foreign affairs without previous consultation with the German Government.

Leger went on to say that Schuschnigg had returned to Vienna intensely depressed and that Guido Schmidt was doing his best to persuade Schuschnigg to accept these demands of Germany.

Leger made the obvious comment that the acceptance of these demands would mean the end of Austrian independence.

Section Two. I asked if the French Government had taken any action in Vienna or given Schuschnigg definite advice. Leger replied that there had been no formal contact whatsoever between Schuschnigg and the French Minister since the former's visit to Berchtesgaden. The information which Schuschnigg had given the French Minister had been given most privately and Schuschnigg had not asked for advice nor had any been given him.

Leger went on to say that he did not know whether or not the French Government would decide to urge Schuschnigg to reject these demands. The question would have to be decided by Chautemps and Delbos after consultation with Chamberlain and Eden. The decision would in his opinion rest on the interpretation of recent events in Germany.

A message had been received from Francois Poncet giving what he, Leger, believed to be an accurate account of the genesis of the Berchtesgaden visit. Hitler's old Nazi friends had been urging him to give up the idea that he could acquire Austria by peaceful evolutions and to turn to the method of force. Hitler was most loath to use force because the generals of the Reichswehr had convinced him that the army would not be in condition to fight a major war against France and England for approximately another year. Hitler therefore had wished to make a last attempt to gain his objective by overwhelming Schuschnigg's will to resist.

Section Three. He had had the three generals present in order to make it clear to Schuschnigg that if necessary there would be force behind his words.

An additional reason for Hitler's reluctance to use force or threat of force was the fact that during the present period of preparation of the German army he wished to avoid any act which might produce a strong government of national defense in France and

Kisseloff-24175

Vienna
Dated February 15, 1938
Rec'd 12:32 p.m.

Government's Baltimore Exhibit 23

Secretary of State.
Washington.

Rush.

20, February 15, 1 p.m.

My telegram February 14, 9 p.m.

Dined last night at a large dinner given by Schmidt with Chancellor Schuschnigg, Seyssinquant, members of the Government and diplomatic corps. Atmosphere most oppressive. To French Minister Schuschnigg described visit to Berchtesgaden as the most horrible day of his life. He says that Hitler undoubtedly a madman with a mission and in complete control of Germany. Hitler openly told him of his desire to annex Austria and declared that he could march into Austria with much greater ease and infinitely less danger than he incurred in remilitarization of the Rhineland. Schuschnigg admits that appointment of Seyssinquant is highly dangerous but states that he will make it in order to avert the "worst." In respect of Italy, Schuschnigg declared that he can count only on moral not material support.

Schuschnigg is attempting to make best of bad situation and was in a long and friendly conversation with Seyssinquant. Hornbostel is in utter despair and states openly that there is nothing left for him to do but to leave Foreign Office.

Italian Minister claims that he was informed of Berchtesgaden meeting only on the eleventh and denied that Italy took any initiative in the matter. He telegraphed full information to Mussolini. Latter however is engaged in winter sports and up to last night Ghigi had no information that his messages had reached the Duce. Italian Minister gives anxious impression.

Papal Nuncio admits that Seyssinquant may be good Catholic but fears nevertheless that it is the beginning of the end.

The French Minister who has been here five years states that this is the most critical moment since July 1934. "It is not the end. It is the moment before the end." In his opinion Austria can only be saved by immediate reconciliation of France and England with Italy and energetic joint act. Enders author of May constitution made identical remark this morning.

In my opinion Austria's situation is most unfortunate and menacing. If Seyssinquant is loyal his appointment would not be a solution. If he is disloyal it is a catastrophe. Germany probably plans gradual Danzigification and any unsupported efforts of Schuschnigg may make to outmaneuver Seyssinquant can at best only retard this process.

Repeated by telegraph to Paris, London, Berlin and Rome.

WILEY.

No. 23
T. E. McDonald
Notary

13
for
pen

Kisseloff-24176

I queried Schmidt with regard to the Italian attitude. He was non-committal save for the admission the Italian Government was informed of the negotiations well in advance.

I told Schmidt that my Government maintained a deep and sincere interest in the welfare of Austria and I was sure it hoped earnestly that the Austrian Government would firmly resist threats against the independence of Austria.

I have learned indirectly but reliably from the Federal Press Service that in return for the appointment of Seyssinquant Hitler promised the maintenance of the principles the July 11th agreement with recognition of Austria's independence, may (?) the patriotic front as the unique ~~political~~ political structure of Austria together with a pledge of non-interference in domestic affairs; economic matters were not mentioned.

Schuschnigg avoided committing himself stating that he was not authorized to sign any agreement without previous consultation with President Miklas. According to the press service the attitude of the Chancellor was that the portfolio of Public Security which he now retains could only be confided to some one having his entire confidence. President Miklas was opposed to the proposed concession.

From another source reliably informed Hitler promised to dissolve Austrian legion in Germany. About a thousand workmen at Austro Fiat and Clayton Shuttleworth factories made a short protest strike this morning against concession to National Socialists.

My feeling is that inclusion of Seyssinquant in the Government would be stopgap solution reflecting force of German pressure and would profoundly discourage spirit of resistance in Austria.

WILEY

(*) Apparent omission.

Kisseloff-24177

2
W
DEN

Vienna
Dated February 14, 1938
Rec'd 11:45 p.m.

Secretary of State,
Washington.

18, February 14, 9 p.m.

My telegram No. 16, February 13th.

Have just seen (? illegible word) Schmidt and he told me that the Berchtesgaden conversations had been extremely "hard" and that he had to admit that Schuschnigg had been under heavy pressure. I inquired whether Schuschnigg had been confronted as rumored with the text of an agreement already signed by Hitler. He denied this and stated that during the protracted conversations every possible combination had been debated. He admitted, however, that three ranking ^{German} generals had been present in order to increase the pressure and did not deny a rumor that Hitler had threatened trouble in the event that Schuschnigg refused to accept Hitler's proposals. It had all, however, come to a happy end and he felt that a great service had been rendered to world peace. He would not promise that the solution would be a permanent one. Probably Austro-German relations would again come to a crisis and require revision.

I asked Schmidt whether an agreement had actually been definitely concluded. He replied that the agreement had not as yet been formally reached but that he thought it would be and that a joint communique would be issued. I inquired with regard to details. He told me that the agreement would comprise all of the basic elements of the July 11th accord and admitted that Hitler had requested the inclusion of Seyssinwart in the government as Minister of Public Security. Police President Skubl however would remain. Schmidt assured me that the Chancellor had complete confidence in Seyssinwart and that he, Schmidt, did not regard him as an obstacle to appeasement. He said that "if he is loyal we prefer to have Nazis arrested by a Nazi. If he is not loyal it will mean that appeasement between the two countries is not possible and something else will have to be done." I suggested that as late as two years ago Seyssinwart had been working actively on behalf of the Nazis. He replied that Seyssinwart was a devout Catholic and since that time the "Kultur Kampf" had broke out. Moreover Seyssinwart was in deadly opposition to Captain Leopold the illegal Austrian Nazi leader. I suggested that if Seyssinwart was loyal to Schuschnigg I did not understand why Hitler placed such emphasis on his inclusion in the government or if he was not loyal how the Austrian Government could risk turning over the police control of the country to him. Schmidt replied that he had raised the same question with Hitler. However there was always a "middle way" and he hoped that it would be found in the present instance. (I could not obtain clarification of this.)

I (*) Schmidt if it was true that Schuschnigg had shown Hitler documents seized in Tavs affair incriminating Nazi leaders in Germany. He replied in the negative stating that this had previously been done through Papen. (Papen definitely leaves end of this week.)

Schmidt added that while it had been agreeable to work with Ribbentrop he had the definite feeling that Ribbentrop had inwardly been much opposed to the results achieved.

Kisseloff-24178

for
open

GRAY
Chefoo via N.R.
Dated Feb. 14, 1938
Rec'd 12:04 p.m.

Government's Baltimore Exhibit 21

Secretary of State,
Washington.

February 14, 2 p.m.

Japanese marines have been proceeding eastward from Chefoo to Muping (Ninghai) by motor 13th and 14th. Current reports indicate that armed Chinese in bodies of considerable size in mountains south of Muping are opposed to Chinese authorities of the new regime. There are no Americans in Shantung east of Chefoo.

ALLEN

*(Mr. Tolson)
- J. E. McDonald
Secretary*

*fw
DAN*

Kisseloff-24179

GRAY
Peiping via N.R.
Dated February 14, 1938
Rec'd 9:20 a.m.

Secretary of State,
Washington.

110, February 14, 6 p.m.
Embassy's 104, February 11, 5 p.m.

One. Passenger trains on the Peiping Hankow Railway have not left or arrived at Peiping yesterday and today except for service between Peiping and Changhsintien, a few miles south of Peiping. This partially substantiates widespread but unconfirmed reports of activities of Chinese irregulars at Paoting and points along the railway south thereof.

Two. Press reports of Japanese advance southward in Southern Hopei have not been confirmed. An American reports that several tens of thousands of Japanese troops have moved during the last few days from Shihkiachuang in the direction of Taiyuan. With large numbers of Japanese troops already in Shansi and in Southern Hopei and Northern Honan, it is doubtful whether irregulars to the north of them can seriously hamper their movements unless the irregulars are supported strongly by the National Government.

Repeated to Hankow. By mail to Tokyo.

LOCKHART

Government's Baltimore Exhibit 20

*2020
T.E. National
Military*

*for
open*

Kisseloff-24180

Berlin
Dated February 14, 1938
Rec'd 2:57 p.m.

Government's Baltimore Exhibit 19

Secretary of State,
Washington.

56, February 14, 7 p.m.

One. In a conversation with the British Ambassador following his return from London he told me that he had been summoned to London for the purpose of discussing Anglo-German relations including among other matters the "colonial question." He said that the matter of a "reply" to Berlin was still very much alive in London but he thought that action would now await the Chancellor's speech on February 20.

Two. In the course of my conversation with Weizsaecker on the Austrian question, reported in my 55, February 14, 6 p.m., I took occasion to bring forward also the improving Anglo-German relations. Weizsaecker seemed more optimistic than usual on this point commenting that he believed Henderson's trip to London had advanced matters.

He even went so far as to say that he felt Henderson had come back to Berlin "with something in his pocket", and in discussing the possible future movements of the Chancellor between Berlin and Berchtesgaden speculated as to whether Henderson would see Hitler before February 20.

I may say that I had been anxious to see Weizsaecker largely because from certain minor indications, I had experienced a growing impression which I wish to make clear is entirely a personal one that something was on foot in the form of conversations particularly between Berlin and London which played some role in the Austrian and other European problems and included what the Chancellor might be induced to say on February 20, in other words a "negotiated speedh." Among other things the British Embassy here admitted that it was aware of the Schuschnigg visit before it occurred.

Weizsaecker has always taken the position with me of "telling me as much as he felt he could." The implications of what I have just reported as his saying to me, appear to me to be rather strong. I am not attempting to interpret it further,

GILBERT

*Mo. 19
T.E. McDonald
Notary*

419

*for
DPV*

Kisseloff-24181

February 11, 1938

Government's Baltimore Exhibit 15

S.
Mr. Secretary
U.
Mr. Welles
A.S.
Mr. Sayre
EA
Mr. Feis
A-M/C
Mr. Murphy

I feel that you will wish to have knowledge of the facts and appraisals given in Mr. Jpnes' very informative memorandum hereunder (based on Consul Boyce's report).

SKH

PA/H: SKH: ZMK

*Jan 15
1:30
Mr. J. J. Murphy*

Kisseloff-24182

*Jan
15*

Government's Baltimore Exhibit 16

Berlin
Dated February 12, 1938
Rec'd 9:45 a.m.

Secretary of State,
Washington

52, February 12, noon.

With reference to the final paragraph of Geneva's number 16, January 27, midnight, to the effect that certain states were reported as desirous of doing nothing which might interfere with a possible early understanding between United States, London and Berlin, I have to report as symptomatic of the current situation here (Embassy's 48, February 11, noon, paragraph four) and as of possible interest the following local development:

During the past few days, despite the Department's announcement that the United States has no alliance or understanding with any other country, various representatives of small powers, including in particular, the Ministers in Berlin, of Belgium, the Netherlands, Sweden, Finland, Ireland and Estonia have initiated conversations with me in which they express their anxiety lest developments in Anglo-American relations might result in postponing or preventing a British rapprochement with Germany for which they are strongly hopeful, regarding it as an "offset" to a further crystallization of actually opposing bloc aide of states and as such necessary for the peace of Europe, their concern being the safety of their own countries.

The purpose of what they expressed in general terms was that a desire for an understanding with the United States is to a degree at least holding Great Britain back from negotiations with Germany because the British Government either believes that the support of the United States would render unnecessary the granting of concessions of the type asked by Germany as a price for agreement or because it fears that a friendly "approach" to a dictatorship government, particularly Germany, would alienate the sympathy of American public opinion for Great Britain.

I may add that despite Admiral Leahy's recent clarification of his testimony to the effect that the navy plans envisaged only the defense of the United States on the basis of complete independence of action which together with the Department's announcement already referred to I have taken pains to cite in such conversations, the diplomatic representatives mentioned are still inclined to attach at least psychological significance to press accounts that in his earlier testimony Leahy had referred to the anti-commintern pact as possessing naval significance and had apparently avoided replying in open hearings to a question regarding alleged Anglo-American naval conversations.

GILBERT

*no. 16
T. E. McDonald
Secretary*

Kisseloff-24183

#16
File

Tokyo
Dated February 12, 1938
Rec'd 1:10 p.m.

Secretary of State,
Washington.

100, February 12, noon.
Strictly Confidential

One. My British colleague who talks to me freely and so far as I can judge frankly, has told me of the following conversation with the Minister for Foreign Affairs on February 9 which would appear to be significant owing to the marked change in the Minister's usually placid, courteous and friendly bearing. The fact that for the first time in our respective dealings with him Hirota twice lost his temper with Craigie might be due to nervousness engendered by the strain of the current sessions of the Diet or the mounting irritation at the tone, insistence and volume of Craigie's continual representations both oral and written in connection with British interests in China or perhaps to both. The Minister's demeanor tends to confirm reports which have come to both Craigie and myself that Hirota is steadily becoming harder and more intransigent as regards foreign interests in the Far East and that it is Hirota rather than Suetsugu who leads the ultra Chauvinistic element in the Government. I myself have as yet seen no outward demonstration of any change of attitude on Hirota's part as regards American interests.

Two. The conversation referred to arose when Craigie informed the Minister that he is in possession of evidence indicating that Japanese forces have occupied several of the smaller Chinese islands in the general vicinity of Hong Kong and again asked for specific assurances that the statements of the Japanese Government that it has no territorial designs in China apply as well to the islands as to the mainland. According to Craigie the Minister in some instances in their intercourse became very angry, inveighed against the continual British demands for renewed assurances, said that under present war conditions Japan had given all the assurances that can reasonably be expected, and asserted that if the warfare is prolonged Japan may be forced to occupy more territory whether insular or on the mainland. If the warfare becomes permanent, said Hirota, the occupation will also be permanent. Referring specifically to Hainan, Hirota said that the Japanese could not possibly give a permanent pledge not to occupy. Craigie pointed out that whereas Hong Kong cannot be regarded as a threat to Japan the occupation of these islands by Japanese forces does constitute a very real threat to Hong Kong. The general tone of this conversation appears to have been acrimonious.

Three. Craigie is aware that there are large concentrations of Japanese troops in Formosa (see our 61, January 31, 6 p.m.) and of Japanese ships in the port of Takao and he believes that an attack on Canton or some other point in South China is impending.

Four. Craigie's general reaction to this conversation with Hirota is that the longer the warfare is prolonged the greater will be the likelihood of permanent occupation by Japan not only of the islands but of territory on the mainland. He believes that Japanese assurances of "no territorial designs" are likely to be withdrawn at short notice. These prospects so seriously concern British

for spec

Kisseloff-24184

interests that he contemplates recommending ~~or has already recommending~~ or has already recommended to his Government (a) that continued support of Chiang Kai Shek, whether by furnishing war supplies and funds or otherwise, is detrimental to British interests and (b) that the British Government should be alert to foster any outlook for peace negotiations which might leave to China any hope of eventual resurrection.

Five. Craigie is informed and believes that it was the Japanese industrialists and politicians and not the military who favored and brought about the withdrawal of recognition from the Central Government.

Six. I think that the nature of the conversation reported above indicates that our own practice of concentrating our representations to the Minister on important issues and with discreet timing is likely to prove more effective than the British practice of constant hammering by almost daily notes, letters, and other communications with continual personal visits to the Minister or the Vice Minister both on important and routine issues. The British procedure appears to be based on the theory that constant hammering will wear away a stone but in the present ~~an~~ temper of the Japanese Government and military this practice is liable to defeat its own object through the irritation which it inevitably engenders, clearly demonstrated in Craigie's last interview with the Minister. The representations of the American Government are at least listened to with respect and an evident inclination on the part of the Foreign Office to meet our wishes so far as the military can be influenced in that direction.

Seven. About two weeks ago Craigie told me that he had heard from a trustworthy source that there was to be a change for the better in the Japanese attitude toward Great Britain and that press and other agitation against the British was to be discontinued. I did not put much stock in Craigie's information. Since then General Matsui in the interview which he gave to Woodhead sharply criticized the British for trying to create political issues out of the problem of preserving British economic and commercial interests in China while the Japanese press has expressed the conviction that it was Great Britain which initiated the three power demarche with regard to naval construction. The feeling in Japan against the British is not in our opinion altogether artificially created as Craigie believes it to be but flows from the conviction that the British are constantly endeavoring to establish a common front against Japan in order to preserve British political and economic interests in the Far East.

Repeated to Hankow.

GREW

[Handwritten notes and scribbles]

[Handwritten initials]
DPN

#17-2

Kisseloff-24185

Vienna
Dated February 13, 1938
Rec'd 3:50 p.m. Feb. 13

Secretary of State
Washington

17, February 13, 6 p.m.

My 16, February 13, 1 p.m.

Reports from reliable source indicate that Hitler made unacceptable demands and that Austrian Government is now formulating counter-proposals. Government inaccessible to Diplomatic Corps. Even French Minister who was promised appointment has been unable to see Schmidt. It seems possible that Hitler is seeking foreign political triumph at the expense of Austria to redress adverse effect of party crisis.

Innsbruck correspondent of an American news agency reports Ribbentrop passed through today en route to Italy. Rumors from several sources alleged that Schuschnigg had long telephone conversations with Mussolini before proceeding to Berchtesgaden.

Small Heimwehr demonstration this afternoon for Starhemberg. Austrian legitimists reported discouraged over probable course of events.

WILEY

DPN Fur

18

*170.18
-1.2
W. E. McDonald
Secretary*

Kisseloff-24186

GOVERNMENT'S BUREAU OF EXHIBITS

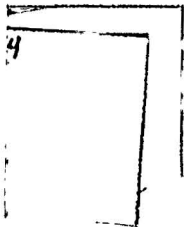
Far East

Feb. 11. Lockhart, U.S. counselor of Embassy at Peiping, cabled that reports indicate that the Japanese are continuing preparations for advances southward along the Peiping-Hankow Railway, and in Shansi. The number of Japanese troops going south on that railway has increased; the number of Japanese forces on the Taiyuan plain has been increasing; railway materials have been sent south, presumably for repair of the line destroyed south of Changteh; Japanese expeditions to cause the retirement of irregular forces west of the Peiping-Hankow Railway and north and south of the Shikiachuang-Taiyuan Railway have reportedly increased for the purpose of rendering flank attack against the Japanese more difficult. Rumors of a western movement of Japanese in Suiyan can not be confirmed in Peiping.

Feb. 11. Gauss, U.S. consul general in Shanghai, cabled that the University of Shanghai in the Yangtzepoo District which was occupied by Japanese military and naval units was adjacent to a golf course which was being used as an airfield.

Government's Baltimore Exhibit 14

No. 14
T. E. W. Ford
notary



Kisseloff-24187

as a result of the deal additional resources with which to expand in Manchuria or in North China. (According to recent press reports the South Manchuria Railway Company has definitely been allotted the task of developing the railways, rounds (roads?), harbors and mines of North China.) It may be that this was one of the more important considerations of the deal.

Why should Mr. Aikawa be willing to merge his interests, and those of his co-investors in Nippon Sangyo, with those of the somewhat more dubious economic enterprises of the South Manchuria Railway Company? The character and background of Mr. Aikawa fit admirably into the new picture. He is the son-in-law of Mr. Kuhara, President of the Japan Iron Foundries and a former Cabinet Minister. Mr. Kuhara has been associated with Mr. Aikawa in many of his most important enterprises and has supplied much of his capital. Moreover, he is closely associated with the more reactionary element in the Japanese Army and was recently sentenced to prison for his connection with the attempted army coup of February 26, 1936. Messrs. Aikawa and Kuhara have been favored by substantial Army support for the last few years and several of the more important industries controlled by Nippon Sangyo depend largely upon military orders. There certainly appears to be a sufficient amount of affinity and interdependence involved to explain Mr. Aikawa's action in the matter.

Mr. Aikawa now seeks to obtain American capital to aid in the expansion schemes of this large holding company controlled legally by the "Manchukuo" Government and in fact by the Japanese Kwantung Army and conducting enterprises both in Manchuria and Japan. It is reported that Mr. Aikawa will come shortly to the United States for the purpose of eliciting aid in the form of credits for machinery, equipment and materials, for which he will exchange minority interest shares in the subsidiary companies of the Manchuria Heavy Industries Development Company (in no case will foreigners be allowed majority interest or management privileges in any subsidiary).

Consul Boyce believes that Americans who may be approached by Mr. Aikawa should keep in mind the uneconomic nature of many of the enterprises controlled by the Company, the Army control, the almost inevitable financial difficulties of Japan in the next few years, the possibility of war with Russia, and other considerations which he lists.

M.M.H.

FE: Jones: SMJ

[Handwritten notes and scribbles]

[Handwritten initials]

February 9, 1938

Government's Baltimore Exhibit 13

Yokohama reports that Mr. Aikawa is scheduled to sail from Japan on the M.S. Shichibu Maru February 24 for the United States. According to a newspaper item in the Japan Advertiser Mr. Aikawa hopes to raise \$300,000,000. in the United States. Another Japanese newspaper item states that the success of Mr. Aikawa's efforts in the United States depends upon Mr. Aikawa's ability and upon the attitude of the American government toward his venture.

FE: Jones: NN

*1938/13
- L. P. [unclear]
[unclear]*

*Fw
DPN*

#13

Kisseloff-24189

as a result of the deal additional resources with which to expand in Manchuria or in North China. (According to recent press reports the South Manchuria Railway Company has definitely been allotted the task of developing the railways, roads (roads?), harbors and mines of North China.) It may be that this was one of the more important considerations of the deal.

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Consul Boyce believes that Americans who may be approached by Mr. Aikawa should keep in mind the uneconomic nature of many of the enterprises controlled by the Company, the Army control, the almost inevitable financial difficulties of Japan in the next few years, the possibility of war with Russia, and other considerations which he lists.

M.M.H.

FE: Jones: SMJ

[Handwritten scribbles and marks]

[Handwritten initials]

Army controls and is practically synonymous with the "Manchukuo" Government and the South Manchuria Railway Company. Control of the Manchurian enterprises involved, therefore, will remain centralized in the same hands. Private investors will be allowed to invest in the minority shares of the subsidiaries of the new company as they were allowed previously to invest in the minority shares of companies controlled by the South Manchuria Railway Company.

Not only does private capital make no gain as a result of the creation of the new company; on the contrary, the state of "Manchukuo" (or the Army) acquires control of Nippon Sangyo's large network of industrial enterprises in Japan. It will be possible under the new set-up to operate these in coordination with the Manchurian enterprises. It is difficult to evaluate the relative importance of this factor in the creation of the new company. It may have been the principal reason for the change or it may have been a secondary reason. It can scarcely have been an incidental fact, however, that the Army acquired as a result of the deal control of large industrial enterprises in Japan, particularly in view of the world-wide trend toward increased military influence in industry,

Is it likely that Mr. Aikawa's modern and thus far very successful business methods and reputation will attract private capital more successfully than the South Manchuria Railway Company?

There is little doubt that Japanese investors are exhibiting an extreme lack of confidence in the South Manchuria Railway Company. In 1936 the Company launched grandiose expansion plans, sponsored by the military, calling for an investment of yen 436,000,000. in five years in strategic and other primarily military enterprises. According to a report received from the American Consul in Dairen, in March of 1937, it appeared that the Company was borrowing in order to pay its dividends; at the same time the Japanese Government refused to pay up capital stock previously subscribed. The South Manchuria Railway Company debentures were unsalable to the public and the newly adopted policy of selling to the public some of its shares in subsidiary companies had met with relatively little success.

The essence of the lack of confidence appears to lie in military domination of the business management of the South Manchuria Railway Company and the vast expansion of enterprise since 1931 along strategic and military rather than economic lines. The soundness of extensive heavy industries in Manchuria may be questioned at once upon economic grounds. It is highly doubtful, therefore, that the transfer to new management (control remaining the same) of the heavy industries requiring expansion in Manchuria will attract private capital, either Japanese or foreign, in substantial quantities. Nevertheless the Nippon Sangyo and its subsidiaries in Japan probably possess reserves and borrowing power which may be milked for the benefit of the Manchurian enterprises. Furthermore, the creation of the new company, with half the stock taken by the Government of "Manchukuo" automatically pumps another yen 225,000,000. of public funds into Manchurian industry. It is true, these funds will be used by the new company to acquire from the South Manchuria Railway Company control of the Manchurian enterprises to be taken over by the new company and leave little capital for expansion but since the South Manchuria Railway Company and the new company are two pockets in the same military trousers this need not detain us. The South Manchuria Railway Company, after having been paid off (probably) in "Manchukuo" bonds, will possess

Risseloff 24191

February 7, 1938

Government's Baltimore Exhibit 12

The Significance of the Establishment
of the
"Manchukuo Heavy Industries Development Company".

The information supplied the Department by Consul Richard F. Boyce in his report entitled "New Economic Organization in 'Manchukuo'", Yokohama, January 6, 1938, suggests an interpretation of the significance of the establishment in Manchuria of a new company to develop heavy industries which differs considerably from those popularly accepted. The facts in connection with the new company are as follows:

The Nippon Sangyo (Nihon Sangyo Kabushiki Kaisha) is a Japanese holding company capitalized at yen 225,000,000 headed by Giusuke Aikawa, which controls and manages a large network of industrial and commercial enterprises in Japan engaged in mining, ship building, shipping, fishing, the manufacture of iron, automobiles, chemicals and oils, marine products, matches, and electric power.

The South Manchuria Railway Company is a Japanese corporation owning and operating directly, or controlling through stock ownership the enterprises occupying a key position in the economic life of Manchuria.

A new "Manchukuo" corporation called the "Manchukuo Heavy Industries Development Company" has been created, with a capitalization of yen 450,000,000. which will acquire the assets of the Nippon Sangyo and at the same time acquire from the South Manchuria Railway Company control and management of many important mining and manufacturing enterprises (coal, iron, and gold mining), the iron and steel industry, light metal manufacture, automobile, aircraft, and other manufacturing industries). Half of the stock of the new company will be held by the present owners of Nippon Sangyo, and half ~~by~~ will be held by the "Manchukuo" Government. Mr. Aikawa will assume management of the combined enterprises controlled by the new company.

The establishment of the new company has been generally portrayed as the opening up of Manchuria to private capital, with emphasis upon foreign capital, as the result of the failure of the South Manchuria Railway Company to develop the country sufficiently, and its inability to attract capital for further expansion schemes.

It may be said with a fair degree of certainty that the establishment of the new company does not imply any material change in the opportunities for private capital in Manchuria. Private Japanese capital has always been allowed to participate in the minority shares of most of the enterprises controlled by the South Manchuria Railway Company or the "Manchukuo" Government and foreign capital has been allowed in many. It is important to note that the Supervising Law governing the new company specifies that control of the new company, even as regards the details of business and financial management, shall rest with the "Manchukuo" Government (which also will own 50 percent of the stock of the new company). Most of the Manchurian enterprises slated to be controlled and managed by the new company are "Manchukuo" special companies already legally controlled by the State with the South Manchuria Railway Company owning controlling stock of all of them. These distinctions are nice but irrelevant since the Japanese Kwantung

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Great Britain

Jan. 28. Johnson, U.S. charge in London, cabled the text of a note which the British proposed to present to the Japanese early in February stating that unless Japan could assure them that she was not contemplating building vessels in excess of 35,000 tons or could agree to furnish information as to such building England would invoke the escalator clause of the London Naval Treaty. It was hoped France and the United States would present identic notes. In a separate cable Johnson said that Captain Phillips of the British Admiralty had informed the American Naval Attache " in confidence that it was the opinion of the Admiralty that Great Britain must come to some sort of terms with Germany even if material concessions were involved. This opinion, Captain Phillips said, was not shared by the Foreign Office which was not entirely convinced that an agreement with Germany would have of necessity to be reached at the cost of concessions that might be considered too great."

France

Jan. 25. Bullitt cabled that "in the course of a long conversation last night Delbos said that after his return from Geneva he hoped to inaugurate active moves for reconciliation with Germany. He said that he felt the Government of the United States would be of great assistance in promoting such reconciliation. The Germans had even today an enormous respect for the United States and a latent fear of the United States and the American Ambassador in Berlin should be able to exercise a powerful influence for peace.

"Delbos ~~xxxxxxxxxxxx~~ went on to say that all the information he had received recently indicated that Hitler was intensely interested in the 'humanization of warfare' . He, Delbos, believed that the only civilized way to humanize war was to have no war but he and Chautemps felt that this interest of Hitler's in the 'humanization of warfare' might be used as the door to real Franco-German reconciliation."

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Europe

England

Jan. 24. Johnson, U.S. Charge at London, cabled that the U.S. Military Attache informed him that a representative of the British Air Ministry had intimated that day that his authorities would probably request through the British Ambassador in Washington permission to purchase certain American aircraft. The first item will be not less than 12 Boeing B-17 models for delivery within 12 weeks.

The Air Ministry hopes special consideration will be given by the appropriate American authorities for release for sale of these Boeing machines and other aircraft to be specified later.

Spain

Jan. 21. Bay, U.S. Consul in Seville cabled:

"Political optimism described in my Dec. 7 has been rudely shaken by events of Teruel. Moral effect of the loss of that city far outweighs military significance but ultimate liquidation of the affair is expected by operation now developing. Information received from widely separated sources indicates General Franco was on the point of launching a drive on Guadalajara to take off from Jadraque with intention of completing encirclement of Madrid when attacked at Teruel. These circumstances are generally regarded as merely delaying final victory.

Tightening of frontiers which still continues is attributed to plot against Franco. Information from German sources is to the effect that a number of civilians were recently executed in this connection at Caceres. Method of granting leaves to members military forces has been revised and restricted. Masters and crews of foreign merchantmen are not permitted to go ashore in Seville exception being made for ships of nations having relations with General Franco.

Foodstuffs, especially meats, scarcer than last year and prices substantially higher. Hotels and restaurants still continue to serve articles not available in local markets. Retail stocks practically exhausted."

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Far East

Jan. 29. Lockhart of U.S. Embassy at Peiping cabled that as a result of the protests of the United States, the Japanese military authorities had decided not to quarter troops in the Tsinhua University buildings.

Jan. 30. Grew cabled from Tokyo that the U.S. Military attache had supplied him with a memorandum stating substantially the following:

"An unusually large number of Japanese troops has been assembled in Formosa, one estimate from Warner at Taihoku running as high as 100,000. Great secrecy is being maintained regarding this force, and it has been impossible to determine its strength, composition or location.

"However, the presence on the island of Formosa of anything beyond the normal garrison which is usually not greater than 10,000 men is significant at this time." The memorandum added that Formosa is obviously in no danger of attack by the Chinese and is a good base for attacks on Amoy and other coastal cities.

Jan. 31. U.S. marine commandant (presumably at Shanghai) radioed that the Japanese were reported to be reinforcing the Wuhu region with 5,000 troops which left Tientsin on January 29.

Jan. 31. Hull cabled Phillips, U.S. Ambassador to Rome, to investigate fully the report of the U.S. consul at Milan that 80 Italian aircraft and 50 airmen had been ordered to Japan. Hull said that President Roosevelt was disturbed that a number of Italian aircraft and especially aviators of the regular or reserve forces should be ordered to Japan. Hull added that if Phillip's investigation showed any basis for the report he would probably ask Phillips to make a direct inquiry of Italy.

Feb. 2. Lockhart cabled that he had been informed that the decision not to quarter troops in Tsinhua University had been changed and the original plan would be adhered to.

Feb. 2. Grew cabled from Tokyo that the British Ambassador informed him that war supplies to China through Hong Kong had been furnished by countries according to the following percentages: Germany 62%; Italy 21%; France 12%; and Great Britain 3%. The remainder were divided between Belgium and the United States. Craigie had told Grew that he took particular pleasure in communicating these figures to the Japanese Vice Minister for Foreign Affairs.

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Jan 22. from Tsingtao, Dorn, of the U.S. Military Attache's staff cabled that the Japanese landed one battery of truck drawn 10 centimeter howitzers and four batteries of horse drawn 77 millimeter guns.

Jan.22. Johnson, U.S. Ambassador to China cabled from Hankow the following message from Stillwell, U.S. Military Attache, for the War Department:

"One. Military situation Yangtze Valley unchanged. Death of Liu Hsiang and appointment of Chang Chou as Szechwan Governor gives Central Government better hold on Szechwan. Japanese making progress toward Hsuehowfu along railroad from South. Believe Hsuehowfu will not hold long.

"Two. Reliable report from foreigner with long experience in northwest indicates heavy traffic on(?) Lanchow(?) highway. Estimates 1500 heavy Russian trucks operating hauling munitions. Daily arrivals Lanchow 100 to 200 trucks. He has counted 400 in one day. Saw four Russian tanks and over 50 Russian planes at Lanchow on Jan. 1. Highway being surfaced throughout. Large gangs Chinese laborers working. 700 Russian mechanics, chauffeurs, etc quartered in village near Lanchow handling transport. Individual truck capacity four tons. Russians are chauffeurs west of Lanchow; only Chinese chauffeurs east thereof."

Jan. 27. Lockhart, of the U.S Embassy in China cabled from Peiping that on Jan. 25 a Japanese officer had ordered the evacuation of the chemistry and biology buildings of the National Tsinghua University. All equipment would have to be removed by Jan. 27. The officer explained that the buildings would simply be borrowed for use as barracks for 3 or 4 months and were needed for housing part of the 20,000 Japanese troops that were to arrive in Peiping shortly.

Jan. 28. Harrison, U.S. Minister at Geneva, cabled that he "learned this morning in strict confidence from Vice President of Board of Managers of Swiss National Bank that Japan has been putting out feelers regarding possibility of obtaining a large loan in Switzerland. He gave me to understand that the Swiss National Bank is definitely unfavorable."

Jan. 28. Lockhart cabled from Peiping that American military observers at Peiping estimate that 60 trucks and 18 narrow gauge locomotives arrived in North China between Jan. 19 and Jan. 25. According to French observers 10,000 effectives arrived in North China and 3,000 departed during first two weeks in January.

Jan. 29. Sholes, U.S. consul at Milan cabled that ~~the~~ "80 Italian air craft and 50 Italian airmen, some recently returned from Spanish front, it would appear, have been ordered to Japan. Embassy was informed aircraft shipments January 25 last. My British colleague called upon me today. His figures place aircraft sent at 50."

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Reliable source reports that since signing the tripartite Anti-Comintern Pact an agreement has been reached whereby complete Italian and German military aircraft engineering and designing data, plus the services of technical advisers, are made available to Japan.

A "Shanghai Mail" report states that German experts on ordinance and airplane matters are now in Japan.

American military attache at Hangkow paints gloomy picture of China's present military plight. States that a Chinese counter-offensive is unthinkable and he doesn't believe a force that can offer serious resistance can now be created.

Japanese are reported to be moving 80,000 fresh troops from Japan via Mukden. First of these troops arrived at Mukden on December 17th. Believes they are destined for the northern frontier Barracks with a capacity of 50,000 troops are reported to have been erected at Chaimussu and Poli in northeast Manchuria. Other barracks with capacities for 100,000 troops are reported to be located between railroads which are rapidly being pushed to the Mongolian and northeast frontiers. Japanese agents are reported to be fomenting action by Mohammedans in Ningshia and Chenghi to harrass the Urunchi-Lanchow Road.

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Europe

Jan. 5. Bullitt cabled from Paris that Leger, in charge of the Foreign Office in Delbos' absence, had told him that the French Government was very apprehensive lest the United States become involved with Japan. Leger said that alone Britain would do nothing in the Far East, no matter how insulted. But if the United States should go to war with Japan, Britain would join in and this would leave France alone in Europe. Leger said that in such an eventuality Germany and Italy would strike at once and France would be no match for them.

Jan. 12. Bullitt cabled that Prunas, new Italian charge in Paris, had told him that Germany and Italy had reached complete agreement as to Austria and that Italy did not object to Germany's taking over Austria. Bullitt asked whether in that event the 300,000 Tyroleans might not become a danger to Italy. Prunas replied that it was ~~ax~~ already agreed that the Tyroleans would emigrate to Germany. Germany had expressed a desire for farm laborers and some 25,000 had already been sent. When this was completed Italy would be safe at the Brenner.

Jan. 12. Bullitt cabled that Delbos had told him that Poncet reported from Berlin that the Germans would agree to a limitation of production of military planes and that in general prospects for a French-German rapprochement were encouraging. Delbos said in addition that he believed there was complete understanding between Germany and Italy as to Austria.

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Mr. Aikawa and his company just as abruptly as they dropped Mr. Matsuoka and the South Manchuria Railway.

8. The success of the venture also depends largely upon Mr. Aikawa's ability to manage the huge interests he has undertaken. Although he has been successful to date, his success has admittedly been due in large measure to conditions over which he has no control. It is one thing to expand successfully in boom times. It remains to be seen how he can do in a depression. Some, but not all, of his ventures have succeeded. Certainly his automotive ventures are not a success and without army support would have been abandoned.

9. The American investor can buy Japanese Government bonds in New York, payable in U.S. dollars, at such a discount that they yield him 10%. The investment in the new company has only a 6% guaranteed yield. The possibility of getting more than 6% is purely speculative.

10. The American investor cannot buy any shares of the Manchoukou Heavy Industry Development Company but only of the subsidiary companies. The parent company could declare a substantial profit from sources not available to the American investor and the subsidiary might only declare a 6% dividend.

11. The American investor cannot control more than 49% of the stock of any subsidiary. If the subsidiary, for example, made automobiles, the American investor could not keep the company from exporting to markets in competition with his American plant. He could not be a decisive factor in any of the acts the directors decided upon. He could be "frozen out" at any time.

12. The economic set up in "Manchoukuo" is still a monopoly, the only change being from the South Manchuria Railway to the Manchoukuo Heavy Industry Development Company. If the activities of any subsidiary in which an American might invest should run counter to the purpose of the controlling interests of the parent company, they would be curtailed even though it adversely affected the subsidiary.

13. As Japan has announced upon a number of occasions that the terms of treaties should not be binding upon her when the conditions existing at the time the treaties were made have changed, it is hard to believe that less formal guarantees, as represented by the laws of "Manchoukuo" would be considered as binding her if economic conditions in Japan became so unfavorable as to make it difficult to carry them out. Up to now the Japanese Government has never defaulted on its bonds. It would not do so unless the economic situation became hopeless. The situation is becoming more and more serious, however, and it is too soon to say that Japan will never default. American experience in Germany, Italy, Russia, Spain and other countries and the experience of the foreign oil companies in "Manchoukuo" should be considered in predicting possibilities of American participation in the new venture.

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(d) the political support of the Japanese Army, (e) the continuation of heavy expenditures in Japan and "Manchoukuo" for munitions and other war purposes and (f) Mr. Aikawa's ability.

3. There is a great difference of opinion as to what the economic possibilities of "Manchoukuo" are. It is an agricultural country and the Japanese Government wishes to keep the market there for Japan's own industries and does not wish to establish industries that will compete with its own factories. It seems inconsistent, therefore, to establish a new automotive industry and a new aircraft industry, as announced by the Company, unless it is being done purely for reasons of military defence against Russia. The present annual ~~market~~ automotive market in "Manchoukuo" is only 2500 units. The annual consumption of aircraft for civil purposes is very little. The principal industrial possibilities, from an economic point of view, appear to be the production of iron and coal as a source of supply to Japanese industries and for national defence.

This office is not supplied with sufficient data to report upon the economic possibilities of "Manchoukuo". This data should be available in the Consulates in "Manchoukuo." There is doubt, however, as to whether the proposed development is more for economic reasons than for military defense.

4. As the "Manchoukuo" Government, which is a 50% owner of the new company and which guarantees the profits and other benefits to American investors, is the instrument of the Japanese Government, the success or failure of the new company will depend largely upon the success or failure of present economic developments in Japan. Practically every American or English economist or business man with intimate knowledge of the country agrees in predicting serious economic trouble for the country within the next three years, whether Japan's military activities in China succeed or fail. As economic conditions in Japan become worse, Japan's ability to support "Manchoukuo" decreases and any guarantees as to profits, to exemption of profits from taxation, to permission to export profits and dividends become affected. The much advertised "Japan-Manchoukuo bloc" is only as good as Japan can make it.

5. Japan's success in China depends upon many unknown and unpredictable factors. The present military activity is costing Japan a great amount of money and the desired economic expansion there will cost a great deal more. The Japanese business men are not believed to be too optimistic, but in any case it is admitted that failure of their economic expansion in China would be ruinous to Japan after the great sacrifices they are now making.

6. The Japanese admit that the prosperity of the heavy industries of the country since 1932 is largely due to military expenditures. This can easily be proved, and no attempt has been made to deny it. It is admitted that such expenditures cannot be supported indefinitely. It follows that when the expenditures stop either by reason of exhaustion or otherwise, the heavy industries will suffer a depression. As the activities of the new company in "Manchoukuo" will be largely in heavy industries and as some of the leading activities of the Nihon Sangyo Kabushiki Kaisha in Japan proper, which are now taken over by the new company, are heavy industries, it is hard to see how the Manchoukuo Heavy Industry Development Company can fail to suffer when it loses the support of the war expenditures.

7. As the Japanese Army officials are so powerful politically and as their policies are subject to change without consideration of other interests, it is ~~likely~~ ^{difficult} for them to abandon

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IV

ANALYSIS OF ECONOMIC FACTORS INVOLVED

The announced intention of the Nihon Sangyo Kabushiki Kaisha is to invite foreign capital to participate in the development of "Manchukuo". Mr. Aikawa is said to be planning to visit the United States very shortly to obtain American capital. He will probably be accompanied by Mr. James W. Murray. Mr. Murray is an American citizen who came to Japan several years ago as Treasurer of the Nipponophone Company (Columbia Phonograph Company) in Kawasaki. When the company was purchased by the Nihon Sangyo Kabushiki Kaisha in 1935, Mr. Murray was retained by the new owners and has since been acting in an advisory capacity to the Company on financial matters particularly in its dealing with American companies in the United States. Mr. Murray will therefore assist Mr. Aikawa in completing any financial arrangements which Mr. Aikawa decides upon but will not engage in any of the promoting activities of Mr. Aikawa.

Mr. Aikawa needs money or credit totalling several million dollars. He wants it in the form of machine tools, factory equipment, foundry and steel mill equipment, mining equipment, automotive equipment, and materials. He wants also the latest engineering advice and the assistance of American engineers to design the plants, purchase and install the equipment and get the new industries in running order.

He will pay well for what he buys but he wants all this on credit for at least three years and preferably for ten years. His proposition is to exchange shares or debentures of the subsidiary companies for the materials, equipment and engineering advice received. He does not want to issue debentures or make loans which mature in less than ten years.

He will propose that all American dollar investments will be represented by shares or debentures in yen; that such yen values will be revalued whenever they are re-purchased by the company so that the American investor will get the same dollar refund, regardless of any possible yen depreciation, as his original dollar investment.

The guarantee of such an arrangement will be made by the "Manchoukuo" Government in the form of laws or regulations but not by treaties.

No American or other foreign investment will be permitted to own a controlling interest in any of the subsidiaries, and none of the foreign investment will be permitted in shares of the parent company.

Americans who may be approached by Mr. Aikawa should consider the matter very carefully before committing themselves. The following facts are given as bearing upon any plans he may suggest:

1. The purpose of Mr. Aikawa's invitation to American capitalists is to obtain funds or credit which are not readily available in Japan to carry out his plans in "Manchoukuo." A statement regarding Japan's capital resources, prepared by Vice Consul Ivan B. White, is enclosed herewith. The profit accruing to American investors is only incidental to his venture. He would not seek American capital if he could get sufficient capital in Japan.

2. The success of the venture in "Manchoukuo" depends upon (a) the economic possibilities of "Manchoukuo," (b) the economic situation in Japan itself, (c) the success of Japan in China,

B. Victor Talking Machine Co. of Japan, Ltd. (Controlling Interest Held by Japan Industries - 68%)
Established 1927
Capital Stock Subscribed and fully paid Yen 7,500,000
Number of Employees ... 1,000

VII. Plantation Industries

A. Japan Industries Rubber Estate Co. (Controlling Interest Held by Japan Industries - 64%)
Established 1934
Capital Stock Subscribed and fully paid Yen 6,000,000
Number of Shareholders ... 1,183
Number of Employees 3,100

VIII. Other Industries and Businesses

A. Daido Match Company - (Controlling Interest Held by Japan Industries -- 91%)
Established 1927
Capital Stock Subscribed and fully paid Yen 4,000,000
Number of Employees 4,000
Daido Match Co. owns 7 subsidiaries

B. Godo Real Estate Company - (Controlling Interest Held by Japan Industries - 100%)
Established 1915
Capital Stock Subscribed Yen 5,000,000
Amount Paid In 2,500,000

C. Sakhalin Steamship Company (Controlling Interest Held by Japan Industries - 80%)
Established 1918
Capital Stock Subscribed Yen 3,000,000

D. Chu Civil Engineering Company (Controlling Interest Held by Japan Industries - 100%)
Established 1930
Capital Stock Subscribed Yen 1,000,000

E. Imperial Lumber Company (Controlling Interest Held by Japan Industries - 100%)
Established 1933
Capital Stock Subscribed Yen 250,000

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III. Automotive Manufacturing Industries

A. Nissan Automotive Manufacturing Company (Controlling Interest Held by J. I. - 100%)
Established 1933
Capital Stock Subscribed Yen 10,000,000
Amount Paid In 10,000,000
Nissan Automotive Manufacturing Co. owns the Nissan Automotive Sales Co. with capitalization of Yen 5,000,000.

IV. Chemical Industries

A. Japan Chemical Company - (Controlling Interest Held by Japan Industries - 100%)

Established 1934
Capital Stock Subscribed Yen 62,000,000
Amount Paid In 53,900,000
Old Shares - Yen 50.00 fully paid 430,000 shares
New Shares - Yen 40.00 paid in 810,000 shares
Number of Employees 20,000
Japan Chemical Co, owns 12 chemical manufacturing companies.

B. Japan Oil Company - (Controlling Interest Held by Japan Industries - 60%)

Established 1921
Capital Stock Subscribed Yen 17,500,000
Amount Paid In 17,500,000
Number of Shareholders ...2,367
Number of Employees2,000
Japan Oil Co, owns 40 manufacturing companies in soybean, fish oil industries, etc.

V. Fishing Industries

A. Japan Fishing Industries, Ltd. (Controlling Interest Held by Japan Industries - 46%)

Established 1925
Capital Stock Subscribed Yen 91,500,000
Amount Paid In 55,500,000
Old Shares - Yen 50.00 fully paid 840,000 shares
New Shares - Yen 12.50 paid in 960,000 shares
Number of Shareholders 33,450
Number of Employees 5,000
Japan Fishing Industries owns 56 subsidiaries.

B. South American Fishing Industries, Ltd. (Controlling Interest Held by Japan Industries - 100%)

Established 1932
Capital Stock Subscribed Yen 1,000,000

C. Japan Fishing Industries Research Institute (Controlling Interest Held by Japan Industry - 100%)

Established 1935
Capital Stock Subscribed Yen 1,000,000

VI. Electric and Musical Industries

A. Nipponophone Co., Ltd. (Columbia) - (Controlling Interest Held by Japan Industries - 59%)

Established 1910
Capital Stock Subscribed and fully paid Yen 7,000,000
Number of Employees ... 1,700

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Companies Controlled by Japan Industries Ltd.

(Nihon Sangyo K.K.)

As of March 30, 1937

Japan Industries established in 1912
Capital Stock SubscribedYen 225,000,000.00
Amount Paid In 198,375,000.00
Old Shares - Yen 50.00 each fully paid 2,370,000 shares
New Shares - Yen 37.50 paid in 2,130,000 shares
Total number of Shareholders 50,200
Chairman O Yoshisuke Aikawa

I. Mining Industries

A. Nippon Mining Company (Controlling Interest Held by Japan Industries - 58%)

Established 1929
Capital Stock Subscribed Yen 160,000,000.00
Amount Paid In 138,750,000.00
Old Shares - Yen 50.00 each fully paid ... 1,500,000 shares
New Shares - Yen 37.50 paid in 1,700,000 shares
Number of Shareholders 6,630
Number of Employees.....30,000
Nippon Mining Company owns The Taiwan Mining Co., Nissan Steamship Co., and the Nichinan Mining Co.

II. Heavy Industries

A. Hitachi Engineering Works (Controlling Interest Held by Japan Industries - 35%)

Established 1920
Capital Stock Subscribed Yen 117,900,000.00
Amount Paid In 73,688,000.00
Old Shares - Yen 50.00 each fully paid 1,179,000 shares
New Shares - Yen 12.50 paid in 1,179,000 shares
Number of Shareholders 7,580
Number of Employees30,000
Hitachi Engineering Works owns the Osaka Iron Works & Shipbuilding Companies with capital stock of Yen 12,000,000.00 fully paid; and 8 other subsidiaries including iron foundry industry, precision instrument manufacturing, etc.

B. Hitachi Electric Power Company (Controlling Interest Held by Japan Industries - 45%)

Established 1927
Capital Stock Subscribed Yen 10,000,000.00
Amount Paid In 6,250,000.00
Old Shares O Yen 50.00 fully paid 100,000 shares
New Shares - Yen 12.50 paid in 100,000 shares
Number of Shareholders 261
Number of Employees 150

III. Automotive Manufacturing Industries

A. see next page

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Nihon Sangyo Kabushiki Kaisha

A great deal has been written about the Nihon Sangyo Kabushiki Kaisha during the past few years, mostly inspired articles intended to promote the sale of shares of the company and to promote the sale of the product of the subsidiary companies. The following information is taken from a series of articles in the Japan Advertiser of January 16, 17, 18, 1936, and from other sources:

Mr. Aikawa and the Nihon Sangyo Kabushiki Kaisha were relatively unknown prior to 1931 but his remarkable progress since then has aroused universal attention. The Aikawa-Kuhara interests were built upon the success of the Japan Mining Company, which has been their largest subsidiary and a most profitable one. It is said to be the largest gold mining company in Japan and also produces silver, lead, copper and other mineral products. In recent years it has paid as much as 14% dividends on its capitalization of Yen 89,127,000.

The second and third subsidiaries are the Hitachi Engineering Works and the Hitachi Electric Power Company. These depend largely on military orders. The profit of the Engineering Company in the first half of 1935 was claimed to be 37.8% on its capitalization of Yen 20,000,000 and a 12% dividend was declared.

The growth of the Nihon Sangyo Kabushiki Kaisha has been so rapid since 1931 that in 1936 it controlled nearly 50 subsidiaries and was said to be promoting new subsidiaries at the rate of two a month. It was interested mainly in "mining, manufacturing, marine products and miscellaneous." There follows ~~xxxxxx~~ a list of the main subsidiaries as supplied by the company on December 8, 1937,

Since that list was given it has just been announced that the Nipponophone and Victor Companies (Nos. VIA and VIB on the list) have been sold to the Tokyo Denki Kabushiki Kaisha (with which the General Electric Company of Schenectady, New York, has a working agreement). These two companies were purchased by the Nihon Sangyo Kabushiki Kaisha within the past two years at the time when they were doing a very profitable business. They control the phonograph market in Japan. Since the new import tariffs, sales taxes, and exchange restrictions were put into effect, however, it is said that the companies have had difficulty making ends meet.

There may be other sales of the Japan interests of the Nihon Sangyo Kabushiki Kaisha in order to raise funds for financing the venture in "Manchoukuo."

The Nissan Company has been fully reported on. (See the confidential report of this office on June 12, 1936, "Japanese Automotive Industry.") Its first product, the Datsun midget car, is said to be selling well in competition with Japanese three-wheeled motorcycle delivery vans, but it is doubtful whether the company is making an appreciable profit. Its second product, the Nissan standard sized truck, is being produced ~~xxx~~ at a rate of 20 units a day for the Army and is believed to be operating at a substantial loss.

III

BACKGROUND OF YOSHISUKE AIKAWA AND THE NIHON SANGYO KABUSHIKI KAISHA

Yoshisuke Aikawa

The decision of the Japanese Government, said to be controlled in this matter by the military party in Japan, to invite capitalists to take over the industrial development of "Manchoukuo" was followed by their selection of Mr. Yoshisuke Aikawa and the Nihon Sangyo Kabushiki Kaisha, of which he is President, as the sole agent for carrying out the new scheme into effect. The change amounts to substituting Mr. Aikawa and his company for Mr. Yosuke Matsuoka and the South Manchuria Railway, of which he is President.

Mr. Yoshisuke Aikawa was born in Yamaguchi Prefecture, Japan, in November 1880. He graduated from the Engineering College of Tokyo Imperial University in 1903. He is described as "a scion of a good family" in Yamaguchi Prefecture. His father was a prefectural government official. Desiring to learn about the metal industry from the ground up he worked as a laborer in the iron foundry in Shibaura for two years after his graduation. He worked for two years as a laborer in a foundry in the United States. Upon his return to Japan in 1909 he founded the Tobata Casting Company, with capital provided by Mitsui, Kuhara, Kaijima and Fujita interests. He was helped greatly by his uncle, Marquis Kaoru Inouye, "a statesman of the Meiji Restoration," who took a keen interest in him. He has for some years been closely associated with his father-in-law, Kusanosuke Kuhara, President of the Japan Iron Foundries, who was one of his original backers in the Tobata venture, who has supplied much of Aikawa's capital. Kuhara became closely associated with the reactionary elements in the Japanese Army and was recently sentenced to prison for his connection with the now famous attempt of those officers on February 26, 1936 to seize the control of the Government.

Mr. Aikawa and Mr. Kuhara have, according to all accounts, been favored by substantial army support for the last few years and the present development is a culmination of their relations with the Army. Mr. Kuhara's connection with the attempted Army coup d'etat which resulted in his imprisonment has presumably improved his political support by the Army.

The Army is said to be opposed to the old financial interests, such as Mitsui, Mitsubishi, Sumitomo, etc., because their prosperity benefits only a few families already wealthy. The Army favors Aikawa and his interests because their prosperity benefits an alleged 5,000,000 shareholders all over Japan, in addition to the 130,000 employees.

It seems clear that the prosperity of the new company will continue to depend largely upon the support of the Army and upon war expenditures.

Mr. Aikawa publicly and privately admires American business and industrial methods. His experience in the United States is said to have aroused this admiration and it is inferred that he is genuinely friendly to Americans. The American engineers who have worked for him all speak of him in the highest terms so far as their business and personal relations are concerned. They also speak highly of his ability.

Kisseloff-24206

"4. The company will be capitalized at Yen 250,000,000. When necessary the company may obtain permission from the State Minister concerned to increase its capitalization.

"5. State control will be increased along the following lines:

"a. The right to appoint and fix the salaries and allowances for the president and vice-presidents will be vested in the Manchoukuo Government.

"b. The company is under obligation to submit to the Hsinking Government a detailed report on the business program for each fiscal year.

"c. Election of directors and inspectors, their dismissal, modification of the articles of association, disposal of profits, flotation of bonds and other important matters are to be carried out under special permission of the State Minister concerned.

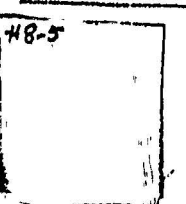
"d. The State Minister concerned is empowered to issue any order considered necessary in connection with the business management of the company in case such is deemed necessary with regard to its supervision and control."

Officers of Company

The officers of the new company will be:

Chairman and President	Yoshisuke Aikawa
Directors	K. Shimokobe
	T. Shimamoto
	E. Tanaka
	K. Yamada
	Baron B. Ito
	K. Tamura
	G. Asahara
	N. Odaira
	S. Ibuki
Auditors	C. Iwata
	Y. Katayama
	K. Yamada

*for
DPN*



The following table is said to be the list of companies which will come under the management of the new concern. (Japan-Manchoukuo Year Book 1938, page 948.)

Companies	Capital (Yen 1,000)	
	Authorized	Paid-up
Showa Steel Works	100,000	82,000
Manchou Colliery	16,000	16,000
Manchuria Mining Development	5,000	3,100
South Manchuria Mining	3,600	1,350
Shantung Mining	5,000	2,250
Fuchow Mining	1,000	750
Kaiping Mining	34,320	33,620
Manchuria Lead Mining	4,000	4,000
Manchuria Gold Mining	12,000	7,175
Great Manchuria Gold Mining	200	50
South Manchuria Light Metal	25,000	6,250
Japan-Manchoukuo Magnesium	7,000	3,500
Dowa Automobile	6,200	3,200
Total	219,320	163,245

The Manchoukuo Government is furthermore expected to entrust the larger part of the work appertaining to the so-called Manchoukuo 5 Year Industrial Plan, which is scheduled to be undertaken with a budget of 3,000 million yen, to the new company.

Controlling Legislation

The law passed by the "Manchoukuo" Government to provide for the new regime is summarized as follows: (Japan Advertiser, December 30, 1937.)

"HSINKING, December 20. -- The Manchukuo Government promulgated today the Supervising Law of the Manchuria Heavy Industry Development Company, effective December 27.

"Under the supervision of the Manchukuo Government, the new company will undertake to develop the heavy industries of Manchukuo and at the same time promote the economic ties between the new State and Japan.

"The law consists of 31 articles, the salient feature of which is that the Government will give high protection to the company's interests and rights, while the State's control will be considerably enhanced.

"Scope Outlined

"Gist of the law follows:

"1. The Manchukuo Heavy Industry Development Company will invest in steel manufacturing, light metal industries, mining, motorcar and aircraft manufacturing and coal mining, and will manage these branches of industry. It also will be empowered to invest in gold, zinc, lead and copper mining.

"2. The company will be required to establish its main office in Hsinking.

"3. The company's board of directors will be composed of a president, two vice-presidents, five or more directors and three or more inspectors. The president and vice-presidents will remain in office five years. They will be appointed by the Hsinking Government, while the directors and inspectors will be elected.

Kisseloff-24208

APN

- "3. The Manchoukuo Government shall guarantee the principle and a net return of 6% per annum on all funds expended by the corporation in connection with carrying on enterprises in Manchoukuo for ten years. In the event the corporation does not earn 6% per annum and it is necessary for the Manchoukuo Government to make up a deficit up to 6%, the Government shall be reimbursed in subsequent periods out of any earnings in excess of 6% until such time as the advance to cover the guaranteed dividend has been repaid.
- "4. There shall be no Manchoukuo tax on profit made by the corporation from investments outside Manchoukuo. Also dividends, paid by the corporation to shareholders residing outside of Manchoukuo shall not be taxed. As to taxation in respect to enterprises in Manchoukuo, the Manchoukuo Government shall take suitable steps so as not to impair the functions of integrated management of the corporation in the event a change in the taxation system would, in the future, cause an additional burden to the corporation.
- "5. The corporation shall not be restricted as to the dividend rate in the disposal of profits.
- "6. In regard to the marketability of the private shares of the corporation, the Japanese and the Manchoukuo Governments shall take suitable measures so that the existing negotiability shall not be impaired.
- "7. No restrictions will be placed on export of dividends."

8-3

*for
DPN*

Kisseloff-24209

OUTLINE OF NEW PLAN

(Supplied by
Nihon Sangyo Kabushiki Kaisha)

"MANCHOUKUO HEAVY INDUSTRIES CO., LTD.

"The urgent necessity of expediting the development of industry in Manchoukuo, more especially the heavy industries, leaves no room for discussion. To bring about this development and to take advantage of the forthcoming abolition of extra-territoriality rights which will result in the transfer of administrative power now exercised by the South Manchurian Railway in the railway zone, our Company has come to an agreement whereby it will become a Manchoukuo corporation and will move its head office to Hsinking.

"This new Manchoukuo corporation shall then merge with a powerful national policy corporation planned by the Manchoukuo Government for the purpose of developing industries there on an integrated management principle, with the center in the heavy industries field. In addition to managing the existing enterprises of our present Company, the new company resulting from the merger will undertake the important mission of controlling and managing the iron and steel industry, light metal manufacturing, automobile, aircraft and other manufacturing industries in Manchoukuo, also coal, gold and other mining industries.

"The new national policy corporation shall have a capital of Yen 450,000,000.00 consisting of Yen 225,000,000.00 to be invested by the Manchoukuo Government, and the present capital of Yen 225,000,000.00 of our Company. The new corporation shall enjoy the positive support of both the Japanese and Manchukuo Governments with respect to the active utilization of the assets to be taken over from our Company and of raising the necessary funds and making available other facilities that may be necessary.

"The following is a general outline of definite terms agreed upon with a view to respecting the interests of the existing shareholders of our Company and to provide for the investment of private capital in Manchoukuo:

"1. At the disposal of profit for each period, the dividends will be determined as follows:

- (a) When the dividend rate for private shareholders is 10% or under, the dividend for the shares held by Manchoukuo shall be one-half thereof. For example, if the private shareholders receive a 10% dividend, Manchoukuo shall receive a 5% dividend.
- (b) Any profit in excess of a dividend of 10% for private shareholders and 5% for Manchoukuo shall be divided equally. For example, if private shareholders receive a 12% dividend, Manchoukuo shall receive a 7% dividend.

"2. In the event of liquidation of the corporation, the residue shall be divided between the private shareholders and the Government shares at the ratio of two to one up to one and one half of the paid-in capital. Any excess over one and one-half shall be divided equally.

Note: The new holding company will be called "Manchoukuo Heavy Industry Development Company."

Kisseloff-24210

I

NEED FOR NEW POLICY

IN
ECONOMIC DEVELOPMENT OF "MANCHUKUO"

"Manchukuo's" economic organization is principally agricultural - 90% of the population is engaged in agriculture and 80% of the national income is derived from it.

The great importance of trade relations between Japan, "Manchukuo," and China will be understood when one considers the poor natural wealth of Japan and the existence of abundant resources and wide consumption markets in "Manchukuo" and China. (Mitsubishi - "Japan Trade and Industry," page 623.)

The purpose of Japanese economic expansion into "Manchukuo" is said to be "to bring the two countries into a common economic unit, to avoid destructive competition, and to utilize as fully as possible the natural resources of the two countries." (Japan-Manchukuo Year Book 1937, page 840.)

"The South Manchuria Railway Company has been the bulwark of Japanese political and economic interests in Manchuria for the past three decades." Since 1932 the company has had supervisory control either directly or indirectly through subsidiaries over many activities, including railways, workshops, steamships, harbors, coal mines, shale oil plants, iron and steel works, chemical fertilizer plants, electricity, gas, hotels, public works, such as schools, hospitals, etc.; slaughter houses, cement, paraffin refinings, ceramics, industrial fats and oils, lumber, storage, express service, gold and lead mining, real estate, insurance, newspapers, etc., etc.

The vast undertakings of the South Manchuria Railway Company, which is controlled by the Japanese Government, have not been developed, or have not developed "Manchukuo," to the extent desired. The theory upon which the South Manchuria Railway Company worked is said to have been evolved by the Japanese military authorities in "Manchoukuo" and was based on the idea that the established capitalists of Japan, such as Mitsubishi, etc., should be kept out of "Manchoukuo"; that the Government should run the entire project through the South Manchuria Railway Company and any profits would accrue to the Government.

Without giving specific data to show how far short of the original expectations the South Manchuria Railway Company development progressed, it is now announced that a change must be made and that capitalists will be given a chance to see what they can do.

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SECTION IV

ANALYSIS OF ECONOMIC FACTORS INVOLVED

ENCLOSURE

MEMORANDUM - Japan's Capital Resources

*No. 7
T. S. McLaughlin
Secretary*

#7

*for
OPN*

NEW ECONOMIC ORGANIZATION
OF
"MANCHUKUO"

From: Consul Richard F. Boyce
American Consulate,
Yokohama, Japan.

Date of completion: January 6, 1938
Date of Mailing: January 7, 1938

Note: The enclosure "Japan's Capital Resources" was prepared by Vice Consul Ivan B. White.

*no 6
The National
Library*



*Jan
20 N*

American Consulate
Yokohama, Japan, January 6, 1938.

Subject: ENCLOSING A REPORT ON THE
NEW ECONOMIC ORGANIZATION
IN "MANCHUKUO"

The Honorable
The Secretary of State
Washington

Sir:

I have the honor to enclose herewith a report dated January 6, 1938, entitled New Economic Organization in "Manchukuo". This report describes the change in the directing force of the economic development of "Manchukuo" from the South Manchuria Railway to a new company, the Manchukuo Heavy Industry Development Company, which will be a holding company jointly owned by the "Manchukuo" Government and the Japan Industries Company (Nihon Sangyo Kabushiki Kaisha).

Mr. Yoskisque Aikawa, the promoter of the venture described in the report, is expected to leave Japan for the United States in a few days. He will no doubt present his plan for investment with American capital in "Manchukuo" to possible American investors as soon as he can arrange to meet them.

Respectfully yours,
Richard F. Boyce,
American Consul

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Kisseloff-24214

Handwritten initials:
RFB

England

On March 29, Kennedy, U.S. Ambassador to London, cabled about the British desire to proceed without delay with discussions under paragraph 3 of Article 25. The cable added:

"Captain Wilson in conversation with Admiralty officials was told that the British are anxious to fix a limit of about 42,000 tons which they believe will give a well balanced ship carrying nine 16 inch guns. They feel that the next higher logical limit would be about 47,000 tons, providing a balanced ship of twelve 16 inch guns."

On March 30 Hull replied by cable agreeing to proceed at once with the discussions under paragraph 3 of Article 25.

A typed despatch of February 26 from the ~~Hague~~ American Minister to the Hague referred to his despatch No. 182, dated February 14, "wherein it was reported that a secret understanding has existed since 1934 between the Netherlands and ~~Britishairforce~~ British air forces."

Germany

On March 30, Wilson, U.S. charge at Paris sent cable No. 497, 8 p.m., as follows:

"A German friend formerly in the diplomatic service who maintains relations with Von Neurath has just arrived here from Berlin. He tells me that the leaders of the party are urging Hitler to move quickly against Czechoslovakia in order to take advantage of the favorable situation created by French weakness and British unpreparedness. Their thought is that when the Czechoslovak proposal for dealing with minorities is known it should be treated as a sort of Berchtesgaden arrangement, denounced as unsatisfactory, disorders to take place in the Sudeten country with an appeal for the assistance of German troops.

"My informant said that Von Neurath and others were playing for time and counseling that no aggressive action be taken at least until after Hitler's visit to Rome."

Italy

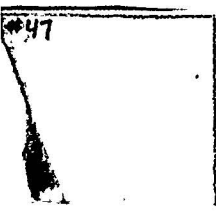
April 1, Wilson, U.S. consul at Genoa, cabled:

"Have just heard from reliable confidential source that order issued last Tuesday placing fleet from La Spezia to French boundary under 6 hours sailing orders has now been cancelled."

Government's Baltimore Exhibit 47

Handwritten: No. 47
T. E. Montgomery
24 5/20/34

Handwritten: For
PPN



74-1333-5254



0321

331

Japan

#14

Government's Baltimore Exhibit 46

On March 30 the Department cabled to the U.S. legations at Costa Rica and at Panama:

"The Department has learned from a presumably reliable source that certain Japanese have approached the E.W. Creevy Trading Company with respect to the ~~possibility~~ possible purchase of a manganese mine said to be owned by that company on Cocos Island."

March 31. The U.S. legation at Panama replied:

"Neither of Creevys in Panama since December nor has shown active interest in Panama manganese although reported developing Guanacaste, Costa Rica, deposits. No manganese deposit or Creevy interest in Costa Rican Cocos Island heard of in presumably informed sources in Panama but confirmation by the Legation at San Jose is suggested."

"Creevys reputedly capable of such deal or of publicising fictitious foreign offer for promotion purchases."

April 1. U.S. Legation at San Jose, Costa Rica, cabled that there were no manganese deposits on Cocos Island, that the Creevys had available 4,000 tons on the Guanacaste coast of Cocos Bay.

March 31. The Fourth Regiment of U.S. Marines stationed at Peiping (?) cabled that one regular Japanese division had recently been transferred from Central China to Japan.

March 23. U.S. consul at Dairen in a cable referring to commercial treatment of American products stated that a few days before a permit entry had been granted for 1,000 American motor trucks purchased by the authorities in Hsinking.

*Mr. 46
T.C. M. S. J. J. J.
W. J. J. J. J.*

Kisseloff-24217

APN

#46

Warsaw. No. 38, March 29, 4 p.m.

"One. I learn following in strictest confidence from Beck and his associates:

"(A) Beck gained distinct impression in conversations with Mussolini and Ciano during Beck's recent Rome visit that they both shared Beck's view in respect to Danubian Valley: whereas Italy focused its attention on the Mediterranean and Poland on the Baltic neither would like to see the hegemony of any country develop further in the Danubian Valley.

"(B) Of pertinent interest moreover during adjournment of Anglo-Italian conversations Mussolini had recently pointed out Italy was fundamentally interested in ascertaining the extent to which Britain would be interested in doing something to bring about economic and other appeasement in that area which had been disturbed by recent events (such as Austria). My informants added that in other words Mussolini's soundings on this score indicated Mussolini's interest in embarking on a potential counter policy vis a vis Germany's suspected aspirations in Danubian Valley; the counter policy envisaging economic assistance to rescue the Danubian and Balkan states from being swept into the German camp.

"Two. My informants added their opinion that Britain would probably be inclined to leave treatment of this problem in abeyance until current obstacles still retarding an Anglo-Italian solution of the problem in Spain will have been eliminated."

BIDDLE

*no. 45 -
I.E. McFadden
notary*

Government's Baltimore Exhibit 45

Kisseloff-24218

*Ku
PPA*

445

March 29.

Carr, U.S. Minister at Prague, cabled a summary of the Prime Minister's speech of the 28th. After noting the reference in the speech to future minority measures, Carr said "no mention made of new measures though they are probable since in addition to Chamberlain's suggestion we know that British and German ministers think further measures and improved administration essential."

*Mr. 44
150
W. S. G. G. G.
W. S. G. G. G.*

*For
AOL*

44

Rome, 77, March 29, noon

"My 69, March 20, noon.

"The Embassy learns that in the course of the conversations between Ciano and the British Ambassador on March 26 the British requested assurances that at the end of the war all Italian volunteers should leave Spanish territory and that all Italian war material would be withdrawn. These assurances were given the following day but the Italian Government has reserved the right to sell or to give certain quantities of war materials to the Franco Government when they are no longer needed by the Italian forces in Spain.

"The Ambassador also requested that some official Italian recognition be given to those passages in Chamberlain's recent speech which referred to the satisfactory progress of the negotiations with Italy. This was likewise agreed and the Informazione Diplomatica communique quoted in the Embassy's telegram No. 76, March 28, 6 p.m., was issued. The British Ambassador adds, however, that he had no prior knowledge of last paragraph containing the warning against French intervention.

"Assurances were also given by the Italian Government that it would start almost immediately to withdraw troops from Libya at the rate of a thousand a week until the normal peace strength or about one-half the present garrison has been reached.

"Several other minor points to be clarified but it is believed that only outstanding major question to be resolved relates to the form and publicity of the agreement. It has been agreed that it will take the form of a general protocol with separate instruments covering the various points included in the conversations to enter into force at a date to be set by the two governments. This would permit the British to determine what progress had been made in Spain and the Italians to await recognition by ~~Britain~~ Great Britain. The Italian Government is, however, anxious to make public the terms before Hitler's visit and is insisting upon some form of public pledge on the part of Great Britain with respect to the recognition of the Empire.

"It is not yet known whether the British Government will be willing to make such a public pledge before the League Council meeting.

"It has, however, been proposed that there be a public exchange of letters between the British Ambassador and the Italian Foreign Minister setting forth the understanding on the part of the British Government to go to Geneva with a view to ultimate recognition of the Empire and the reaffirmation of Italian commitments with respect to Spain. The Ambassador is seeking instructions on this point and believes that the negotiations may be speedily concluded if his Government is willing to accept this proposal."

PHILLIPS

*Mr 43
1-2
Mrs Donald
Murray*

*Feb
20*



Kisseloff-24220

Government's Baltimore Exhibit 43

March 28. Grew, U.S. Ambassador to Tokyo, cabled that the Commercial Attache had been informed by an official of the Bank of Japan of the following gold shipments (presumably to the U.S.): 20,000,000 yen on March 27 via the Kinkwa Maru, 20,000,000 yen via the Komaki Maru on April 8 and 30,000,000 yen via the Titibu Maru on April 9.

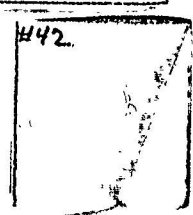
U.S. Marine detachment at Tientsin reported by naval radio on March 28 as follows:

"During 21-28 March approximately 700 Japanese wounded or sick evacuated via Chinwangtao. No unusual troop movements. Hospital ship unloading supplies, nature undetermined."

*Ans. 42
T. E. [unclear]
[unclear]*

Kisseloff-24221

*Fur
DPN*



March 28. U.S. consul at Tampico, Mexico, in a cable describing the oil industry situation stated that a Japanese tanker was expected at Tuxpam the morning of March 29.

Government's Baltimore Exhibit 41

Am. 4/
L.E. Jeffrey
McLary

Kisseloff-24222

FE
DEN



...ing to the communique's warning against French intervention in Spain, Phillips said:

"There is every evidence that the Italian Government is seriously preoccupied over the possibility that France may intervene actively in behalf of the Spanish Government forces. One such indication is the effort to speed up negotiations with Great Britain, two conversations between Ciano and Perth having taken place over the weekend."

Handwritten:
No. 40
Ms. 251
J. Edgar Hoover

Handwritten:
J. Edgar Hoover
DPN

440

March 26, Lane, U.S. Minister at Belgrade, cabled:

"Minister of War restated to me yesterday that construction of Yugoslav fortifications on German frontier which was initiated prior to anschluss is proceeding. Yugoslav Government now evincing active interest in coming to agreement with Standard Vacuum Oil Co. respecting duty on crude oil due to military necessity of gasoline reserves. General Maric discounted importance of recent incidents in northern part of the country attributing them to local political rather than to international causes.

"Assistant Minister for Foreign Affairs said to me this morning that general European situation appears calmer; that Hitler will not attack Czechoslovakia realizing that such action would lead to general coalition against Germany, and that war will probably be averted for 2 years at least."

#39

*Nov. 3/9
T. E. McCafford
Secretary*

*Fw
den*
Kisseloff-24224

March 26. Ravndal, U.S. consul at Buenos Aires cabled:
"According to best possible source, Germany is secretly purchasing large stocks of cereals and linseed in Argentina, presumably for excessive fees. Shipments since January 15, 1938, have been of unusual volume and local shippers are strictly prohibited from divulging any information regarding them."

*Mr 38
J.E. Messersmith
W. Long*

*DPN
Lir.*

38

London, No. 257, March 28, 8 p.m.

"My 241, March 23, 7 p.m.

"I have just finished an hour's talk with Grandi who recently returned from Italy.

"First, he is vitally concerned regarding America's opinion of Italy. Second, he informed me that the agreement with England will positively go through within the next few weeks; the Spanish situation will not stop the agreement, settlement of that problem being taken care of. Third, he impressed me with the fact that the Italians will heave a sigh of relief on making this deal with England which will relieve them of being so closely identified with Germany. In answer to Moffat's letter to me of March 14, I would say that in my opinion the successful conclusion of this agreement would definitely weaken Italy's connection with Germany.

"Grandi was not particularly flattering in his opinion of Goering. Hitler we did not discuss. He is very impressed with Chamberlain and says that he has enjoyed the last month in England more than the previous five and a half years because of the Prime Minister's attitude."

KENNEDY

Government's Baltimore Exhibit 37

PPN JW

1237

Mr. 37
T.E. Mc Donald
Notary

Kisseloff-24226

February 18, 1938.

German domination of Central Europe
and Czechoslovak trade agreement.

Mr. Vladimir Hurban, Czechoslovak Minister,
The Secretary,
Mr. Sayre.

Mr Hurban called on the Secretary by appointment in order to deliver to him a message just received from his Government. Mr. Hurban began by saying that the situation in Czechoslovakia is grave, - "very, very difficult". He went on to say that Germany is threatening to dominate Central Europe economically as well as in other ways. He said that his Government believed that the German Government intends the complete domination of Central Europe and that German activities seem to point to a plan of forming extensive clearing agreements with all the European countries of Central Europe except Austria and Czechoslovakia. Within the limits of such an extensive clearing agreement would be Hungary, Yugoslavia, Bulgaria, Rumania, Greece, and other countries similarly situated. The economic effect of such a union would be extensive bartering without money passing on the basis presumably of the German mark. In the words of the Czechoslovak Minister, it would be equivalent to a large monetary union. He said that Austria and Czechoslovakia would be left out of this because of German plans to dominate these two countries through political means. From the entire group trade from the other countries would be virtually excluded. In other words, the plan was German domination of Central Europe, with a closed door to the trade of every other country. The Czechoslovak Minister said that his Government had brought this matter to the attention of the British and French Governments within the last day or two and that he was now instructed to bring it to the attention of the United States Government.

In view of this development, the Czechoslovak Minister said that he hoped we would not be rigid in insisting upon the language in our trade agreement covering the Danubian preferences, for he said that some kind of a Danubian alliance seemed to be the only way successfully to prevent the achievement of such a German plan as he outlined.

F.B.S.

*Nov. 30
L. E. McArthur
Secretary*

*For
DEN*

Government's Baltimore Exhibit 36

Kisseloff-24227

Dated February 17, 1938
Rec'd 3:35 p.m.

Government's Baltimore Exhibit 35

Secretary of State,
Washington.

269, February 17, 8 p.m.

The Foreign Office states that Francois Poncet is seeing Ribbentrop at five o'clock this afternoon. The appointment was asked for the day before yesterday but Ribbentrop was unable to set an hour before this afternoon. Francois will request information concerning the exact significance of the meeting at Berchtesgaden on February 12 and will state that the French Government has a deep interest in whatever takes place in Central Europe.

The British Ambassador in Berlin saw Ribbentrop on the 15th and made a demarche along the lines of the foregoing. He was told that the discussion at Berchtesgaden with Schuschnigg had been concerned only with removing the causes of difficulties which had arisen from the working of the Austro-German agreement of July 1936 and that a communique would be issued shortly giving all pertinent information (this was before the final decision of the Austrian Government had become known).

The French do not expect to receive any more satisfactory or enlightening response from Ribbentrop than was given to the British. They state however that the fact that this step has been taken in Berlin by both the French and British Governments has some importance as manifesting the interest of both governments in what transpires in Central Europe.

It seems clear however that the French and British action in Berlin has been taken mainly for the sake of the record out of a feeling that they could hardly afford to pass by recent events in complete silence.

Copies to Berlin, Vienna.

BULLITT

Nov 35
L. E. M. & G. Wald
W. Henry

*For
DEN*

Kisseloff-24228

Secretary of State,
Washington

It's Baltimore Exhibit 34

60, February 17, 6 p.m.

This evening's press announces that the new Austrian Minister of the Interior Seyss-Inquart arrived in Berlin this morning "for a short visit" and was received by Hitler. It is learned that he also saw Ribbentrop and it is reported that the necessity was impressed upon him in both of these conversations of cleaning up in Austria what was described as "Communist elements". It may be further noteworthy that he spent some time at the offices of the secret police.

The circumstance of a newly appointed member of the Austrian cabinet who is known to be pro-German being thus in effect "summoned" to Berlin is construed here as sharply indicative of the nature of the new relationship between Germany and Austria.

GILBERT

*Nov. 34
F. E. McLaughlin
Notary*

*For
DEN*

34

Kisseloff-24229

Gray
Tokyo
Dated February 17, 1938
Rec'd 9:10 a.m.

Government's Baltimore Exhibit 33

Secretary of State,
Washington.

111, February 17, 5 p.m.

The British Ambassador today furnished me with the following statement regarding smuggling in North China:

"His Majesty's Charge in China has received reliable confidential information that during the period January 24th to 31st over 17,000 packages were landed near Ch'ingwangtao without payment of duty. The duty on sugar alone thus evaded was almost \$50,000 even at the new tariff rates".

Repeated to Shanghai.

GREW

*no. 33
I.E. Mc Donald
Secretary*

UPN

Kisseloff-24230

February 15, 1938
4 p.m.

Government's Baltimore Exhibit 25

Telegram sent

AMLEGATION
VIENNA

6.
Your No. 18, February 14, 9 p.m.

The Department has found your recent telegraphic reports, and in particular your telegram under reference, most enlightening and extremely helpful.

I am somewhat concerned, however, by the statements which you say you made to Schmidt, as reported by you in the sixth paragraph of your telegram. You should very carefully avoid, in the future, making any statements which can possibly be construed as implying that your Government is involving itself, in any sense, in European questions of a purely political character or is taking any part, even indirectly, in the determination of such questions.

HULL

*NO. 25
- 1. E. MacDonald
Secretary*

*JW
CN*

Kisseloff-24231

an intensification of British war preparations and incidentally an increase in American hostility to Germany.

Leger went on to say that both he and Francois Poncet were entirely convinced that if Schuschnigg should accept the first two demands of Hitler but reject the final two demands Hitler would not dare to use force. He would employ every means short of mobilization to make life uncomfortable and impossible for the Austrian Government but would not mobilize. Leger said that he was not sure that Chautemps and Delbos would agree with him in this diagnosis. It was possible to believe that Hitler would mobilize three or four divisions on the Austrian frontier and that Schuschnigg would be forced to give way at a moment of great European crisis.

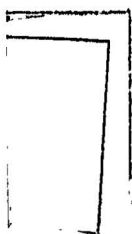
Section Four. If one adopted the latter interpretation, it would obviously be less dangerous to have Schuschnigg submit now rather than later. Leger said that there were indications that the latter interpretation might be the interpretation of the British Government. In that case France would do nothing.

Schuschnigg would have to be assured of at least moral support from France and England and perhaps also Italy in order to be in a position to resist.

Leger said that the French and British Governments would discuss the problem this morning. He added that Hitler had not delivered an ultimatum with a time limit to Schuschnigg and he believed that Schuschnigg would attempt to gain time by standing on his dignity for a brief space.

BULLITT

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Handwritten: For
OPK

Austria, Germany

Government's Baltimore Exhibit 31

Feb. 16. Wiley, U.S. charge at Vienna, cabled the cabinet changes approved by Miklas the preceding night, adding that he was informed through official sources that the German Government had demanded action on its requests by midnight and had staged an impressive military demonstration along the frontier.

Feb. 14. Gilbdrft, U.S. charge at Berlin, cabled that Hemmen, former German counsellor of Embassy at Buenos Aires and the negotiator of the Canadian-German commercial agreement of 1935 and the German-French agreement of 1937 and now in the economic section of the Foreign Office, was being sent to the United States. He would travel around securing economic information and would be available after the signature of the U.S. - British trade agreement & discuss possibilities of negotiating a trade agreement between Germany and the United States.

Feb. 17, Phillips cabled from Rome that Ciano said that while the inclusion of Seyss-Inquart in the cabinet meant "a pronounced increase of German influence in Austria he nevertheless felt that it was far better to have cooperation between the two governments since any increase of Austrian opposition or hostility to Germany might of itself be an invitation to Hitler to take some drastic step. Ciano also told me that there would be very much closer cooperation between the German and Austrian armies and that during the next year there would be an exchange of high ranking officers between the two armies."

Feb. 18. Gilbert, U.S. charge at Berlin:

"The Military Attache reports that as a result of numerous conversations and discussions with army sources he is convinced that the agreement reached with Austria as a result of the Hitler-Schuschnigg conversations contains military clauses providing for the gradual & assimilation" of the Austrian army into the German.

"Presumably this military agreement covers: (one) unification of tactical doctrine through adoption of similar text books, (two) Austrian adoption of German military organization, ~~xxxxxx~~ (three) gradual introduction of uniform weapons, (four) coordination of war plans.

"The Military Attache believes that within the relatively near future there will be evidence of a military alliance through the appointment of standing military missions by each country to the other country.

"As a corollary of the foregoing it is believed here that further changes in the Austrian Government will be announced shortly which will include the appointment of a "pro-German" Chief of Staff of the Austrian army."

*for
DPR*

*No-31
T.E. McDonald
Military*

undertake some new ventures adventure within a few months which may precipitate European war. He stated that today the British Government had made representations at Berlin and that tomorrow the French Government would do likewise. He feared, however, that these representations were of a harmless informative nature not likely to serve as an effective deterrent.

I have also seen the Italian Minister who assumes the attitude that nothing unusual is going on and that Austrian independence is not menaced. Mussolini sent message last night approving proposed cabinet reorganization.

A prominent Austrian banker who is exceptionally well informed described the situation as most favorable possible outcome for Austria. Austria was threatened with radical action by Germany which could not be resisted. Present compromise would prove far less successful for German aims than Hitler expected. Seyss-Inquart was fundamentally weak and vacillating and would be out-manuevered by Schuschnigg and Skubl, the Secretary of State for Public Security. He was sure that Austria had gained six months during which time international situation might change in some way favorable to Austria.

Indirectly but reliably informed of views of their present Left Wing Leader. He does not expect immediate trouble from Austrian Nazis and believes that Austria will have some months of relative quiet during which Seyss-Inquart will be in constant and ineffective conflict with Skubl. There will be frequent threats of resignation from Seyss-Inquart and in due course another crisis in relations with Germany.

General consensus is that Schuschnigg deserves sympathy and admiration for the manner in which he came out of Berchtesgaden ordeal. It is felt that he yielded minimum and rendered great service to Austria and peace of Europe.

Pending Hitler's speech of February 20 and clarification of attitude of Austrian Nazis it is impossible to make any forecast.

WILEY

4/8/52 APR JW

30-02

Kisseloff-24234

Vienna
Dated Feb. 16, 1938
Rec'd 8:48 p.m.

Government's Baltimore Exhibit 30

Secretary of State,
Washington.

Rush
25, February 16, 10 p.m.
Strictly confidential
My 21, February 15, 5 p.m.

Have just seen Minister for Foreign Affairs Schmidt who seemed on the whole cheerful. He expressed confidence that a period of internal quiet would ensue but felt nevertheless that like the agreement of July 11 only temporary appeasement could be obtained. The task of Seyss-Inquart would be to bring into the fold those elements which have so far been irreconcilable. He did not know how this could be accomplished and foresaw that Seyss-Inquart would have difficulty with Nazi extremists. Probably several new councilors of state would be appointed but this had already been under deliberation with Seyss-Inquart for some time. I asked what further steps the Austrian Government would take in carrying out Berchtesgaden agreement. He replied that pensions would be given to ex-functionaries who were dismissed for Nazi activities. They would, however, not be reinstated. The amnesty did not apply to the Austrian Legionaires in Germany. He desired that someone be appointed in administrative capacity to look after Austro-German press matters under the two governments. This move he said had not been dictated by Hitler.

Schmidt said that present German maneuvers on the Austrian frontier had been planned for two months. He did not believe that they were a military demonstration against Austria.

Also saw the French Minister who has interviewed Schuschnigg and Hornbostel with both of whom he has unusually close ~~connections~~ relations. Paux told me that formation of cabinet was bitterly contested. Papen made a last minute effort to have Glaise Horstenau made Vice Chancellor and an outstanding Nazi appointed Minister of Justice.

(I am reliably informed that Bishop Gfoellner of Linz rushed to Vienna despite illness and urged resistance upon President Miklas. In consequence Catholic Church claims credit for saving these posts from Nazis.)

Schuschnigg informed the French Minister that in Berchtesgaden conversation Hitler boasted to him of military prowess of Germany, deprecated French military equipment, alleged that everything he did with respect to Austria and the Sudeten Germans was in entire agreement with Halifax, (British Minister has telegraphed this to the Foreign Office) that in two years time Italy would no longer mean anything to Germany and that it was holy mission to unite 80,000,000 Germans into a nation which would rule Europe.

In contrast with Schmidt the Chancellor frankly resents German maneuvers as military demonstration against Austria. Also article in today's National Zeitung of Essen that reconstruction of Austrian cabinet is first step in Gleichschaltung.

French Minister believes immediate future unpredictable and hopes that there will be at least a temporary period of quiet. He remains, however, most pessimistic regarding the future of Austria and is apprehensive that present German success will encourage Hitler to

Kisseloff-24235

for DPN

Paris
Dated February 16, 1938
Rec d 4:34 p.m.

Government's Baltimore Exhibit 29

Secretary of State,
Washington

255, February 16, 9 p.m.

In conversation today the Belgian Ambassador who served in Berlin before coming to Paris said that in his opinion the Austrian situation might easily have found a worse solution than the temporary one actually reached. Everyone knew that in the absence of a determined stand by Great Britain and France Hitler could seize Austria whenever he wanted to. As a matter of fact he had not seized Austria but had come to an agreement with Schuschnigg by brutal methods, it is true, under which Austria would be allowed to continue as an independent state for the time being at least. Kerchove attached great importance to the fact that Skubl as Undersecretary of the Department of Security is apparently to continue in control of the Austrian police and felt that this as well as other points which Schuschnigg is reported to have obtained indicate that there has not by any means been complete abdication in the face of Hitler's demands.

BULLITT

*No. 79
1-15-38
W. C. Sullivan
Secretary*

*for
on*

Kisseloff-24236

per cent Nazi by conviction although a devout Catholic and that he will insert Nazis gradually into all vital posts and strike for a decision in a few months.

BULLITT

Government's Baltimore Exhibit 28 (Concluded)

DPN *JW*

28-1

Kisseloff-24237

Paris
Dated February 16, 1938
Rec'd 3:47 p.m.

Government's Baltimore Exhibit 28

Secretary of State,

Washington
249, February 16, 5 p.m.
Strictly confidential for the Secretary.

The Austrian Minister has just read to me a telegram which he received this morning from Schuschnigg. It indicated that Schuschnigg has by no means given up hope of maintaining Austrian independence.

Schuschnigg had confidence that Seyss-Inquart, although a pan-German, would not work in an underhanded manner for the introduction of Nazis into the regime.

Amnesty would be extended at once not only to Nazis but also to Social Democrats. This amnesty would, however, not include those who had emigrated from Austria thus excluding from the country all those Austrian Nazis who are now in Germany.

The right to conduct political propaganda would be extended not only to the Nazis but also to the Monarchists and Social Democrats. Those Nazis who had been excluded from office and pensions because of their political opinions would have their pensions restored but would not be given their former offices.

The position of Schuschnigg was, I gathered, the following: that he would continue to struggle for Austrian independence; that he believed this independence could be maintained in the long run only if there should be reconciliation between England, France, and Italy; that he considered recognition of Ethiopia essential for any such reconciliation since the Italians were genuinely convinced that the British at some future date would attempt to drive the Italians out of Ethiopia which would mean the collapse of the Fascist regime in Italy.

Section Two. Schuschnigg felt that the actions which he was about to take would produce a temporary breathing period but in the end would prove to be just as unsatisfactory to Hitler as his actions which followed the accord of July 1936. He expected therefore that at some future date Germany would attempt again to repeat the Berchtesgaden coup and would mobilize if necessary on the Austrian frontier. He would make no further concessions. He could not attempt to fight Germany alone and if faced by German mobilization would have to resign.

The question of Austrian existence as an independent state therefore depended on the possibility that before Hitler again should become sufficiently irritated to mobilize on the Austrian frontier there might be reconciliation between England, France and Italy and an agreement between those states to support Austrian independence.

The Austrian Minister added that he believed the extension of amnesty to the Social Democrats would add greatly to the strength of Schuschnigg's regime as the Social Democrats would be the strongest opponents of a gradual Nazification of Austria.

In contradiction of the opinions expressed above with regard to Seyss-Inquart I was told this morning by a gentleman who says he knows Seyss-Inquart intimately that the latter is a hundred

Kisseloff-24238

GRAY
London
Dated February 16, 1938
Rec'd 3:02 p.m.

Department's Baltimore Exhibit 27

Secretary of State,
Washington.

136, February 16, 7 p.m.
Your 57, February 4, 7 p.m., and previous.
Strictly confidential.

Admiral Lord Chatfield talked informally but at some length yesterday with Captain Willson concerning escalation under the London Treaty. Based on this conversation it appears probable that the Admiralty will favor for this Year's programme raising the battleship limit to about 39,000 tons and making no change in cruiser limits. Captain Willson forwarded a full report by mail to the Navy Department in yesterday's pouch via QUEEN MARY.

JOHNSON.

No. 27
J. E. McFarland
Notary

DEN Tw

27

Kisseloff-24239

Paris
Dated Feb. 15, 1938
Rec'd 5:03 p.m.

Government's Baltimore Exhibit 26

Secretary of State,
Washington.

241, February 15, 4 p.m.
Reference my 194, February 4, 6 p.m.
Confidential

The same informant in the Austrian Legation advised us today that for the past few weeks Italy has assured Austria that in the event of German aggression against Austria Italy will mobilize. Italy has, however, at the same time urged Austria to temporize as much as possible with Germany in order to gain time and not put Italy in the position of having to take such action.

Our informant likewise stated that he had talked over the telephone to Vienna this morning and that it was his impression that Chancellor Schuschnigg would probably appoint Seiss-Inquart as Minister of the Interior and head of public security but would have the control of the government police taken away from the latter department and put under the Prefect of Police in Vienna; thus outwardly acceding to Hitler's demands but actually not doing so in that the latter's real desire was to have a Nazi sympathizer control the police.

BULLITT

*Ms. 26
1-26
Seiss-Inquart
Secretary*

*for
DEN*

Kisseloff-24240

Special Gray

Tientsin via N.R.
Dat@d February 17, 1938
Rec d 8:30 a.m.

Government's Baltimore Exhibit 32

Secretary of State,

Washington

39, February 17, 2 p.m.
My No. 29, February 11, noon.

I have been reliably informed that 412,000 gallons of kerosene have been imported duty free at Tientsin under Japanese military auspices during February and that 354,000 gallons of duty free kerosene were forwarded to Peiping by the Japanese Takas Petroleum Company between January 1 and February 12 to be placed on the market there.

CALDWELL

*No. 32
1. E. McFarland
Secretary*

*for
OPR*

432

Kisseloff-24241

Paris
Dated February 15, 1938
Received 3;17 p.m.

Government's Baltimore Exhibit 24

Secretary of State
Washington

240, February 15, 3 p.m. Section One.

I have just discussed with Leger the situation created by Schuschnigg's visit to Berchtesgaden.

Leger said that Schuschnigg had informed the French Minister in Vienna very privately and confidentially that he had been received with the utmost brutality. Hitler had had three generals including Reichenau standing behind him throughout the conversation and had made the following four demands: (one) that the Austrian Government should declare an amnesty for all Nazis and permit those now in Germany to return to Austria; (two) that those Nazis who had been deprived of their pensions and positions because of their political affiliations should be restored to their pensions and positions; (three) that Seyss-Inquart should be appointed Minister of the Interior and given control of the entire Austrian police force; (four) that Austria should agree to take no action with regard to foreign affairs without previous consultation with the German Government.

Leger went on to say that Schuschnigg had returned to Vienna intensely depressed and that Guido Schmidt was doing his best to persuade Schuschnigg to accept these demands of Germany.

Leger made the obvious comment that the acceptance of these demands would mean the end of Austrian independence.

Section Two. I asked if the French Government had taken any action in Vienna or given Schuschnigg definite advice. Leger replied that there had been no formal contact whatsoever between Schuschnigg and the French Minister since the former's visit to Berchtesgaden. The information which Schuschnigg had given the French Minister had been given most privately and Schuschnigg had not asked for advice nor had any been given him.

Leger went on to say that he did not know whether or not the French Government would decide to urge Schuschnigg to reject these demands. The question would have to be decided by Chautemps and Delbos after consultation with Chamberlain and Eden. The decision would in his opinion rest on the interpretation of recent events in Germany.

A message had been received from Francois Poncet giving what he, Leger, believed to be an accurate account of the genesis of the Berchtesgaden visit. Hitler's old Nazi friends had been urging him to give up the idea that he could acquire Austria by peaceful evolutions and to turn to the method of force. Hitler was most loath to use force because the generals of the Reichswehr had convinced him that the army would not be in condition to fight a major war against France and England for approximately another year. Hitler therefore had wished to make a last attempt to gain his objective by overwhelming Schuschnigg's will to resist.

Section Three. He had had the three generals present in order to make it clear to Schuschnigg that if necessary there would be force behind his words.

An additional reason for Hitler's reluctance to use force or threat of force was the fact that during the present period of preparation of the German army he wished to avoid any act which might produce a strong government of national defense in France and

*for
OPR*

Kisseloff 24242

Vienna
Dated February 15, 1938
Rec'd 12:32 p.m.

Government's Baltimore Exhibit 25

Secretary of State.
Washington.

Rush.

20, February 15, 1 p.m.

My telegram February 14, 9 p.m.

Dined last night at a large dinner given by Schmidt with Chancellor Schuschnigg, Seyssinquant, members of the Government and diplomatic corps. Atmosphere most oppressive. To French Minister Schuschnigg described visit to Berchtesgaden as the most horrible day of his life. He says that Hitler undoubtedly a madman with a mission and in complete control of Germany. Hitler openly told him of his desire to annex Austria and declared that he could march into Austria with much greater ease and infinitely less danger than he incurred in remilitarization of the Rhineland. Schuschnigg admits that appointment of Seyssinquant is highly dangerous but states that he will make it in order to avert the "worst." In respect of Italy, Schuschnigg declared that he can count only on moral not material support.

Schuschnigg is attempting to make best of bad situation and was in a long and friendly conversation with Seyssinquant. Hornbostel is in utter despair and states openly that there is nothing left for him to do but to leave Foreign Office.

Italian Minister claims that he was informed of Berchtesgaden meeting only on the eleventh and denied that Italy took any initiative in the matter. He telegraphed full information to Mussolini. Latter however is engaged in winter sports and up to last night Ghigi had no information that his messages had reached the Duce. Italian Minister gives anxious impression.

Papal Nuncio admits that Seyssinquant may be good Catholic but fears nevertheless that it is the beginning of the end.

The French Minister who has been here five years states that this is the most critical moment since July 1934. "It is not the end. It is the moment before the end." In his opinion Austria can only be saved by immediate reconciliation of France and England with Italy and energetic joint act. Enderss author of May constitution made identical remark this morning.

In my opinion Austria's situation is most unfortunate and menacing. If Seyssinquant is loyal his appointment would not be a solution. If he is disloyal it is a catastrophe. Germany probably plans gradual Danzigification and any unsupported efforts of Schuschnigg may make to outmaneuver Seyssinquant can at best only retard this process.

Repeated by telegraph to Paris, London, Berlin and Rome.

WILEY.

No. 23
T. E. McDonald
Notary

Kisseloff-24243

13

for
DIN

I queried Schmidt with regard to the Italian attitude. He was non-committal save for the admission the Italian Government was informed of the negotiations well in advance.

I told Schmidt that my Government maintained a deep and sincere interest in the welfare of Austria and I was sure it hoped earnestly that the Austrian Government would firmly resist threats against the independence of Austria.

I have learned indirectly but reliably from the Federal Press Service that in return for the appointment of Seyssinwart Hitler promised the maintenance of the principles the July 11th agreement with recognition of Austria's independence, may (?) the patriotic front as the unique ~~single~~ political structure of Austria together with a pledge of non-interference in domestic affairs; economic matters were not mentioned.

Schuschnigg avoided committing himself stating that he was not authorized to sign any agreement without previous consultation with President Miklas. According to the press service the attitude of the Chancellor was that the portfolio of Public Security which he now retains could only be confided to some one having his entire confidence. President Miklas was opposed to the proposed concession.

From another source reliably informed Hitler promised to dissolve Austrian legion in Germany. About a thousand workmen at Austro Fiat and Clayton Shuttleworth factories made a short protest strike this morning against concession to National Socialists.

My feeling is that inclusion of Seyssinwart in the Government would be stopgap solution reflecting force of German pressure and would profoundly discourage spirit of resistance in Austria.

WILEY

(*) Apparent omission.

2
Kisseloff-24244

Vienna
Dated February 14, 1938
Rec'd 11:45 p.m.

Government's Baltimore Exhibit 22

Secretary of State,
Washington.

18, February 14, 9 p.m.

My telegram No. 16, February 13th.

Have just seen (? illegible word) Schmidt and he told me that the Berchtesgaden conversations had been extremely "hard" and that he had to admit that Schuschnigg had been under heavy pressure. I inquired whether Schuschnigg had been confronted as rumored with the text of an agreement already signed by Hitler. He denied this and stated that during the protracted conversations every possible combination had been debated. He admitted, however, that three ranking ^{German} generals had been present in order to increase the pressure and did not deny a rumor that Hitler had threatened trouble in the event that Schuschnigg refused to accept Hitler's proposals. It had all, however, come to a happy end and he felt that a great service had been rendered to world peace. He would not promise that the solution would be a permanent one. Probably Austro-German relations would again come to a crisis and require revision.

I asked Schmidt whether an agreement had actually been definitely concluded. He replied that the agreement had not as yet been formally reached but that he thought it would be and that a joint communique would be issued. I inquired with regard to details. He told me that the agreement would comprise all of the basic elements of the July 11th accord and admitted that Hitler had requested the inclusion of Seyssinwart in the government as Minister of Public Security. Police President Skubl however would remain. Schmidt assured me that the Chancellor had complete confidence in Seyssinwart and that he, Schmidt, did not regard him as an obstacle to appeasement. He said that "if he is loyal we prefer to have Nazis arrested by a Nazi. If he is not loyal it will mean that appeasement between the two countries is not possible and something else will have to be done." I suggested that as late as two years ago Seyssinwart had been working actively on behalf of the Nazis. He replied that Seyssinwart was a devout Catholic and ~~since~~ since that time the "Kultur Kampf" had broke out. Moreover Seyssinwart was in deadly opposition to Captain Leopold the illegal Austrian Nazi leader. I suggested that if Seyssinwart was loyal to Schuschnigg I did not understand why Hitler placed such emphasis on his inclusion in the government or if he was not loyal how the Austrian Government could risk turning over the police control of the country to him. Schmidt replied that he had raised the same question with Hitler. However there was always a "middle way" and he hoped that it would be found in the present instance. (I could not obtain clarification of this.)

I (*) Schmidt if it was true that Schuschnigg had shown Hitler documents seized in Tavs affair incriminating Nazi leaders in Germany. He replied in the negative stating that this had previously been done through Papen. (Papen definitely leaves end of this week.)

Schmidt added that while it had been agreeable to work with Ribbentrop he had the definite feeling that Ribbentrop had inwardly been much opposed to the results achieved.

for
Papen

Kisseloff-24245

GRAY
Chefoo via N²R.
Dated Feb. 14, 1938
Rec'd 12:04 p.m.

Government's Baltimore Exhibit 21

Secretary of State,
Washington.

February 14, 2 p.m.

Japanese marines have been proceeding eastward from Chefoo to Muping (Ninghai) by motor 13th and 14th. Current reports indicate that armed Chinese in bodies of considerable size in mountains south of Muping are opposed to Chinese authorities of the new regime. There are no Americans in Shantung east of Chefoo.

ALLEN

*Mr. 21
T.E. McDonald
Secretary*

*for
DAN*

Kisseloff-24246

GRAY
Peiping via N.R.
Dated February 14, 1938
Rec'd 2:20 a.m.

Secretary of State,
Washington.

110, February 14, 6 p.m.
Embassy's 104, February 11, 5 p.m.

One. Passenger trains on the Peiping Hankow Railway have not left or arrived at Peiping yesterday and today except for service between Peiping and Changhsintien, a few miles south of Peiping. This partially substantiates widespread but unconfirmed reports of activities of Chinese irregulars at Paoting and points along the railway south thereof.

Two. Press reports of Japanese advance southward in Southern Hopei have not been confirmed. An American reports that several tens of thousands of Japanese troops have moved during the last few days from Shikhiachuang in the direction of Taiyuan. With large numbers of Japanese troops already in Shansi and in Southern Hopei and Northern Honan, it is doubtful whether irregulars to the north of them can seriously hamper their movements unless the irregulars are supported strongly by the National Government.

Repeated to Hankow. By mail to Tokyo.

LOCKHART

Government's Baltimore Exhibit 20

*2020
T.C. Maximal
Military*

*for
DPN*

Kisseloff-24247

Berlin
Dated February 14, 1938
Rec'd 2:57 p.m.

Government's Baltimore Exhibit 19

Secretary of State,
Washington.

56, February 14, 7 p.m.

One. In a conversation with the British Ambassador following his return from London he told me that he had been summoned to London for the purpose of discussing Anglo-German relations including among other matters the "colonial question." He said that the matter of a "reply" to Berlin was still very much alive in London but he thought that action would now await the Chancellor's speech on February 20.

Two. In the course of my conversation with Weizsaecker on the Austrian question, reported in my 55, February 14, 6 p.m., I took occasion to bring forward also the improving Anglo-German relations. Weizsaecker seemed more optimistic than usual on this point commenting that he believed Henderson's trip to London had advanced matters.

He even went so far as to say that he felt Henderson had come back to Berlin "with something in his pocket", and in discussing the possible future movements of the Chancellor between Berlin and Berchtesgaden speculated as to whether Henderson would see Hitler before February 20.

I may say that I had been anxious to see Weizsaecker largely because from certain minor indications, I had experienced a growing impression which I wish to make clear is entirely a personal one that something was on foot in the form of conversations particularly between Berlin and London which played some role in the Austrian and other European problems and included what the Chancellor might be induced to say on February 20, in other words a "negotiated speedh." Among other things the British Embassy here admitted that it was aware of the Schuschnigg visit before it occurred.

Weizsaecker has always taken the position with me of "telling me as much as he felt he could." The implications of what I have just reported as his saying to me, appear to me to be rather strong. I am not attempting to interpret it further.

GILBERT

*W. 19
T.E. McDonald
Notary*

419
JW
JCN

Kisseloff-24248

Vienna
Dated February 13, 1938
Rec'd 3:50 p.m. Feb. 13

GOVERNMENT'S DOCUMENTS EXCLUDED

Secretary of State
Washington

17, February 13, 6 p.m.
My 16, February 13, 1 p.m.

Reports from reliable source indicate that Hitler made unacceptable demands and that Austrian Government is now formulating counter-proposals. Government inaccessible to Diplomatic Corps. Even French Minister who was promised appointment has been unable to see Schmidt. It seems possible that Hitler is seeking foreign political triumph at the expense of Austria to redress adverse effect of party crisis.

Innsbruck correspondent of an American news agency reports Ribbentrop passed through today en route to Italy. Rumors from several sources alleged that Schuschnigg had long telephone conversations with Mussolini before proceeding to Berchtesgaden.

Small Heimwehr demonstration this afternoon for Starhemberg. Austrian legitimists reported discouraged over probable course of events.

WILEY

DPN Fur

18

*17 Feb 18
- 1. E. McDonald
Secretary*

Kisseloff-24249

interests that he contemplates recommending ~~or has already recommending~~ or has already recommended to his Government (a) that continued support of Chiang Kai Shek, whether by furnishing war supplies and funds or otherwise, is detrimental to British interests and (b) that the British Government should be alert to foster any outlook for peace negotiations which might leave to China any hope of eventual resurrection.

Five. Craigie is informed and believes that it was the Japanese industrialists and politicians and not the military who favored and brought about the withdrawal of recognition from the Central Government.

Six. I think that the nature of the conversation reported above indicates that our own practice of concentrating our representations to the Minister on important issues and with discreet timing is likely to prove more effective than the British practice of constant hammering by almost daily notes, letters, and other communications with continual personal visits to the Minister or the Vice Minister both on important and routine issues. The British procedure appears to be based on the theory that constant hammering will wear away a stone but in the present ~~an~~ temper of the Japanese Government and military this practice is liable to defeat its own object through the irritation which it inevitably engenders, clearly demonstrated in Craigie's last interview with the Minister. The representations of the American Government are at least listened to with respect and an evident inclination on the part of the Foreign Office to meet our wishes so far as the military can be influenced in that direction.

Seven. About two weeks ago Craigie told me that he had heard from a trustworthy source that there was to be a change for the better in the Japanese attitude toward Great Britain and that press and other agitation against the British was to be discontinued. I did not put much stock in Craigie's information. Since then General Matsui in the interview which he gave to Woodhead sharply criticized the British for trying to create political issues out of the problem of preserving British economic and commercial interests in China while the Japanese press has expressed the conviction that it was Great Britain which initiated the three power demarche with regard to naval construction. The feeling in Japan against the British is not in our opinion altogether artificially created as Craigie believes it to be but flows from the conviction that the British are constantly endeavoring to establish a common front against Japan in order to preserve British political and economic interests in the Far East.

Repeated to Hankow.

GREW

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Handwritten initials:
JW
DPN

#17-2

Tokyo
Dated February 12, 1938
Rec'd 1:10 p.m.

Government's Baltimore Exhibit 17

Secretary of State,
Washington.

100, February 12, noon.
Strictly Confidential

One. My British colleague who talks to me freely and so far as I can judge frankly, has told me of the following conversation with the Minister for Foreign Affairs on February 9 which would appear to be significant owing to the marked change in the Minister's usually placid, courteous and friendly bearing. The fact that for the first time in our respective dealings with him Hirota twice lost his temper with Craigie might be due to nervousness engendered by the strain of the current sessions of the Diet or the mounting irritation at the tone, insistence and volume of Craigie's continual representations both oral and written in connection with British interests in China or perhaps to both. The Minister's demeanor tends to confirm reports which have come to both Craigie and myself that Hirota is steadily becoming harder and more intransigent as regards foreign interests in the Far East and that it is Hirota rather than Suetsugu who leads the ultra Chauvinistic element in the Government. I myself have as yet seen no outward demonstration of any change of attitude on Hirota's part as regards American interests.

Two. The conversation referred to arose when Craigie informed the Minister that he is in possession of evidence indicating that Japanese forces have occupied several of the smaller Chinese islands in the general vicinity of Hong Kong and again asked for specific assurances that the statements of the Japanese Government that it has no territorial designs in China apply as well to the islands as to the mainland. According to Craigie the Minister in some instances in their intercourse became very angry, inveighed against the continual British demands for renewed assurances, said that under present war conditions Japan had given all the assurances that can reasonably be expected, and asserted that if the warfare is prolonged Japan may be forced to occupy more territory whether insular or on the mainland. If the warfare becomes permanent, said Hirota, the occupation will also be permanent. Referring specifically to Hainan, Hirota said that the Japanese could not possibly give a permanent pledge not to occupy. Craigie pointed out that whereas Hong Kong cannot be regarded as a threat to Japan the occupation of these islands by Japanese forces does constitute a very real threat to Hong Kong. The general tone of this conversation appears to have been acrimonious.

Three. Craigie is aware that there are large concentration of Japanese troops in Formosa (see our 61, January 31, 6 p.m.) and of Japanese ships in the port of Takao and he believes that an attack on Canton or some other point in South China is impending.

Four. Craigie's general reaction to this conversation with Hirota is that the longer the warfare is prolonged the greater will be the likelihood of permanent occupation by Japan not only of the islands but of territory on the mainland. He believes that Japanese assurances of "no territorial designs" are likely to be withdrawn at short notice. These prospects so seriously concern British

for spec

Kisseloff-24251

Berlin
Dated February 12, 1938
Rec'd 9:45 a.m.

Government's Baltimore Exhibit 16

Secretary of State,
Washington

52, February 12, noon.

With reference to the final paragraph of Geneva's number 16, January 27, midnight, to the effect that certain states were reported as desirous of doing nothing which might interfere with a possible early understanding between United States, London and Berlin, I have to report as symptomatic of the current situation here (Embassy's 48, February 11, noon, paragraph four) and as of possible interest the following local development:

During the past few days, despite the Department's announcement that the United States has no alliance or understanding with any other country, various representatives of small powers, including in particular, the Ministers in Berlin, of Belgium, the Netherlands, Sweden, Finland, Ireland and Estonia have initiated conversations with me in which they express their anxiety lest developments in Anglo-American relations might result in postponing or preventing a British rapprochement with Germany for which they are strongly hopeful, regarding it as an "offset" to a further crystallization of actually opposing bloc aide of states and as such necessary for the peace of Europe, their concern being the safety of their own countries.

The purpose of what they expressed in general terms was that a desire for an understanding with the United States is to a degree at least holding Great Britain back from negotiations with Germany because the British Government either believes that the support of the United States would render unnecessary the granting of concessions of the type asked by Germany as a price for agreement or because it fears that a friendly "approach" to a dictatorship government, particularly Germany, would alienate the sympathy of American public opinion for Great Britain.

I may add that despite Admiral Leahy's recent clarification of his testimony to the effect that the navy plans envisaged only the defense of the United States on the basis of complete independence of action which together with the Department's announcement already referred to I have taken pains to cite in such conversations, the diplomatic representatives mentioned are still inclined to attach at least psychological significance to press accounts that in his earlier testimony Leahy had referred to the anti-commintern pact as possessing naval significance and had apparently avoided replying in open hearings to a question regarding alleged Anglo-American naval conversations.

GILBERT

*no. 16
T.E. McDonald
Military*

Kisseloff-24252

#16
*JW
AK*

February 11, 1938

Government's Baltimore Exhibit 15

S.
Mr. Secretary
U.
Mr. Welles
A.S.
Mr. Sayre
EA
Mr. Feis
A-M/C
Mr. Murphy

I feel that you will wish to have knowledge of the facts and appraisals given in Mr. Jpnes' very informative memorandum hereunder (based on Consul Boyce's report).

SKH

PA/H: SKH: ZMK

*Jan 15
1:30 McJorale
Murray*

Kisseloff-24253

*Jan
15*

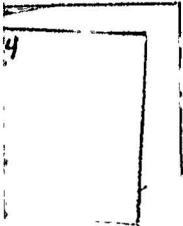
Far East

Feb. 11. Lockhart, U.S. counselor of Embassy at Peiping, cabled that reports indicate that the Japanese are continuing preparations for advances southward along the Peiping-Hankow Railway, and in Shansi. The number of Japanese troops going south on that railway has increased; the number of Japanese forces on the Taiyuan plain has been increasing; railway materials have been sent south, presumably for repair of the line destroyed south of Changteh; Japanese expeditions to cause the retirement of irregular forces west of the Peiping-Hankow Railway and north and south of the Shikiachuang-Taiyuan Railway have reportedly increased for the purpose of rendering flank attack against the Japanese more difficult. Rumors of a western movement of Japanese in Suiyan can not be confirmed in Peiping.

Feb. 11. Gauss, U.S. consul general in Shanghai, cabled that the University of Shanghai in the Yangtzepoo District which was occupied by Japanese military and naval units was adjacent to a golf course which was being used as an airfield.

Government's Baltimore Exhibit 14

No. 14
T. E. Maxwell
Secretary



For
Dew

Kisseloff-24254

February 9, 1938

Government's Baltimore Exhibit 13

Yokohama reports that Mr. Aikawa is scheduled to sail from Japan on the M.S. Shichibu Maru February 24 for the United States. According to a newspaper item in the Japan Advertiser Mr. Aikawa hopes to raise \$300,000,000. in the United States. Another Japanese newspaper item states that the success of Mr. Aikawa's efforts in the United States depends upon Mr. Aikawa's ability and upon the attitude of the American government toward his venture.

FE: Jones: NN

*Nov 13
- J. P. Murphy
W. Long*

*Fw
DPN*

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Kisseloff-24255

as a result of the deal additional resources with which to expand in Manchuria or in North China. (According to recent press reports the South Manchuria Railway Company has definitely been allotted the task of developing the railways, roads (roads?), harbors and mines of North China.) It may be that this was one of the more important considerations of the deal.

Why should Mr. Aikawa be willing to merge his interests, and those of his co-investors in Nippon Sangyo, with those of the somewhat more dubious economic enterprises of the South Manchuria Railway Company? The character and background of Mr. Aikawa fit admirably into the new picture. He is the son-in-law of Mr. Kuhara, President of the Japan Iron Foundries and a former Cabinet Minister. Mr. Kuhara has been associated with Mr. Aikawa in many of his most important enterprises and has supplied much of his capital. Moreover, he is closely associated with the more reactionary element in the Japanese Army and was recently sentenced to prison for his connection with the attempted army coup of February 26, 1936. Messrs. Aikawa and Kuhara have been favored by substantial Army support for the last few years and several of the more important industries controlled by Nippon Sangyo depend largely upon military orders. There certainly appears to be a sufficient amount of affinity and interdependence involved to explain Mr. Aikawa's action in the matter.

Mr. Aikawa now seeks to obtain American capital to aid in the expansion schemes of this large holding company controlled legally by the "Manchukuo" Government and in fact by the Japanese Kwantung Army and conducting enterprises both in Manchuria and Japan. It is reported that Mr. Aikawa will come shortly to the United States for the purpose of eliciting aid in the form of credits for machinery, equipment and materials, for which he will exchange minority interest shares in the subsidiary companies of the Manchuria Heavy Industries Development Company (in no case will foreigners be allowed majority interest or management privileges in any subsidiary).

Consul Boyce believes that Americans who may be approached by Mr. Aikawa should keep in mind the uneconomic nature of many of the enterprises controlled by the Company, the Army control, the almost inevitable financial difficulties of Japan in the next few years, the possibility of war with Russia, and other considerations which he lists.

M.M.H.

FE: Jones: SMJ

*for
open*

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M.M.H.

FE: Jones: SMJ

for
OPC

Kisseloff-24257

Army controls and is practically synonymous with the "Manchukuo" Government and the South Manchuria Railway Company. Control of the Manchurian enterprises involved, therefore, will remain centralized in the same hands. Private investors will be allowed to invest in the minority shares of the subsidiaries of the new company as they were allowed previously to invest in the minority shares of companies controlled by the South Manchuria Railway Company.

Not only does private capital make no gain as a result of the creation of the new company; on the contrary, the state of "Manchukuo" (or the Army) acquires control of Nippon Sangyo's large network of industrial enterprises in Japan. It will be possible under the new set-up to operate these in coordination with the Manchurian enterprises. It is difficult to evaluate the relative importance of this factor in the creation of the new company. It may have been the principal reason for the change or it may have been a secondary reason. It can scarcely have been an incidental fact, however, that the Army acquired as a result of the deal control of large industrial enterprises in Japan, particularly in view of the world-wide trend toward increased military influence in industry,

Is it likely that Mr. Aikawa's modern and thus far very successful business methods and reputation will attract private capital more successfully than the South Manchuria Railway Company?

There is little doubt that Japanese investors are exhibiting an extreme lack of confidence in the South Manchuria Railway Company. In 1936 the Company launched grandiose expansion plans, sponsored by the military, calling for an investment of yen 436,000,000. in five years in strategic and other primarily military enterprises. According to a report received from the American Consul in Dairen, in March of 1937, it appeared that the Company was borrowing in order to pay its dividends; at the same time the Japanese Government refused to pay up capital stock previously subscribed. The South Manchuria Railway Company debentures were unsalable to the public and the newly adopted policy of selling to the public some of its shares in subsidiary companies had met with relatively little success.

The essence of the lack of confidence appears to lie in military domination of the business management of the South Manchuria Railway Company and the vast expansion of enterprise since 1931 along strategic and military rather than economic lines. The soundness of extensive heavy industries in Manchuria may be questioned at once upon economic grounds. It is highly doubtful, therefore, that the transfer to new management (control remaining the same) of the heavy industries requiring extension in Manchuria will attract private capital, either Japanese or foreign, in substantial quantities. Nevertheless the Nippon Sangyo and its subsidiaries in Japan probably possess reserves and borrowing power which may be milked for the benefit of the Manchurian enterprises. Furthermore, the creation of the new company, with half the stock taken by the Government of "Manchukuo" automatically pumps another yen 225,000,000. of public funds into Manchurian industry. It is true, these funds will be used by the new company to acquire from the South Manchuria Railway Company control of the Manchurian enterprises to be taken over by the new company and leave little capital for expansion but since the South Manchuria Railway Company and the new company are two pockets in the same military trousers this need not detain us. The South Manchuria Railway Company, after having been paid off (probably) in "Manchukuo" bonds, will possess

The Significance of the Establishment
of the
"Manchukuo Heavy Industries Development Company".

The information supplied the Department by Consul Richard F. Boyce in his report entitled "New Economic Organization in 'Manchukuo'", Yokohama, January 6, 1938, suggests an interpretation of the significance of the establishment in Manchuria of a new company to develop heavy industries which differs considerably from those popularly accepted. The facts in connection with the new company are as follows:

The Nippon Sangyo (Nihon Sangyo Kabushiki Kaisha) is a Japanese holding company capitalized at yen 225,000,000 headed by Giusuke Aikawa, which controls and manages a large network of industrial and commercial enterprises in Japan engaged in mining, ship building, shipping, fishing, the manufacture of iron, automobiles, chemicals and oils, marine products, matches, and electric power.

The South Manchuria Railway Company is a Japanese corporation owning and operating directly, or controlling through stock ownership the enterprises occupying a key position in the economic life of Manchuria.

A new "Manchukuo" corporation called the "Manchukuo Heavy Industries Development Company" has been created, with a capitalization of yen 450,000,000. which will acquire the assets of the Nippon Sangyo and at the same time acquire from the South Manchuria Railway Company control and management of many important mining and manufacturing enterprises (coal, iron, and gold mining), the iron and steel industry, light metal manufacture, automobile, aircraft, and other manufacturing industries). Half of the stock of the new company will be held by the present owners of Nippon Sangyo, and half ~~by~~ will be held by the "Manchukuo" Government. Mr. Aikawa will assume management of the combined enterprises controlled by the new company.

The establishment of the new company has been generally portrayed as the opening up of Manchuria to private capital, with emphasis upon foreign capital, as the result of the failure of the South Manchuria Railway Company to develop the country sufficiently, and its inability to attract capital for further expansion schemes.

It may be said with a fair degree of certainty that the establishment of the new company does not imply any material change in the opportunities for private capital in Manchuria. Private Japanese capital has always been allowed to participate in the minority shares of most of the enterprises controlled by the South Manchuria Railway Company or the "Manchukuo" Government and foreign capital has been allowed in many. It is important to note that the Supervising Law governing the new company specifies that control of the new company, even as regards the details of business and financial management, shall rest with the "Manchukuo" Government (which also will own 50 percent of the stock of the new company). Most of the Manchurian enterprises slated to be controlled and managed by the new company are "Manchukuo" special companies already legally controlled by the State with the South Manchuria Railway Company owning controlling stock of all of them. These distinctions are nice but irrelevant since the Japanese Kwantung

Great Britain

Jan. 28. Johnson, U.S. charge in London, cabled the text of a note which the British proposed to present to the Japanese early in February stating that unless Japan could assure them that she was not contemplating building vessels in excess of 35,000 tons or could agree to furnish information as to such building England would invoke the escalator clause of the London Naval Treaty. It was hoped France and the United States would present identic notes. In a separate cable Johnson said that Captain Phillips of the British Admiralty had informed the American Naval Attache " in confidence that it was the opinion of the Admiralty that Great Britain must come to some sort of terms with Germany even if material concessions were involved. This opinion, Captain Phillips said, was not shared by the Foreign Office which was not entirely convinced that an agreement with Germany would have of necessity to be reached at the cost of concessions that might be considered too great."

France

Jan. 25. Bullitt cabled that "in the course of a long conversation last night Delbos said that after his return from Geneva he hoped to inaugurate active moves for reconciliation with Germany. He said that he felt the Government of the United States would be of great assistance in promoting such reconciliation. The Germans had even today an enormous respect for the United States and a latent fear of the United States and the American Ambassador in Berlin should be able to exercise a powerful influence for peace.

"Delbos ~~xxxxxxxxxxxx~~ went on to say that all the information he had received recently indicated that Hitler was intensely interested in the 'humanization of warfare' . He, Delbos, believed that the only civilized way to humanize war was to have no war but he and Chautemps felt that this interest of Hitler's in the 'humanization of warfare' might be used as the door to real Franco-German reconciliation."

Government's Baltimore Exhibit 11 (Concluded)

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Europe

England

Jan. 24. Johnson, U.S. Charge at London, cabled that the U.S. Military Attache informed him that a representative of the British Air Ministry had intimated that day that his authorities would probably request through the British Ambassador in Washington permission to purchase certain American aircraft. The first item will be not less than 12 Boeing B-17 models for delivery within 12 weeks.

The Air Ministry hopes special consideration will be given by the appropriate American authorities for release for sale of these Boeing machines and other aircraft to be specified later.

Spain

Jan. 21. Bay, U.S. Consul in Seville cabled:

"Political optimism described in my Dec. 7 has been rudely shaken by events of Teruel. Moral effect of the loss of that city far outweighs military significance but ultimate liquidation of the affair is expected by operation now developing. Information received from widely separated sources indicates General Franco was on the point of launching a drive on Guadalajara to take off from Jadraque with intention of completing encirclement of Madrid when attacked at Teruel. These circumstances are generally regarded as merely delaying final victory

Tightening of frontiers which still continues is attributed to plot against Franco. Information from German sources is to the effect that a number of civilians were recently executed in this connection at Caceres. Method of granting leaves to members military forces has been revised and restricted. Masters and crews of foreign merchantmen are not permitted to go ashore in Seville exception being made for ships of nations having relations with General Franco.

Foodstuffs, especially meats, scarcer than last year and prices substantially higher. Hotels and restaurants still continue to serve articles not available in local markets. Retail stocks practically exhausted." Jaw
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Kisseloff-24261

Far East

Jan. 29. Lockhart of U.S. Embassy at Peiping cabled that as a result of the protests of the United States, the Japanese military authorities had decided not to quarter troops in the Tingshua University buildings.

Jan. 30. Grew cabled from Tokyo that the U.S. Military attache had supplied him with a memorandum stating substantially the following:

"An unusually large number of Japanese troops has been assembled in Formosa, one estimate from Warner at Taihoku running as high as 100,000. Great secrecy is being maintained regarding this force, and it has been impossible to determine its strength, composition or location.

"However, the presence on the island of Formosa of anything beyond the normal garrison which is usually not greater than 10,000 men is significant at this time." The memorandum added that Formosa is obviously in no danger of attack by the Chinese and is a good base for attacks on Amoy and other coastal cities.

Jan. 31. U.S. marine commandant (presumably at Shanghai) radioed that the Japanese were reported to be reinforcing the Wuhu region with 5,000 troops which left Tientsin on January 29.

Jan. 31. Hull cabled Phillips, U.S. Ambassador to Rome, to investigate fully the report of the U.S. consul at Milan that 80 Italian aircraft and 50 airmen had been ordered to Japan. Hull said that President Roosevelt was disturbed that a number of Italian aircraft and especially aviators of the regular or reserve forces should be ordered to Japan. Hull added that if Phillip's investigation showed any basis for the report he would probably ask Phillips to make a direct inquiry of Italy.

Feb. 2. Lockhart cabled that he had been informed that the decision not to quarter troops in Tsinghua University had been changed and the original plan would be adhered to.

Feb. 2. Grew cabled from Tokyo that the British Ambassador informed him that war supplies to China through Hong Kong had been furnished by countries according to the following percentages: Germany 62%; Italy 21%; France 12%; and Great Britain 3%. The remainder were divided between Belgium and the United States. Craigie had told Grew that he took particular pleasure in communicating these figures to the Japanese Vice Minister for Foreign Affairs.

✓ DCN

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Jan 22. from Tsingtao, Dorn, of the U.S. Military Attache's staff cabled that the Japanese landed one battery of truck drawn 10 centimeter howitzers and four batteries of horse drawn 77 millimeter guns.

Jan.22. Johnson, U.S. Ambassador to China cabled from Hankow the following message from Stillwell, U.S. Military Attache, for the War Department:

"One. Military situation Yangtze Valley unchanged. Death of Liu Hsiang and appointment of Chang Chou as Szechwan Governor gives Central Government better hold on Szechwan. Japanese making progress toward Hsuechowfu along railroad from South. Believe Hsuechowfu will not hold long.

"Two. Reliable report from foreigner with long experience in northwest indicates heavy traffic on(?) Lanchow(?) highway. Estimates 1500 heavy Russian trucks operating hauling munitions. Daily arrivals Lanchow 100 to 200 trucks. He has counted 400 in one day. Saw four Russian tanks and over 50 Russian planes at Lanchow on Jan. 1. Highway being surfaced throughout. Large gangs Chinese laborers working. 700 Russian mechanics, chauffeurs, etc quartered in village near Lanchow handling transport. Individual truck capacity four tons. Russians are chauffeurs west of Lanchow; only Chinese chauffeurs east thereof."

Jan. 27. Lockhart, of the U.S Embassy in China cabled from Peiping that on Jan. 25 a Japanese officer had ordered the evacuation of the chemistry and biology buildings of the National Tsinghua University. All equipment would have to be removed by Jan. 27. The officer explained that the buildings would simply be borrowed for use as barracks for 3 or 4 months and were needed for housing part of the 20,000 Japanese troops that were to arrive in Peiping shortly.

Jan. 28. Harrison, U.S. Minister at Geneva, cabled that he "learned this morning in strict confidence from Vice President of Board of Managers of Swiss National Bank that Japan has been putting out feelers regarding possibility of obtaining a large loan in Switzerland. He gave me to understand that the Swiss National Bank is definitely unfavorable."

Jan. 28. Lockhart cabled from Peiping that American military observers at Peiping estimate that 60 trucks and 18 narrow gauge locomotives arrived in North China between Jan. 19 and Jan. 25. According to French observers 10,000 effectives arrived in North China and 3,000 departed during first two weeks in January.

Jan. 29. Sholes, U.S. consul at Milan cabled that ~~the~~ "80 Italian air craft and 50 Italian airmen, some recently returned from Spanish front, it would appear, have been ordered to Japan. Embassy was informed aircraft shipments January 25 last. My British colleague called upon me today. His figures place aircraft sent at 50."

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Reliable source reports that since signing the tripartite Anti-Comintern Pact an agreement has been reached whereby complete Italian and German military aircraft engineering and designing data, plus the services of technical advisers, are made available to Japan.

A "Shanghai Mail" report states that German experts on ordinance and airplane matters are now in Japan.

American military attache at Hangkow paints gloomy picture of China's present military plight. States that a Chinese counter-offensive is unthinkable and he doesn't believe a force that can offer serious resistance can now be created.

Japanese are reported to be moving 80,000 fresh troops from Japan via Mukden. First of these troops arrived at Mukden on December 17th. Believes they are destined for the northern frontier. Barracks with a capacity of 50,000 troops are reported to have been erected at Chaimussu and Poli in northeast Manchuria. Other barracks with capacities for 100,000 troops are reported to be located between railroads which are rapidly being pushed to the Mongolian and northeast frontiers. Japanese agents are reported to be fomenting action by Mohammedans in Ningsia and Chenghi to harrass the Urunchi-Lanchow Road.

*W. 10
J. C. McFarland
M. L. W. 10*

*for
DEN*

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Europe

Jan. 5. Bullitt cabled from Paris that Leger, in charge of the Foreign Office in Delbos' absence, had told him that the French Government was very apprehensive lest the United States become involved with Japan. Leger said that alone Britain would do nothing in the Far East, no matter how insulted. But if the United States should go to war with Japan, Britain would join in and this would leave France alone in Europe. Leger said that in such an eventuality Germany and Italy would strike at once and France would be no match for them.

Jan. 12. Bullitt cabled that Prunas, new Italian charge in Paris, had told him that Germany and Italy had reached complete agreement as to Austria and that Italy did not object to Germany's taking over Austria. Bullitt asked whether in that event the 300,000 Tyroleans might not become a danger to Italy. Prunas replied that it was ~~ax~~ already agreed that the Tyroleans would emigrate to Germany. Germany had expressed a desire for farm laborers and some 25,000 had already been sent. When this was completed Italy would be safe at the Brenner.

Jan. 12. Bullitt cabled that Delbos had told him that Poncet reported from Berlin that the Germans would agree to a limitation of production of military planes and that in general prospects for a French-German rapprochement were encouraging. Delbos said in addition that he believed there was complete understanding between Germany and Italy as to Austria.

*No 9
I.P. W. W. Broad
2/1/31*

Mr. Aikawa and his company just as abruptly as they dropped Mr. Matsuoka and the South Manchuria Railway.

8. The success of the venture also depends largely upon Mr. Aikawa's ability to manage the huge interests he has undertaken. Although he has been successful to date, his success has admittedly been due in large measure to conditions over which he has no control. It is one thing to expand successfully in boom times. It remains to be seen how he can do in a depression. Some, but not all, of his ventures have succeeded. Certainly his automotive ventures are not a success and without Army support would have been abandoned.

9. The American investor can buy Japanese Government bonds in New York, payable in U.S. dollars, at such a discount that they yield him 10%. The investment in the new company has only a 6% guaranteed yield. The possibility of getting more than 6% is purely speculative.

10. The American investor cannot buy any shares of the Manchoukou Heavy Industry Development Company but only of the subsidiary companies. The parent company could declare a substantial profit from sources not available to the American investor and the subsidiary might only declare a 6% dividend.

11. The American investor cannot control more than 49% of the stock of any subsidiary. If the subsidiary, for example, made automobiles, the American investor could not keep the company from exporting to markets in competition with his American plant. He could not be a decisive factor in any of the acts the directors decided upon. He could be "frozen out" at any time.

12. The economic set up in "Manchoukuo" is still a monopoly, the only change being from the South Manchuria Railway to the Manchoukuo Heavy Industry Development Company. If the activities of any subsidiary in which an American might invest should run counter to the purpose of the controlling interests of the parent company, they would be curtailed even though it adversely affected the subsidiary.

13. As Japan has announced upon a number of occasions that the terms of treaties should not be binding upon her when the conditions existing at the time the treaties were made have changed, it is hard to believe that less formal guarantees, as represented by the laws of "Manchoukuo" would be considered as binding her if economic conditions in Japan became so unfavorable as to make it difficult to carry them out. Up to now the Japanese Government has never defaulted on its bonds. It would not do so unless the economic situation became hopeless. The situation is becoming more and more serious, however, and it is too soon to say that Japan will never default. American experience in Germany, Italy, Russia, Spain and other countries and the experience of the foreign oil companies in "Manchoukuo" should be considered in predicting possibilities of American participation in the new venture.

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(d) the political support of the Japanese Army, (e) the continuation of heavy expenditures in Japan and "Manchoukuo" for munitions and other war purposes and (f) Mr. Aikawa's ability.

3. There is a great difference of opinion as to what the economic possibilities of "Manchoukuo" are. It is an agricultural country and the Japanese Government wishes to keep the market there for Japan's own industries and does not wish to establish industries that will compete with its own factories. It seems inconsistent, therefore, to establish a new automotive industry and a new aircraft industry, as announced by the Company, unless it is being done purely for reasons of military defence against Russia. The present annual ~~market~~ automotive market in "Manchoukuo" is only 2500 units. The annual consumption of aircraft for civil purposes is very little. The principal industrial possibilities, from an economic point of view, appear to be the production of iron and coal as a source of supply to Japanese industries and for national defence.

This office is not supplied with sufficient data to report upon the economic possibilities of "Manchoukuo". This data should be available in the Consulates in "Manchoukuo." There is doubt, however, as to whether the proposed development is more for economic reasons than for military defense.

4. As the "Manchoukuo" Government, which is a 50% owner of the new company and which guarantees the profits and other benefits to American investors, is the instrument of the Japanese Government, the success or failure of the new company will depend largely upon the success or failure of present economic developments in Japan. Practically every American or English economist or business man with intimate knowledge of the country agrees in predicting serious economic trouble for the country within the next three years, whether Japan's military activities in China succeed or fail. As economic conditions in Japan become worse, Japan's ability to support "Manchoukuo" decreases and any guarantees as to profits, to exemption of profits from taxation, to permission to export profits and dividends become affected. The much advertised "Japan-Manchoukuo bloc" is only as good as Japan can make it.

5. Japan's success in China depends upon many unknown and unpredictable factors. The present military activity is costing Japan a great amount of money and the desired economic expansion there will cost a great deal more. The Japanese business men are not believed to be too optimistic, but in any case it is admitted that failure of their economic expansion in China would be ruinous to Japan after the great sacrifices they are now making.

6. The Japanese admit that the prosperity of the heavy industries of the country since 1932 is largely due to military expenditures. This can easily be proved, and no attempt has been made to deny it. It is admitted that such expenditures cannot be supported indefinitely. It follows that when the expenditures stop either by reason of exhaustion or otherwise, the heavy industries will suffer a depression. As the activities of the new company in "Manchoukuo" will be largely in heavy industries and as some of the leading activities of the Nihon Sangyo Kabushiki Kaisha in Japan proper, which are now taken over by the new company, are heavy industries, it is hard to see how the Manchoukuo Heavy Industry Development Company can fail to suffer when it loses the support of the war expenditures.

7. As the Japanese Army officials are so powerful politically and as their policies are subject to change without consideration of other interests, it is a ~~quest~~ ^{question} for them to abandon

IV

ANALYSIS OF ECONOMIC FACTORS INVOLVED

The announced intention of the Nihon Sangyo Kabushiki Kaisha is to invite foreign capital to participate in the development of "Manchukuo". Mr. Aikawa is said to be planning to visit the United States very shortly to obtain American capital. He will probably be accompanied by Mr. James W. Murray. Mr. Murray is an American citizen who came to Japan several years ago as Treasurer of the Nipponophone Company (Columbia Phonograph Company) in Kawasaki. When the company was purchased by the Nihon Sangyo Kabushiki Kaisha in 1935, Mr. Murray was retained by the new owners and has since been acting in an advisory capacity to the Company on financial matters particularly in its dealing with American companies in the United States. Mr. Murray will therefore assist Mr. Aikawa in completing any financial arrangements which Mr. Aikawa decides upon but will not engage in any of the promoting activities of Mr. Aikawa.

Mr. Aikawa needs money or credit totalling several million dollars. He wants it in the form of machine tools, factory equipment, foundry and steel mill equipment, mining equipment, automotive equipment, and materials. He wants also the latest engineering advice and the assistance of American engineers to design the plants, purchase and install the equipment and get the new industries in running order.

He will pay well for what he buys but he wants all this on credit for at least three years and preferably for ten years. His proposition is to exchange shares or debentures of the subsidiary companies for the materials, equipment and engineering advice received. He does not want to issue debentures or make loans which mature in less than ten years.

He will propose that all American dollar investments will be represented by shares or debentures in yen; that such yen values will be revalued whenever they are re-purchased by the company so that the American investor will get the same dollar refund, regardless of any possible yen depreciation, as his original dollar investment.

The guarantee of such an arrangement will be made by the "Manchoukuo" Government in the form of laws or regulations but not by treaties.

No American or other foreign investment will be permitted to own a controlling interest in any of the subsidiaries, and none of the foreign investment will be permitted in shares of the parent company.

Americans who may be approached by Mr. Aikawa should consider the matter very carefully before committing themselves. The following facts are given as bearing upon any plans he may suggest:

1. The purpose of Mr. Aikawa's invitation to American capitalists is to obtain funds or credit which are not readily available in Japan to carry out his plans in "Manchoukuo." A statement regarding Japan's capital resources, prepared by Vice Consul Ivan B. White, is enclosed herewith. The profit accruing to American investors is only incidental to his venture. He would not seek American capital if he could get sufficient capital in Japan.

2. The success of the venture in "Manchoukuo" depends upon (a) the economic possibilities of "Manchoukuo," (b) the economic situation in Japan itself, (c) the success of Japan in China,

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B. Victor Talking Machine Co. of Japan, Ltd. (Controlling Interest Held by Japan Industries - 68%)

Established 1927
Capital Stock Subscribed and fully paid Yen 7,500,000
Number of Employees ... 1,000

VII. Plantation Industries

A. Japan Industries Rubber Estate Co. (Controlling Interest Held by Japan Industries - 64%)

Established 1934
Capital Stock Subscribed and fully paid Yen 6,000,000
Number of Shareholders ... 1,183
Number of Employees 3,100

VIII. Other Industries and Businesses

A. Daido Match Company - (Controlling Interest Held by Japan Industries -- 91%)

Established 1927
Capital Stock Subscribed and fully paid Yen 4,000,000
Number of Employees 4,000
Daido Match Co. owns 7 subsidiaries

B. Godo Real Estate Company - (Controlling Interest Held by Japan Industries - 100%)

Established 1915
Capital Stock Subscribed Yen 5,000,000
Amount Paid In 2,500,000

C. Sakhalin Steamship Company (Controlling Interest Held by Japan Industries - 80%)

Established 1918
Capital Stock Subscribed Yen 3,000,000

D. Chuo Civil Engineering Company (Controlling Interest Held by Japan Industries - 100%)

Established 1930
Capital Stock Subscribed Yen 1,000,000

E. Imperial Lumber Company (Controlling Interest Held by Japan Industries - 100%)

Established 1933
Capital Stock Subscribed Yen 250,000

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III. Automotive Manufacturing Industries

A. Nissan Automotive Manufacturing Company (Controlling Interest Held by J. I. - 100%)
Established 1933
Capital Stock Subscribed Yen 10,000,000
Amount Paid In 10,000,000
Nissan Automotive Manufacturing Co. owns the Nissan Automotive Sales Co. with capitalization of Yen 5,000,000.

IV. Chemical Industries

A. Japan Chemical Company - (Controlling Interest Held by Japan Industries - 100%)

Established 1934
Capital Stock Subscribed Yen 62,000,000
Amount Paid In 53,900,000
Old Shares - Yen 50.00 fully paid 430,000 shares
New Shares - Yen 40.00 paid in 810,000 shares
Number of Employees 20,000
Japan Chemical Co. owns 12 chemical manufacturing companies.

B. Japan Oil Company - (Controlling Interest Held by Japan Industries - 60%)

Established 1921
Capital Stock Subscribed Yen 17,500,000
Amount Paid In 17,500,000
Number of Shareholders ... 2,367
Number of Employees 2,000
Japan Oil Co. owns 40 manufacturing companies in soybean, fish oil industries, etc.

V. Fishing Industries

A. Japan Fishing Industries, Ltd. (Controlling Interest Held by Japan Industries - 46%)

Established 1925
Capital Stock Subscribed Yen 91,500,000
Amount Paid In 55,500,000
Old Shares - Yen 50.00 fully paid 840,000 shares
New Shares - Yen 12.50 paid in 960,000 shares
Number of Shareholders 33,450
Number of Employees 5,000
Japan Fishing Industries owns 56 subsidiaries.

B. South American Fishing Industries, Ltd. (Controlling Interest Held by Japan Industries - 100%)

Established 1932
Capital Stock Subscribed Yen 1,000,000

C. Japan Fishing Industries Research Institute (Controlling Interest Held by Japan Industry - 100%)

Established 1935
Capital Stock Subscribed Yen 1,000,000

VI. Electric and Musical Industries

A. Nipponophone Co., Ltd. (Columbia) - (Controlling Interest Held by Japan Industries - 59%)
Established 1910
Capital Stock Subscribed and fully paid on 7,000,000
Number of Employees ... 1,700

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Companies Controlled by Japan Industries Ltd.

(Nihon Sangyo K.K.)

As of March 30, 1937

Japan Industries established in 1912
Capital Stock SubscribedYen 225,000,000.00
Amount Paid In 198,375,000.00
Old Shares - Yen 50.00 each fully paid 2,370,000 shares
New Shares - Yen 37.50 paid in 2,130,000 shares
Total number of Shareholders 50,200
Chairman O Yoshisuke Aikawa

I. Mining Industries

A. Nippon Mining Company (Controlling Interest Held by Japan Industries - 58%)

Established 1929
Capital Stock Subscribed Yen 160,000,000.00
Amount Paid In 138,750,000.00
Old Shares - Yen 50.00 each fully paid ... 1,500,000 shares
New Shares - Yen 37.50 paid in 1,700,000 shares
Number of Shareholders 6,630
Number of Employees.....30,000
Nippon Mining Company owns The Taiwan Mining Co., Nissan Steamship Co., and the Nichinan Mining Co.

II. Heavy Industries

A. Hitachi Engineering Works (Controlling Interest Held by Japan Industries - 35%)

Established 1920
Capital Stock Subscribed Yen 117,900,000.00
Amount Paid In 73,688,000.00
Old Shares - Yen 50.00 each fully paid 1,179,000 shares
New Shares - Yen 12.50 paid in 1,179,000 shares
Number of Shareholders 7,580
Number of Employees30,000
Hitachi Engineering Works owns the Osaka Iron Works & Shipbuilding Companies with capital stock of Yen 12,000,000.00 fully paid; and 8 other subsidiaries including iron foundry industry, precision instrument manufacturing, etc.

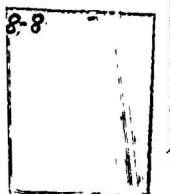
B. Hitachi Electric Power Company (Controlling Interest Held by Japan Industries - 45%)

Established 1927
Capital Stock Subscribed Yen 10,000,000.00
Amount Paid In 6,250,000.00
Old Shares O Yen 50.00 fully paid 100,000 shares
New Shares - Yen 12.50 paid in 100,000 shares
Number of Shareholders 261
Number of Employees 150

III. Automotive Manufacturing Industries

A. see next page

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Nihon Sangyo Kabushiki Kaisha

A great deal has been written about the Nihon Sangyo Kabushiki Kaisha during the past few years, mostly inspired articles intended to promote the sale of shares of the company and to promote the sale of the product of the subsidiary companies. The following information is taken from a series of articles in the Japan Advertiser of January 16, 17, 18, 1936, and from other sources:

Mr. Aikawa and the Nihon Sangyo Kabushiki Kaisha were relatively unknown prior to 1931 but his remarkable progress since then has aroused universal attention. The Aikawa-Kuhara interests were built upon the success of the Japan Mining Company, which has been their largest subsidiary and a most profitable one. It is said to be the largest gold mining company in Japan and also produces silver, lead, copper and other mineral products. In recent years it has paid as much as 14% dividends on its capitalization of Yen 89,127,000.

The second and third subsidiaries are the Hitachi Engineering Works and the Hitachi Electric Power Company. These depend largely on military orders. The profit of the Engineering Company in the first half of 1935 was claimed to be 37.8% on its capitalization of Yen 20,000,000 and a 12% dividend was declared.

The growth of the Nihon Sangyo Kabushiki Kaisha has been so rapid since 1931 that in 1936 it controlled nearly 50 subsidiaries and was said to be promoting new subsidiaries at the rate of two a month. It was interested mainly in "mining, manufacturing, marine products and miscellaneous." There follows ~~xxxxxx~~ a list of the main subsidiaries as supplied by the company on December 8, 1937,

Since that list was given it has just been announced that the Nipponophone and Victor Companies (Nos. VIA and VIB on the list) have been sold to the Tokyo Denki Kabushiki Kaisha (with which the General Electric Company of Schenectady, New York, has a working agreement). These two companies were purchased by the Nihon Sangyo Kabushiki Kaisha within the past two years at the time when they were doing a very profitable business. They control the phonograph market in Japan. Since the new import tariffs, sales taxes, and exchange restrictions were put into effect, however, it is said that the companies have had difficulty making ends meet.

There may be other sales of the Japan interests of the Nihon Sangyo Kabushiki Kaisha in order to raise funds for financing the venture in "Manchoukuo."

The Nissan Company has been fully reported on. (See the confidential report of this office on June 12, 1936, "Japanese Automotive Industry.") Its first product, the Datsun midget car, is said to be selling well in competition with Japanese three-wheeled motorcycle del very vans, but it is doubtful whether the company is making an appreciable profit. Its second product, the Nissan standard sized truck, is being produced ~~xxx~~ at a rate of 20 units a day for the Army and is believed to be operating at a substantial loss.

III

BACKGROUND OF YOSHISUKE AIKAWA AND THE NIHON SANGYO KABUSHIKI KAISHA

Yoshisuke Aikawa

The decision of the Japanese Government, said to be controlled in this matter by the military party in Japan, to invite capitalists to take over the industrial development of "Manchoukuo" was followed by their selection of Mr. Yoshisuke Aikawa and the Nihon Sangyo Kabushiki Kaisha, of which he is President, as the sole agent for carrying out the new scheme into effect. The change amounts to substituting Mr. Aikawa and his company for Mr. Yosuke Matsuoka and the South Manchuria Railway, of which he is President.

Mr. Yoshisuke Aikawa was born in Yamaguchi Prefecture, Japan, in November 1880. He graduated from the Engineering College of Tokyo Imperial University in 1903. He is described as "a scion of a good family" in Yamaguchi Prefecture. His father was a prefectural government official. Desiring to learn about the metal industry from the ground up he worked as a laborer in the iron foundry in Shibaura for two years after his graduation. He worked for two years as a laborer in a foundry in the United States. Upon his return to Japan in 1909 he founded the Tobata Casting Company, with capital provided by Mitsui, Kuhara, Kaijima and Fukita interests. He was helped greatly by his uncle, Marquis Kaoru Inouye, "a statesman of the Meiji Restoration," who took a keen interest in him. He has for some years been closely associated with his father-in-law, Kusanosuke Kuhara, President of the Japan Iron Foundries, who was one of his original backers in the Tobata venture, who has supplied much of Aikawa's capital. Kuhara became closely associated with the reactionary elements in the Japanese Army and was recently sentenced to prison for his connection with the now famous attempt of those officers on February 26, 1936 to seize the control of the Government.

Mr. Aikawa and Mr. Kuhara have, according to all accounts, been favored by substantial Army support for the last few years and the present development is a culmination of their relations with the Army. Mr. Kuhara's connection with the attempted Army coup d'etat which resulted in his imprisonment has presumably improved his political support by the Army.

The Army is said to be opposed to the old financial interests, such as Mitsui, Mitsubishi, Sumitomo, etc., etc., because their prosperity benefits only a few families already wealthy. The Army favors Aikawa and his interests because their prosperity benefits an alleged 5,000,000 shareholders all over Japan, in addition to the 130,000 employees.

It seems clear that the prosperity of the new company will continue to depend largely upon the support of the Army and upon war expenditures.

Mr. Aikawa publicly and privately admires American business and industrial methods. His experience in the United States is said to have aroused this admiration and it is inferred that he is genuinely friendly to Americans. The American engineers who have worked for him all speak of him in the highest terms so far as their business and personal relations are concerned. They also speak highly of his ability.

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"4. The company will be capitalized at Yen 250,000,000. When necessary the company may obtain permission from the State Minister concerned to increase its capitalization.

"5. State control will be increased along the following lines:

"a. The right to appoint and fix the salaries and allowances for the president and vice-presidents will be vested in the Manchoukuo Government.

"b. The company is under obligation to submit to the Hsinking Government a detailed report on the business program for each fiscal year.

"c. Election of directors and inspectors, their dismissal, modification of the articles of association, disposal of profits, flotation of bonds and other important matters are to be carried out under special permission of the State Minister concerned.

"d. The State Minister concerned is empowered to issue any order considered necessary in connection with the business management of the company in case such is deemed necessary with regard to its supervision and control."

Officers of Company

The officers of the new company will be:

Chairman and President	Yoshisuke Aikawa
Directors	K. Shimokobe
	T. Shimamoto
	E. Tanaka
	K. Yamada
	Baron B. Ito
	K. Tamura
	G. Asahara
	N. Odaira
Auditors	S. Ibuki
	C. Iwata
	Y. Katayama
	K. Yamada

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The following table is said to be the list of companies which will come under the management of the new concern. (Japan-Manchoukuo Year Book 1938, page 948.)

Companies	Capital (Yen 1,000)	
	Authorized	Paid-up
Showa Steel Works	100,000	82,000
Manchou Colliery	16,000	16,000
Manchuria Mining Development	5,000	3,100
South Manchuria Mining	3,600	1,350
Shantung Mining	5,000	2,250
Fuchow Mining	1,000	750
Kaiping Mining	34,320	33,620
Manchuria Lead Mining	4,000	4,000
Manchuria Gold Mining	12,000	7,175
Great Manchuria Gold Mining	200	50
South Manchuria Light Metal	25,000	5,250
Japan-Manchoukuo Magnesium	7,000	3,500
Dowa Automobile	6,200	3,200
Total	219,320	163,245

The Manchoukuo Government is furthermore expected to entrust the larger part of the work appertaining to the so-called Manchoukuo 5 Year Industrial Plan, which is scheduled to be undertaken with a budget of 3,000 million yen, to the new company.

Controlling Legislation

The law passed by the "Manchoukuo" Government to provide for the new regime is summarized as follows: (Japan Advertiser, December 30, 1937.)

"HSINKING, December 20. -- The Manchukuo Government promulgated today the Supervising Law of the Manchuria Heavy Industry Development Company, effective December 27.

"Under the supervision of the Manchukuo Government, the new company will undertake to develop the heavy industries of Manchukuo and at the same time promote the economic ties between the new State and Japan.

"The law consists of 31 articles, the salient feature of which is that the Government will give high protection to the company's interests and rights, while the State's control will be considerably enhanced.

"Scope Outlined

"Gist of the law follows:

"1. The Manchukuo Heavy Industry Development Company will invest in steel manufacturing, light metal industries, mining, motorcar and aircraft manufacturing and coal mining, and will manage these branches of industry. It also will be empowered to invest in gold, zinc, lead and copper mining.

"2. The company will be required to establish its main office in Hsinking.

"3. The company's board of directors will be composed of a president, two vice-presidents, five or more directors and three or more inspectors. The president and vice-presidents will remain in office five years. They will be appointed by the Hsinking Government, while the directors and inspectors will be elected.

- "3. The Manchoukuo Government shall guarantee the principle and a net return of 6% per annum on all funds expended by the corporation in connection with carrying on enterprises in Manchoukuo for ten years. In the event the corporation does not earn 6% per annum and it is necessary for the Manchoukuo Government to make up a deficit up to 6%, the Government shall be reimbursed in subsequent periods out of any earnings in excess of 6% until such time as the advance to cover the guaranteed dividend has been repaid.
- "4. There shall be no Manchoukuo tax on profit made by the corporation from investments outside Manchoukuo. Also dividends, paid by the corporation to shareholders residing outside of Manchoukuo shall not be taxed. As to taxation in respect to enterprises in Manchoukuo, the Manchoukuo Government shall take suitable steps so as not to impair the functions of integrated management of the corporation in the event a change in the taxation system would, in the future, cause an additional burden to the corporation.
- "5. The corporation shall not be restricted as to the dividend rate in the disposal of profits.
- "6. In regard to the marketability of the private shares of the corporation, the Japanese and the Manchoukuo Governments shall take suitable measures so that the existing negotiability shall not be impaired.
- "7. No restrictions will be placed on export of dividends."

OUTLINE OF NEW PLAN

(Supplied by
Nihon Sangyo Kabushiki Kaisha)

"MANCHOUKUO HEAVY INDUSTRIES CO., LTD.

"The urgent necessity of expediting the development of industry in Manchoukuo, more especially the heavy industries, leaves no room for discussion. To bring about this development and to take advantage of the forthcoming abolition of extra-territoriality rights which will result in the transfer of administrative power now exercised by the South Manchurian Railway in the railway zone, our Company has come to an agreement whereby it will become a Manchoukuo corporation and will move its head office to Hsinking.

"This new Manchoukuo corporation shall then merge with a powerful national policy corporation planned by the Manchoukuo Government for the purpose of developing industries there on an integrated management principle, with the center in the heavy industries field. In addition to managing the existing enterprises of our present Company, the new company resulting from the merger will undertake the important mission of controlling and managing the iron and steel industry, light metal manufacturing, automobile, aircraft and other manufacturing industries in Manchoukuo, also coal, gold and other mining industries.

"The new national policy corporation shall have a capital of Yen 450,000,000.00 consisting of Yen 225,000,000.00 to be invested by the Manchoukuo Government, and the present capital of Yen 225,000,000.00 of our Company. The new corporation shall enjoy the positive support of both the Japanese and Manchukuo Governments with respect to the active utilization of the assets to be taken over from our Company and of raising the necessary funds and making available other facilities that may be necessary.

"The following is a general outline of definite terms agreed upon with a view to respecting the interests of the existing shareholders of our Company and to provide for the investment of private capital in Manchoukuo:

- "1. At the disposal of profit for each period, the dividend will be determined as follows:
 - (a) When the dividend rate for private shareholders is 10% or under, the dividend for the shares held by Manchoukuo shall be one-half thereof. For example, if the private shareholders receive a 10% dividend, Manchoukuo shall receive a 5% dividend.
 - (b) Any profit in excess of a dividend of 10% for private shareholders and 5% for Manchoukuo shall be divided equally. For example, if private shareholders receive a 12% dividend, Manchoukuo shall receive a 7% dividend.
- "2. In the event of liquidation of the corporation, the residue shall be divided between the private shareholders and the Government shares at the ratio of two to one up to one and one half of the paid-in capital. Any excess over one and one-half shall be divided equally.

Note: The new holding company will be called "Manchoukuo Heavy Industry Development Company."

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NEED FOR NEW POLICYIN
ECONOMIC DEVELOPMENT OF "MANCHUKUO"

"Manchukuo's" economic organization is principally agricultural - 90% of the population is engaged in agriculture and 80% of the national income is derived from it.

The great importance of trade relations between Japan, "Manchukuo," and China will be understood when one considers the poor natural wealth of Japan and the existence of abundant resources and wide consumption markets in "Manchukuo" and China. (Mitsubishi - "Japan Trade and Industry," page 623.)

The purpose of Japanese economic expansion into "Manchukuo" is said to be "to bring the two countries into a common economic unit, to avoid destructive competition, and to utilize as fully as possible the natural resources of the two countries." (Japan-Manchukuo Year Book 1937, page 840.)

"The South Manchuria Railway Company has been the bulwark of Japanese political and economic interests in Manchuria for the past three decades." Since 1932 the company has had supervisory control either directly or indirectly through subsidiaries over many activities, including railways, workshops, steamships, harbors, coal mines, shale oil plants, iron and steel works, chemical fertilizer plants, electricity, gas, hotels, public works, such as schools, hospitals, etc.; slaughter houses, cement, paraffin refinings, ceramics, industrial fats and oils, lumber, storage, express service, gold and lead mining, real estate, insurance, newspapers, etc., etc.

The vast undertakings of the South Manchuria Railway Company, which is controlled by the Japanese Government, have not been developed, or have not developed "Manchukuo," to the extent desired. The theory upon which the South Manchuria Railway Company worked is said to have been evolved by the Japanese military authorities in "Manchoukuo" and was based on the idea that the established capitalists of Japan, such as Mitsubishi, etc., should be kept out of "manchoukuo"; that the Government should run the entire project through the South Manchuria Railway Company and any profits would accrue to the Government.

Without giving specific data to show how far short of the original expectations the South Manchuria Railway Company development progressed, it is now announced that a change must be made and that capitalists will be given a chance to see what they can do.

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ENCLOSURE

MEMORANDUM - Japan's Capital Resources

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American Consulate
Yokohama, Japan, January 6, 1938.

Subject: ENCLOSING A REPORT ON THE
NEW ECONOMIC ORGANIZATION
IN "MANCHUKUO"

The Honorable
The Secretary of State
Washington

Sir:

I have the honor to enclose herewith a report dated January 6, 1938, entitled New Economic Organization in "Manchukuo". This report describes the change in the directing force of the economic development of "Manchukuo" from the South Manchuria Railway to a new company, the Manchukuo Heavy Industry Development Company, which will be a holding company jointly owned by the "Manchukuo" Government and the Japan Industries Company (Nihon Sangyo Kabushiki Kaisha).

Mr. Yoskisuke Aikawa, the promoter of the venture described in the report, is expected to leave Japan for the United States in a few days. He will no doubt present his plan for investment with American capital in "Manchukuo" to possible American investors as soon as he can arrange to meet them.

Respectfully yours,
Richard F. Boyce,
American Consul

Handwritten:
12/15/38
T. C. W. [unclear]
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