

SINO-AMERICAN ECONOMIC RELATIONS
1929 - 1939
WITH SPECIAL EMPHASIS ON THE SILVER ISSUE

SINO-AMERICAN ECONOMIC RELATIONS
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PARTHA SARATHY GHOSH

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PREFACE

This work attempts to study the economic relations between the United States and China during the decade preceding the Second World War, from the point of view of trade and commerce.

The focus of the study is on the causes and consequences of a systematically declining China trade of the United States during the period under study. It purports to establish that this decline was largely due to a depreciation in the value of silver in the world market. Chinese currency which was based on silver lost its purchasing power vis-a-vis American dollar. Consequently American goods became too costly for the Chinese to purchase and there was a steep fall in the American export to China. As it was a period when the world was passing through political and economic intricacies, the United States government failed to solve it on its merits. Throughout the 1930s American export to China remained at a low level.

In preparing this dissertation the author felt the difficulty arising out of paucity of materials available in Delhi. This paucity is due partly to the fact that the work deals with a period which is not very recent and partly due to the nature of the subject. The Sapru House Library, which the author has most extensively used, does not possess any Congressional Hearing for that period nor all the relevant journals and periodicals such as the Far Eastern Review, Trans Pacific, American Statistics Association Journal, etc., nor all the numbers of the China Weekly Review.

This study has been made under the supervision of Dr B. K.

Shrivastava of the American Studies Division, School of International Studies. I am greatly indebted to him for his valuable guidance, his constant encouragement and genuine interest in the subject. I wish to acknowledge my deep obligation to Dr. M. S. Venkataramani who has remained a constant source of inspiration for me. My thanks are also due to Asha Kaul, Arati Goswami and T. P. Bhat for their help. I gratefully acknowledge the assistance given to me by the staff of the Sapru House Library.

Partha Sarathy Ghosh.

(Partha Sarathy Ghosh)

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Chapter I

**THE EVOLUTION OF SINO-AMERICAN ECONOMIC
RELATIONS**

Chapter I

EVOLUTION OF SINO-AMERICAN ECONOMIC RELATIONS

In Asia, the Far East is one region in which the United States has taken a great deal of interest since its very establishment as an independent nation. Its first contact in the region was with China and its interest in the country was primarily economic. It was only when this economic interest became sufficiently large that the United States started thinking in terms of developing diplomatic relations with China. For decades America's China policy sought to increase the opportunities for trade and investment in China for its citizens.

When the United States first came in contact with China the latter was being ruled by the Manchus, who were under pressure from European countries to cede ports and regions as spheres of influence to them. The Manchus were overthrown by a revolution in 1911 and were succeeded by a Republican Government which was not able to extend its authority over the whole country. The change in the form of government, however, did not result in any basic change in the motivation of America's China policy. In order to comprehend how America's economic interest in China was strengthened and how during the closing years of the 1920s it reached an envious height, it will be desirable to trace briefly the evolution of America's economic interest in China. For the purpose of historical analysis the period prior to the Great Depression has been divided into five parts:

(a) from the birth of the American Republic to the first Sino-American treaty (1783-1844); (b) from the Sino-American treaty of 1844 to the emancipation of the Open Door in 1899; (c) the Open Door and the dollar diplomacy (1899 to 1919); (d) Sino-American economic relations in the 1920s; and (e) the coming of the depression and its impact on the China trade.

FROM THE BIRTH OF AMERICAN REPUBLIC TO
THE SIGNING OF THE FIRST SINO-AMERICAN
TREATY (1783-1844)

The commercial contact of the United States with China is as old as the American Republic itself. John Ledyard, an American who accompanied Captain Cook in his voyage to the Pacific (1776-81), acquainted the Americans with the prospect¹ of a profitable fur trade in the port of Canton. However, owing to internal strife and turmoil during the Revolution Americans could not pay much attention to the development of trade with China. But after the war against England had ended successfully in favour of the thirteen colonies, American trade through Canton began to flourish. The American war of independence freed the colonies from the political yoke of Britain and filled in them a sense of self-esteem and honour.²

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- 1 Lawrence H. Battistini, The Rise of American Influence in Asia and the Pacific (East Lansing, 1960), p. 9.
- 2 See Franklin Jameson, The American Revolution Considered as a Social Movement (Gloucester, Massachusetts, 1957).

This found expression not only in the consolidation and modification of socio-political institutions, but also in American aspiration to win her rightful place in the international community. The defeat of Britain had already lifted the trade restrictions against the United States and so it now embarked upon a commercial career which soon aroused envy of other nations.³ Commercial voyages began to be undertaken, new markets came to be discovered and fresh economic contacts were established. It was during these hey days that the Empress of China, an American vessel, made the first direct voyage from New York to Canton in 1784 and opened a significant chapter in the history of Sino-American relations.

The Empress of China sailed from New York in February 1784 and reached Canton, the only Chinese port open at that time to foreign commerce, in August 1784.⁴ Fortunately for the posterity, the supercargo of the vessel, the merchant in charge of the adventure, was Samuel Shaw who was a writer. His memoirs

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- 3 Ugo Rabbeno, in his book The American Colonial Policy, p. 141, writes: "At the end of 1793 the tonnage of the United States exceeded that of every other nation except England; their foreign trade ranked in value next to that of England, and, proportionately to the population, the United States was the first commercial nation of the world." Quoted in Harold Underwood Faulkner, American Economic History, Seventh Edition (New York, 1954), p. 220.
- 4 James Morton Callahan, American Relations in the Pacific and the Far East, 1784-1900 (New York, 1969), p. 14.
- 5 Edward H. Lockwood, "Americans and Chinese Began Commercial Relations Just 150 Years Ago", China Weekly Review (Shanghai), vol. 70, 8 September 1934, p. 56.

give a vivid account of China trade as it was carried out during the opening years of the American Republic.⁶ The Empress carried to China fur, raw cotton and lead but the chief cargo consisted of some thirty tons of ginseng root, considered by the Chinese as having great medical value.⁷ The adventure cost approximately \$120,000.⁸ The investment seemed to be quite sizeable but when fifteen months after her departure the Empress of China returned to New York, it was learnt that Samuel Shaw had succeeded in trading his cargo for 3,000 pieces of Bohea tea and Hyson, 962 pieces of China ware, 24 pieces of nankeens and 490 pieces of silk.⁹ According to Shaw, the venture had earned an overall profit of \$37,727 or better than 30 per cent of the original investment.¹⁰

The China trade of the United States which the Empress of China had inaugurated continued with a rapid pace and before the delegates at Philadelphia had completed the framing of the Constitution, at least nine voyages had been undertaken to the Far

6 Ibid.

7 Foster Rhea Dulles, China and America: The Story of Their Relations since 1784 (Princeton, New Jersey, 1946), p. 2.

8 Clarence L. Ver Steeg, "Financing and Outfitting the First United States Ship to China", Pacific Historical Review (Los Angeles), vol. 22, p. 8.

9 Dulles, n. 7, p. 2. See also Lockwood, n. 5, p. 56.

10 Ver Steeg, n. 8, p. 12.

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East by enterprising Americans. Soon the United States emerged as one of the chief trading nations in the Far East and in 1789 the number of American ships in Canton was second only to those flying the British flag.¹²

As the China trade prospered, the Americans encountered difficulties in finding an outbound cargo. Chinese tea and silk were in huge demand in the American market. In the beginning they had exchanged ginseng root for these commodities in China. But when the price of ginseng fell in the Chinese market Americans found the ginseng trade not very lucrative. They turned, therefore, to sea-otter furs and seal peltries, which at that time were being supplied by the Russians. Although the Americans had to face strong competition in this trade from the Russians, English, French, Dutch, Portugese and Austrians, yet furs and seal skins became their principal export items which they used to obtain from the Northwest Coast and Falkland Islands respectively.¹³ Fur trade at Canton was supplemented by opium, sandalwood, ginseng and silver. Beche-de-mer, edible birds' nests, and sharks' fins, which were purchased by the Chinese for making soups, also formed part of China-bound

11 Charles A. Beard and Mary R. Beard, The Rise of the American Civilization (New York, 1956), vol. 1, p. 661.

12 Samuel Eliot Morison and Henry Steele Commager, The Growth of the American Republic, 2 vols. (New York, 1950), vol. 1, p. 324. In 1789 of forty-six foreign vessels entering Canton eighteen were American. See Faulkner, n. 3, p. 145.

13 Battistini, n. 1, p. 8.

cargoes. The American traders exchanged these items with the Chinese tea and silk and by 1811 they had become the most serious rivals of the British in the tea trade at Canton. Their ships were neither so large nor so numerous as those of the British East India Company, yet they carried from Canton in the season 1805-1806 eleven million pounds of tea in 37 ships, as against British exports of 22 million pounds in 49 ships.

Although the Americans were posing a challenge to British trade at Canton yet in certain important respects the latter was in an advantageous position as compared to the Americans. It is true that the American merchants traded with greater individual freedom but they did not have the financial backing and prestige of the East India Company nor any moral protection from their government. Even the American consuls who were appointed at Canton were not consuls in the diplomatic sense of the term. They were usually traders or super-cargoes, honourarily appointed by the Congress. Their success largely depended upon their popularity among their fellow countrymen. Right from the appointment of Samuel Shaw in 1786, as the first American consul at Canton, to 1844, when the first Sino-American

14 Paul H. Clyde and Burton F. Beers, The Far East: A History of the Western Impact and the Eastern Response 1830-1965 (New Delhi, 1968), p. 71.

15 Ibid.

16 James William Christopher, Conflict in the Far East American Diplomacy in China from 1928-1933 (Leiden, Netherlands, 1950), p. 26.

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treaty was signed, this practice continued. But despite all these disadvantages so long as the Americans could trade on equal terms with the British they did not feel much need of official support. But after 1834 when tensions began to grow between the English and the Chinese, the indifference of American traders to official support disappeared. In May 1839, in the wake of the Anglo-Chinese war, better known as the Opium War, after Lin had forced the surrender of foreign-owned opium, the American merchants memorialized Congress:

We...express our opinions that the United States Government should take immediate measures; and, if deemed advisable, to act in concert with the governments of Great Britain, France and Holland, or either of them, in their endeavours to establish commercial relations with this empire upon a safe and honorable footing, such as exists between all friendly powers; and by direct appeal to the Imperial Government at Peking, to obtain a compliance with the following among other important demands. 18

In substance, they asked that (1) foreign envoys should

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- 17 Callahan, n. 4, p. 84. Julius Klein in his article "Booming the China Trade" in New York Herald Tribune Magazine, reproduced in China Weekly Review, vol. 46, 17 November 1928, pp. 414-16, argued that the China trade enjoyed backing of the U.S. Government from the beginning. This does not appear to be correct in the light of the situation discussed. Moreover, in 1815 when merchants had petitioned the Congress to establish an efficient and regular consular service in China, the Congress had turned a deaf ear to it. See Christopher, n. 16, pp. 28-29.
- 18 Tyler Dennett, American in Eastern Asia: A Critical Study of the Policy of the United States with reference to China, Japan and Korea in the 19th Century (New York, 1922), p. 99.

be allowed to reside in the vicinity of the court at Peking with usual diplomatic facilities; (2) that a fixed tariff should be imposed; (3) that facilities should be provided for the transshipment of goods meant for export; (4) that trade in other Chinese ports should be free; (5) that compensation should be paid for any loss caused by an impediment on legal trade and it should be guaranteed that they won't recur.¹⁹

It is interesting to note here that although the American merchants in China asked the United States Government for a well defined China policy their knowledge about China was quite inadequate. Even the American public in general had very vague ideas about China.²⁰ Out of such an inadequate knowledge about China there emerged an official U.S. China policy which, quite surprisingly, was based on the reality of American interests and remained in force for a century. Four months after the signing of the Nanking Treaty, President John Tyler solicited the Congress on 30 December 1842 to appoint a resident commissioner in China to safeguard the American commercial and diplomatic interests. Caleb Cushing was chosen for the post and the task of instructing him fell to Daniel Webster, the Secretary of State. Cushing was given numerous instructions, of which the concluding one sounded very significant:

19 Ibid., pp. 99-100.

20 See Stuart C. Miller, "The American Traders' Image of China, 1785-1840", Pacific Historical Review, vol. 36 (1967), pp. 375-95.

Finally, you will signify, in decided terms and a positive manner, that the Government of the United States would find it impossible to remain on terms of friendship and regard with the Emperor, if greater privileges or commercial facilities should be allowed to the subjects of any other Government than should be granted to the citizens of the United States. 21

Cushing arrived at Macao in February 1844 and after a few months the first Sino-American treaty was signed on 3 July 1844 which came to be known as Treaty of Wang-hsia or Wang Hiya.²² According to the terms of the Treaty it was agreed that any commercial privileges given by the Chinese to other countries were to be extended on equal terms to the United States. Thus, besides Canton the ports of Amoy, Foochow, Ningpo and Shanghai²³ were opened to the residence and trade of American merchants.

FROM 1844 TO THE ENUNCIATION
OF THE OPEN DOOR IN 1899

The tradition of governmental support for the China trade that commenced with the treaty of 1844 was invoked from time to time. In 1868 a pretentious Chinese delegation went to Washington and negotiated a new trade agreement. But while

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- 21 Quoted in Clyde and Beers, n. 14, pp. 72-73. Here in this instruction to Cushing can be seen some elements of the Open Door doctrine later on enunciated by John Hay in 1899.
- 22 Ibid., p. 73.
- 23 It is to be noted here that before the Sino-American Treaty was signed in 1844 Commodore Kerney had negotiated for America a similar agreement with China, through Ki-ying, the Viceroy of Canton. The Cushing Treaty was merely its confirmation. See Christopher, n. 16, p. 30.

efforts were being made on administrative level to boost up China trade, a new development was taking place in nautical technology which tremendously galvanized the Sino-American commerce. A new type of ship with huge sails and light weight was invented that brought a revolution in America's Far Eastern commerce. Clipper Ships, as these ships came to be known, "were the nautical marvels of the time"²⁴. It is difficult to ascertain when the clipper ships first made their appearance. However, it is generally believed that it was invented sometime in 1830's and between 1845 and 1865 it came to have a definite meaning and connotated a high-speed, sleek ship.²⁵ After the advent of the clipper ship American trade with China, particularly the tea trade was greatly boosted because tea was light in the bulk and relatively high in value. America soon emerged as the most enterprising challenger to Britain in maritime commerce. The Oriental was the first American clipper ship to carry tea from China to Britain. On 22 August 1850 it started from whampoa and reached London on 4 December 1850. Its speed created a sensation but what was probably more remarkable to her captain was a profit of \$48,000, a sum that equalled two thirds the cost of constructing the ship.²⁶ By 1855 the United States came to possess a fleet which was as large as that of Britain and

24 Battistini, n. 1, p. 15.

25 Ibid.

26 Ibid., p. 16.

President McKinley believed that the occupation of the Philippines would be of great help to the growing U.S. trade in the Orient, particularly Japan and China.³⁵ It was against this background of America's desire for a place in the colonial sun that John Hay, the U.S. Secretary of State, proclaimed the doctrine of Open Door in 1899 which aimed at the preservation of China as a free market.

The doctrine of Open Door in a way reasserted American interests in the preservation of territorial integrity and sovereignty of China. These objectives shaped America's policy in the Far East for several decades in the twentieth century. The antecedents of this policy here may briefly be discussed. With the exposure of Chinese weakness after its defeat in the Sino-Japanese war of 1894-95 there started a scramble for concessions and spheres of influence in China among the European Powers. Soon Russia gained a paramount position in Manchuria, France in southern China, Germany in Shantung Peninsula and England in the Yangtze River Valley.³⁶ England, however, was not satisfied. She alone carried 65 per cent of the total foreign trade in China and therefore she was much more interested in a free Chinese market than in obtaining a sphere of influence for itself on the Chinese mainland like others. It was, therefore,

35 James Ford Rhodes, The McKinley and Roosevelt Administration, 1897-1909 (New York, 1922), p. 187.

36 Nelson Manfred Blake and Oscar Theodore Barck, Jr., United States in its World Relations (New York, 1960), p. 406.

keen to preserve the integrity and sovereignty of China and sought American support for the realization of these objectives. It approached Washington accordingly. Although the China trade formed only 2 per cent of the total American foreign trade yet to forward looking Americans the Chinese market had considerable potentiality.³⁷ Even then, when in March 1898 the British government proposed a joint Anglo-American stand for the preservation of Open Door in China, John Sherman, the then Secretary of State, rejected the proposal. The apprehension was that the American public opinion would not approve of a bilateral treaty between Britain and the United States over the fate of China which might offend other powers.

The U.S. official outlook, however, began to change with the coming of John Hay as the Secretary of State. Hay who had, previous to his appointment as Secretary of State, served as U.S. Ambassador in London, was a known Anglophile. But even he, knowing fully well that America had similar interest in China, hesitated to openly support the British for the same reasons which had impeded his predecessor. Eventually, however, the way was found in the plan suggested by John Hippisley, a British citizen, who had served as an officer in the Chinese Maritime Customs. He suggested that Hay should send notes outlining

37 Theodore Roosevelt also believed that an Anglo-American joint stand in relation to China would be advantageous to American commerce in China. Theodore Roosevelt to Charles Arthur Moore, 14 February 1898. Elting E. Morison, selected and Edited, The Letters of Theodore Roosevelt (Cambridge, Massachusetts, 1951), p. 772.

American policy in China to the Powers concerned and ask for their co-operation. The idea appealed to Hay and on 6 September 1899 he sent his Open Door notes to Germany, Russia and England soon followed by identical notes on Japan, Italy and France.

The Open Door doctrine, like the Monroe Doctrine was a political and commercial principle. It declared that (1) all existing treaty ports and established interests in each sphere of interest would not be molested, (2) that the Chinese officials would collect the Chinese tariffs and no others, and (3) that no discrimination would be made in port and railway charges among citizens of different nations carrying on business in China.

While the diplomats in the different capitals of the world were discussing about the importance of Hay's circular things were taking dramatic turn in China. In 1900, there occurred in China the Boxer uprising. It was a revolt against the

38 Blake and Barck, n. 36, p. 410. For a history of the Open Door see Earl H. Pritchard, "The Origins of the Most-Favored Nation and the Open Door Politics in China", Far Eastern Quarterly (Menasha), vol. 1, pp. 161-72.

39 For a detailed analysis of the idea see the Introduction of Mingchien Joshua Bau, The Open Door Doctrine: In Relation to China (New York, 1923). American business interest was very much instrumental in persuading the administration to send the Open Door note. See Charles S. Campbell, Jr., "American Business Interests and the Open Door in China", Far Eastern Quarterly, (November 1941), vol. 1, pp. 43-58.

40 For the full text of the Open Door note see Ruhl J. Bartlett, ed., The Record of American Diplomacy: Documents and Readings in the History of American Foreign Relations (New York, 1948), pp. 409-11.

foreign domination of China. Starting with violent attacks on Christian missionaries in Shantung, the Boxer rebellion turned into an anti-foreign agitation. The Boxers came right into Peking. The Empress, who had secretly supported them, fled from the capital. The German ambassador was assassinated in the street and the foreign settlement was surrounded. The United States was afraid that the affected powers on the pretext of avenging the crimes done to their citizens might strengthen their grips over their respective spheres of influence in which case the Open Door in China would be imperiled. In anticipation of this grave threat to American economic interest, John Hay on 3 July 1900 sent a circular to the Great Powers which was more specific than the Open Door notes in stating the problem. American policy, he said, was:

to seek a solution which may bring about permanent safety and peace to China, preserve Chinese territorial and administrative entity, protect all rights guaranteed to friendly powers by treaty and international law, and safeguard for the world the principle of equal and impartial trade with all parts of the Chinese empire. 41

Once again the American diplomacy succeeded and Hay was able to obtain the consent of other powers to his proposal.

THE OPEN DOOR AND THE DOLLAR DIPLOMACY (1899-1919)

The Open Door doctrine, enunciated by Hay, underwent

41 Paul H. Clyde, United States Policy toward China: Diplomatic and Public Documents, 1839-1939 (Durham, 1940), pp. 215-16. Emphasis added.

various modifications from 1899 to 1913.⁴² While Hay had stood only for equal commercial opportunity, Elihu Root, Hay's succe-⁴³ sor, stood for investment opportunities in China. At first, American bankers were very much reluctant to risk their money in China. However, when after the Russo-Japanese war Japan began to acquire monopolistic control over the Manchurian rail- ways American commercial interest became concerned and their reluctance to invest in China began to disappear. Willard Straight, the dynamic U.S. consul general at Mukden (Manchuria) from 1906 to 1908, viewed with mounting apprehension the Japa- nese economic penetration into Manchuria and concluded that so long American dollars would not be pumped into capital hungry China United States' economic foothold in China would not endure⁴⁴ for long. Straight returned to the State Department in 1908 as Acting Chief of the Division of Far Eastern Affairs and during his one-year stay there he influenced the Taft Administration to adopt an investment policy for China which was known as⁴⁵ "dollar diplomacy". The first venture in this investment

42 For a detailed discussion see Raymond A. Esthus, "The Changing Concept of the Open Door, 1899-1910", Mississippi Valley Historical Review (not mentioned), vol. 46, pp. 435-54.

43 Ibid., p. 453.

44 Kenneth Scott Latourette, A Short History of the Far East (New York, 1951), pp. 447-48.

45 Dollar diplomacy had already been applied to Latin America. Now for the first time it was being applied to the Far East.

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programme was the Hukuang Railway project. It was also felt that loans should be extended to Chinese Government otherwise other nations might get political control over China by doing so in which case American commerce would be jeopardized. In 1910, the United States joined with France, Germany and England to form a consortium, which was also joined by Russia and Japan later on. The consortium extended a loan of £27,000,000 to China of which \$7,299,000 was furnished by American bankers.

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With the coming of the Wilson administration in 1913 American policy of loan to China was reversed. Woodrow Wilson like his Secretary of State William Jennings Bryan had an emotional bias against banking interests and thought that American loans encroached upon Chinese independence. As a result of this exit of the United States from the consortium the dollar diplomacy practically came to its end in 1913. At a time when China was facing a political chaos and an economic bankruptcy, America's unilateral recognition of Chinese Republic created the impression among other powers that the United States was posing herself to be the only friend of China and so they tightened their grips on their respective spheres of influence.

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- 46 Thomas A. Bailey, A Diplomatic History of the American People (New York, 1958), pp. 531-32.
- 47 Samuel Flagg Bemis, A Short History of American Foreign Policy and Diplomacy (New York, 1959), p. 361.
- 48 Richard W. Van Alstyne, American Diplomacy in Action (Stanford, California, 1947), p. 279.

Japanese economic penetration in China was speeded up and Wilson administration soon realized that if Japan's economic expansion was allowed to grow unabated the Open Door in China might be imperiled. He, therefore, decided to form another consortium to aid the Chinese government and thus check the growing Japanese influence.

While the international consortium was trying to keep the Chinese market open for all countries, Paul S. Reinsch, the U.S. Minister to China from 1913 to 1919, did no less a job to make the Open Door work in China. He had no intention to enter into a scramble for concessions. What he wanted was an economic atmosphere in China where American traders could carry on their business profitably. Visualizing a rejuvenated China to the advantage of American trade he wanted improvements in roadways, railways and other public facilities. "To Americans," Reinsch said, "the idea of securing of preeminence or predominance is foreign, but from the very nature of their purely economic interest they have to resist any attempt on the part of others to get any rights or a position of predominance, which could be utilized to restrict, or entirely distinguish, American

49 See Noel Pugach, "Making the Open Door Work: Paul S. Reinsch in China, 1913-1919", Pacific Historical Review, vol. 38, pp. 157-75. Also see Paul S. Reinsch, An American Diplomat in China (New York, 1922).

50 Charles A. Beard (with the collaboration of G.H.E. Smith), The Idea of National Interest: An Analytical Study in American Foreign Policy (Chicago, 1966), p. 186.

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opportunities." This was an excellent summary of American objectives in China.

THE TWENTIES: THE DECADE OF BOOM

The emergence of the United States from a debtor to a
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creditor nation after the First World War, combined with its massive industrial and economic progress, had a tremendous impact on the U.S. China trade. In the decade following the World War the United States trade with China reached an unprecedented
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height. In 1928 the United States entered into a treaty with China which granted the latter full rights with regard to her
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tariff. This Tariff Autonomy Treaty, which was first of its kind signed by China with a foreign country, had an extremely

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- 51 Reinsch, n. 49, p. 65.
- 52 The United States entered the First World War a debtor to foreign countries to the extent of \$3 billion, and emerged as a net creditor, exclusive of Allied debts, to the extent of \$6 billion. See Broadus Mitchel, Depression Decade: From New Era Through New Deal, 1929-1941 (New York, 1955), p. 6.
- 53 Between the years 1913 and 1928, American trade in China increased from Hk.Tls. 34,427,000 to Hk.Tls. 207,541,351. See Wang-Ai-Tsiang, "Foreign Trade Missions to China: A Chinese Reaction", China Weekly Review (Shanghai), vol. 55, 27 December 1930, p. 152. In 1928 1 Tael was equivalent to \$0.71. See William W.L. Wan, translated, The Rise of the New People's Democratic Economy, 1927-1937 (Honolulu, 1969), p. 4.
- 54 For the text of the Treaty see Papers Relating to the Foreign Relations of the United States: 1928 (Washington, 1943), vol. II, pp. 475-77.

favourable impact on China's relations with the United States.

In the post-First World War decade, Japan emerged as a great commercial power and forced Britain to yield the first position to it. It was the geographical proximity of Japan to China that gave her an additional advantage. Although during the same time the United States could not outpace Britain, yet it emerged as her strongest competitor.⁵⁵ The rapid expansion of US commerce with China is evident from the fact that before the First World War, America had only 22 commercial establishments in China where as by 1930 she had 108 such establishments. Of these 108 commercial establishments, some eighteen were founded during the war years and the rest during 1919-30.⁵⁶ During the same time the total ship tonnage of America almost trebled and its trade with China doubled.⁵⁷ In 1919 American ship tonnage to China was only 2,569,887 tons while in 1928 it rose to 6,364,102 tons.⁵⁸ In the beginning of the 1920's the trade was not mostly an one-way traffic and as such the balance of trade was not too

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- 55 Fang Fu-an, "China's Economic Relations with America", China Weekly Review, vol. 53, 26 July 1930, p. 311.
- 56 Y.H. Moh, "Analysis of Sino-American Economic Relations", China Weekly Review, vol. 73, 8 June 1935, p. 68.
- 57 Rose Leibbrand, "America's Economic Foothold in China", China Weekly Review, vol. 53, 16 August 1930, p. 415.
- 58 Ibid.

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much in favour of one country. In international trade if there is a well-balanced trade between the two countries it is economically beneficial for both the countries. America had certain things to import from and export to China and vice versa. China, for example, had soya beans, raw silk, skin, tea, cereals, raw cotton, metals, coal, silk piece goods, bristles etc. She owned over 80 per cent of the world output of antimony and largest deposits of minerals were in Chinese possession. America had, besides numerous finished goods and food stuffs, oil which China needed desperately for fuel, light and power. The barter

59 China Weekly Review, vol. 47, 15 December 1928, pp. 130-34 gives a detailed list of articles and their quantum exported to, and imported from China to America in 1928.

U.S. Exports to China

Cotton	87,000 bales
Flour	523,000 barrels
Douglas Fir	120,394,000 feet
Fuel Oil	710,000 barrels
Gasolene	129,000 "
Kerosene	2,992,000 "
Lubricating	274,000 "
Paraffin	36,000 lbs
Steel	6,378 % US
Copper	6,132,000 lbs
Dyes	11,330,000 "
Cigarettes	5,965,000 miles
Tobacco	81,627,000 lbs
Paper and products	1,254,000 "
Machinery	3,247,000 % US
Silver	68,826,000 ounces
Electric goods	1,519,000 % US
Autos and trucks	269,086 % US

U.S. Imports from China

Raw Silk	7,484,999 lbs
Waste Silk	3,439,000 "
Carpet wool	404,249,000 "
Goat Skins	5,745,000 pes.
Carpet	300,000 yds.
Wood Oil	79,264,000 lbs.
Bristles	1,939,000 "
Tea	5,185,000 "
Pea-nuts, shelled	41,144,000 "
Antimony	3,490,000 "
Egg products	4,512,000 "
Furs	14,380,000 % US
Silk Fabrics	2,407,000 yds.
Cotton	25,800,000 lbs

between China and America was very much evenly balanced. In 1919 the United States exported to China goods worth Haikwan Taels 100,236,706 while Chinese exports to America were worth Hk. Tls. 101,118,677.⁶⁰ But within a decade after the World War this even balance swung in America's favour. While American exports to China almost doubled, Chinese exports to America increased only nominally. American exports rose from Hk. Tls. 110,236,706 in 1919 to Hk. Tls. 205,541,351 in 1928 where as Chinese exports rose only from Hk. Tls. 101,118,677 in 1919 to Hk. Tls. 127,204,573 in 1928.⁶¹ Although the United States came third in rank among countries trading with China, Japan and Hongkong being the first and second respectively,⁶² yet she shared 18 per cent of the import trade and 17.1 per cent of the export trade of China.⁶³ In 1929 the total value of China's foreign trade was Hk. Tls. 2,297,008,000 of which were imports Hk. Tls.

60 Leibbrand, n. 55, p. 415.

61 Ibid. The total value of Sino-American trade in 1920 was Hk. Tls. 210.3 million. In 1930 it rose to Hk. Tls. 364.3 million. See Harold M. Vinacke, A History of the Far East in Modern Times, Fifth Edition (New York, 1950), p. 478.

62 Benson-Currie, "The China Market - A Survey", China Weekly Review, vol. 53, 23 August 1930, p. 152. Although Hongkong was the second largest exporter to China yet large portion of its credit went to Britain because Hongkong was a British settlement and the Britishers were the first foreign traders to develop commerce on a large scale in China. See Leibbrand, n. 55, p. 415.

63 Currie, n. 62, p. 152.

1,281,321,000 and exports Hk. Tls. 1,015,687,000.⁶⁴

It is significant to note that while American export to China was touching new heights, American investment in China was also increasing. In 1914 the amount of American property in China was only U.S.G. \$59,300,000. Within a decade and a half⁶⁵ it rose to U.S.G. \$239,900,000 in 1930. In 1928 of Chinese Government bonds and other securities American investors held approximately \$20,000,000 worth and of railway and similar bonds about \$18,000,000. About \$30,000,000 was invested in land, buildings and equipments by banks, trading concerns and others. Moreover, American industrialists and manufacturers had extended long-term credits to Chinese enterprises and the amount of these outstanding credits was another \$10,000,000. There was, therefore, a total of some \$70,000,000 of American money in business investments in China.⁶⁶ Besides, large amount of money was also invested for missionary and other philanthropic activities. In 1930 the total American investment in China stood at 239.9 million dollars,⁶⁷ 155.1 million of this was in industrial and commercial investment,⁶⁸ 41.7 million as Government loans and

64 Ibid. It gives total volume of trade as Hk. Tls. 1,297,008,000. It should be Hk. Tls. 2,297,008,000. In 1929 Hk. Tl. 1 was equivalent to \$0.64. See Wan, n. 53, p. 4.

65 Moh, n. 56, p. 68.

66 Fang Fu-an, n. 55, p. 311.

67 Moh, n. 56, p. 68.

68 The following is the list of both secured and unsecured loans to the Chinese Government:

43.1 million was invested for missionary and charitable purposes. 69

THE COMING OF THE DEPRESSION
AND ITS IMPACT ON CHINA TRADE

Sino-American commerce which witnessed a boom in the twenties got a rude shock during the economic depression. The decade commencing with the great depression was a period of transition in the history of the world when everywhere emphasis was shifting from politics to economics. ⁷⁰ This was illustrated by the fact that while in 1929 President Herbert Hoover's State of the Union Message to the Congress had begun with a reference to foreign policy, in 1930 it ignored such significant development

	U.S. Gold (\$)
Hukuang Rly. Loan	7,994,165
Continental and Commercial Trust and Savings Bank of Chicago Loan	9,130,000
Pacific Development Corporation Loan	9,969,666
Grand Canal Loan	1,656,000
Other Unsecured Loans	146,590
Private Loans from American Commercial firms	11,814,922
Chinese Government Bonds subscribed by American interests (estimate)	1,000,000

Total: U.S. Gold \$	41,711,346

69 Ibid. Far Eastern Review, January 1930, gives another estimate. "There are several estimates of American investments in China. Prof. Remer places the missionary investment at \$50,000,000 with an annual expenditure for upkeep of \$10,000,000 including the Rockefeller Institute." Quoted in Fang Fu-an, n. 53, p. 311.

70 Robert H. Ferrel, American Diplomacy in the Great Depression: Hoover-Stimson Foreign Policy, 1929-1933 (New Haven, 1957), p. 2.

in international politics as the signing of the Kellogg-Briand pact and plunged into an analysis of the economic situation then confronting the United States in particular and the world as a whole.⁷¹ The depression made it quite apparent that human civilization might collapse not from war, a political event, but from the calamitous impact of an economic crisis.

The depression which began with the great crash of November 1929 in the Wall Street Stock Exchange⁷² lasted for about ten years with varied degree of intensity.⁷³ Knowing no geographical bounds it soon gripped an already delicately balanced international economic order. The United States China trade which was a part of the international economic system was deeply affected by the depression. While in the United States the severity of the crisis was indicated by the fact that throughout the nineteen thirties its Gross National Product did not touch the level of 1929 except for a momentary rise in 1937,⁷⁴ China was no less a sufferer. In China internal political troubles and

71 Ibid., pp. 2-3.

72 For a graphic description of the wall street crash see John Kenneth Galbraith, The Great Crash: 1929 (London, 1955), pp. 86-102; Mitchel, n. 50, pp. 28-30.

73 Galbraith, n. 72, p. 152. Intensity of the depression, however, began to decline after Franklin D. Roosevelt came to the White House and Adolf Hitler to the Reichschancery in Berlin in 1933. See Goronwy Rees, The Great Slump: Capitalism in Crisis, 1929-33 (London, 1970), p. 280.

74 Galbraith, n. 72, p. 152. For a clear picture of the State of American national production see Murray N. Rothbard, America's Great Depression (Princeton, New Jersey, 1963), pp. 296-304.

the calamity of the worst floods in her recorded history were further complicated by the sharp decline in the price of silver in world market caused by a sudden over supply of the metal.⁷⁵ Consequently, the Chinese currency, which was based on silver, immensely lost its purchasing power in relation to the US gold dollar. American manufactures became too costly for the Chinese to buy. The U.S. China trade, which had attained an unprecedented height during the 1920s began, therefore, to decline.⁷⁶ The decline itself was so fast that for a time it seemed as though the China market was beyond recovery and the United States had lost it for good.⁷⁷ For the United States China was a lucrative

75 Rees, n. 73, p. 121. The fall in the price of silver also contributed to world-wide depression.

76 United States trade with China (Five Year Averages; in millions of dollars, and as percent of total Imports and Exports):

	Value		Percent	
	Imports	Exports	Imports	Exports
1910-14	38.5	31.4	2.3	1.4
1921-25	160.7	128.7	4.7	2.9
1926-30	155.9	134.6	3.9	2.8
1931-35	55.5	75.6	3.2	3.7

See Miriam S. Farley, "America's Stake in the Far East, I, Trade", Far Eastern Survey (New York), vol. V, 29 July 1936, p. 168.

77 Similar view was expressed in the Senate on 10 December 1931 by Senator Key Pittman of Nevada who happened to be the chairman of a sub-committee of the Foreign Relations Committee of the United States Senate, appointed to enquire into the causes of decline in the Sino-American trade. See Congressional Record, vol. 75, p. 290.

market and so American industrialists, investors and politicians could not afford to let it slip out of their hands without making an effort for its restoration. Concern began to be expressed by the American Congress as well as by the executive and suggestions and counter-suggestions were made with a view to regaining the initiative.

CHAPTER II

THE DECLINE OF SILVER AND THE SINO-AMERICAN TRADE,
1929-1934: PROBLEMS AND PROGNOSIS

Chapter II

THE DECLINE OF SILVER AND THE CHINA TRADE, 1929-1934: PROBLEMS AND PROG- NOSIS

The period commencing with the depression in 1929 and extending up to the signing of the Silver Purchase Act of 1934 in the United States, constitutes an important period in the history of Sino-American economic relations. During this period the China-bound exports of the United States, which had touched new heights during the 1920s, faced a rapid and systematic decline. Although for the United States the China trade formed a minute fraction of its total export trade, yet, since in absolute terms it was sizable, the American industrialists, bankers and others interested in China trade, as well as the Government, could not afford to ignore it. The decline in the China trade was largely due to a catastrophic fall in the price of silver in world market. Silver formed the base for the Chinese dollar and therefore a rapid fall in its price affected United States trade with China. Moreover, the low silver price also affected American silver industry which was centred in seven north-western states. Therefore, the issue of China trade far from remaining a matter of concern merely for American foreign commerce became a subject of general concern in American politics.

A PERIOD OF SYSTEMATIC DECLINE 1929-1934

The world-wide economic depression of 1929-33 cast its lengthening shadow on Sino-American economic relations. The

American foreign trade experienced a significant decline during this period. According to O.K. Davis, Secretary of the National Foreign Trade Council American exports and imports saw a decline a 26 per cent and 31 per cent respectively in 1930. According to another statistics, presented by Senator Key Pittman (Dem., Nev.), which was based on a report of the Department of Commerce the decrease in the American exports was 12.1 per cent in 1929-¹30 which by 1 July 1931 rose to 51.4 per cent. Although the statistical estimates differed, the gravity of the decline was admitted by all concerned. This decline in American foreign trade was particularly bad in the case of China. From 1929 American exports to China had begun to fall and by 1930 the fall² became sizable. The following statistics will prove it:

United States Trade with the Whole of China for
the first eleven months of 1928, 1929 and 1930

	1928	1929	1930
	(¥)	(¥)	(¥)
Export to China	150,466,000	142,326,000	103,755,000
Percentage of increase or decrease	+ 5	- 5.4	- 27
Imports from China	146,708,000	169,442,000	108,547,000

1 See New York Times, 1 January 1931, p. 44; Congressional Record, vol. 75, p. 286.

2 See Commercial Relations with China (Report No. 1600), Congressional Record, vol. 74, p. 4868.

Percentage of
increase or
decrease

- 7

+ 15.5

- 33

3

(all 1930 statistics subject to correction).

The steady decline in the Sino-American trade can be more clearly understood if monthly trade statistics are taken into consideration. The Department of Commerce supplied the following figures of United States trade with China for eleven months of 1929 and 1930.⁴

	Exports		Imports	
	1929	1930	1929	1930
Jan.	\$14,749,000	\$13,200,000	\$15,767,000	\$12,188,000
Feb.	13,629,000	9,629,000	14,128,000	9,773,000
Mar.	13,426,000	9,270,000	15,642,000	12,723,000
Apr.	13,447,000	10,955,000	15,758,000	13,118,000
May	11,463,000	7,209,000	21,121,000	12,106,000
June	11,925,000	8,455,000	16,674,000	10,102,000
July	10,579,000	7,812,000	18,859,000	10,300,000
Aug.	14,049,000	7,352,000	16,049,000	9,720,000
Sept.	12,547,000	7,670,000	11,446,000	7,250,000

3 New York Times, 9 January 1931, gave different statistics. According to it in 1929 American exports to China amounted to \$114,436,572 and import from China was worth \$153,884,413. In 1930 it decreased to \$82,156,962 and \$97,247,494 respectively.

4 Congressional Record, vol. 74, p. 4868.

Oct.	15,250,000	12,613,000	14,034,000	5,962,000
Nov.	11,262,000	10,010,000	9,964,000	5,315,000

The decline in the American export to China continued in the following years. In 1931, the total amount of U.S. export to China came down to \$97,923,000. In the years 1932, 1933 and 1934, it fell further to \$56,171,000, \$51,942,000 and \$68,667,000 respectively.⁵ The China trade of the United States which had reached quite a sizable proportion in 1928 thus came down to a low point only within a few years.

CAUSES OF THE DECLINE

The sudden and enormous fall in the Sino-American trade cannot be wholly attributed to one single factor. There were various forces which collectively brought about a tremendous decline in the U.S. China trade in the fall of the 1930s. Julius Klein, Assistant Secretary of Commerce, in a statement before the sub-committee of the Foreign Relations Committee of the Senate under the chairmanship of Senator Pittman, which was appointed to look into the causes of the decline in the Sino-⁶American trade said in June 1930:

In explanation of the considerable loss in both our import and export trade with China three

5 Ethel B. Dietrich, Far Eastern Trade of the United States (New York, 1940), p. 105.

6 Congressional Record, vol. 72, p. 7930.

principal factors may be emphasized: (1) The renewal of extensive and energetic military activities in north central China and the Yangtze Valley throughout the first half of 1930; (2) the lower prices obtaining in world markets for many commodities, and particularly those which figure most important in China's exports; and (3) the low price of silver. These three factors, as well as minor contributing ones, all blend into the one general cause for the reduction in China's trade, i.e. the reduction in China's purchasing power brought about by them. 7

To these factors, enumerated by Klein, one may add such factors as the Manchurian crisis, the industrial development of China, sporadic floods and famines, etc. But of all these causes, the depreciation in the value of silver seems to have contributed most to the decline in the Sino-American trade. To be sure, floods, famines and military activities had affected the Chinese economy, though not to a great extent. Senator Pittman who visited China in connection with the investigation into the causes of decline in Sino-American trade, and stayed there for six weeks said:

7 Ibid., vol. 74, p. 4707.

8 Werner Levi, Modern China's Foreign Policy (Minneapolis, 1953), p. 196.

9 It is to be noted here that one of the basic reasons of American economic depression was the reduction in the purchasing power of different countries. While in the case of European countries this was due to the complicated inter-allied debt system and reparations in the case of China this was due to the fall in the price of silver.

I was astonished to find that the great cities along the coast of China were enjoying extra-ordinary prosperity. The so-called banditry wars were in remote provinces involving an area small indeed by comparison with China, which in area is almost as large as the United States and Mexico combined. I heard nothing of poverty or unemployment in these large cities. 10

The Japanese invasion of Manchuria in September 1931¹¹ and the setting up of a puppet rule there had cut the American export to China as it formed a sizable part of the Chinese mainland. The value of American export to Manchuria which had stood at \$14,600,000 in 1929 fell to an average of \$7,710,000¹² in 1932-36. This decline was far greater than that with China proper. Moreover, the establishment of state monopoly in Manchuria resulted in the elimination of the American business concerns from there.¹³ Trade statistics for the years 1932-33 gave the misleading impression that American exports to Manchuria increased in 1933. Indeed the total American export to Manchuria during the first six months of 1933 amounted to 16,000,000 yen as compared to 8,000,000 yen for the whole of 1932¹⁴

10 Congressional Record, vol. 75, p. 290.

11 For the antecedents of the Japanese invasion of Manchuria see T.A. Bisson, America's Far Eastern Policy (New York, 1945), pp. 26-31.

12 T.A. Bisson, American Policy in the Far East, 1931-1940 (New York, 1940), p. 96.

13 Ibid.

14 China Weekly Review, vol. 67, 24 February 1934, p. 491.

but this increase was due to a fall in the value of yen.¹⁵ It should be noted here that whatever might have been the extent of decline in America's China trade on account of the severance of Manchuria from China, the loss of Manchuria was more political¹⁶ than an economic problem.

Moreover, the industrial growth of China which was a matter of concern for American foreign commerce and reduced American trade was also not a factor of great significance. If the industrial expansion of China had lowered the price of many manufactured imports it had at the same time considerably increased the demand for many raw products. This had encouraged American and other foreign exporters to establish branch factories in China to compete with the native industries. By 1932 the number of such factories had greatly increased. The American Consulate General at Shanghai on 4 October 1932 reported as follows:

Spindles, in 1915, 1,008,986; in 1932 about 4,900,000. Looms, in 1915 amounted to 4,564 and in 1932 to 44,000. Cotton mills in China in 1913 numbered 31, and in 1932, 127. In 1925,

15 In August 1931 one American dollar was equal to 2 Japanese yen. In December 1932 one American dollar was equal to approximately 4.9 Japanese yen. See Arthur Salter, China and the Depression: Impressions of a Three Months Visit (not mentioned, 1934), pp. 14, 15.

16 Speaking about the "rape of Manchuria" President Herbert Hoover had said, "These Acts do not imperil the freedom of the American people, the economic or moral future of our people". See Ray Lyman Wilbur and Arthur Mastick Hyde, The Hoover Policies (New York, 1937), p. 601. Emphasis added. See also Miriam S. Farley, "America's Stake in the Far East, I, Trade", Far Eastern Survey (New York), vol. 5, 29 July 1936, p. 163.

there were 719,000,000 pounds of cotton yarn and 120,000,000 yards of cotton cloth produced, which by 1932 had risen to 960,000,000 pounds of cotton yarn and 810,000,000 yards of cloth. 17

Moreover, if the industrial expansion of China was causing concern to American exports at all that was due to the fall in the price of silver. It not only had raised the price of foreign goods and thereby had encouraged native industries to grow but also had caused a tremendous flow of gold into China to purchase cheap silver money with which to cultivate products which the Chinese once bought in the United States and to build factories to manufacture those things which they once had purchased from America.¹⁸

The fall in the price of silver had contributed to a great extent to the decline of Sino-American trade in the nineteen-thirties. The great depreciation in the value of silver reduced the purchasing power of Chinese money and completely upset the international exchange rate between the American dollar and the Chinese currency.¹⁹ Dollar became too precious in terms of the Chinese money and consequently American goods became too costly for the Chinese to purchase. The Pittman Committee which submitted its findings before the Senate Foreign

17 Congressional Record, vol. 77, p. 118.

18 Ibid., vol. 76, p. 554.

19 In 1932 silver had only 61.6 per cent of its 1910-14 purchasing power. See A.B. Lewis, "Silver and Chinese Economic Problems", Pacific Affairs (Camden, New Jersey), vol. 8, no. 1, p. 48.

Relations Committee in February 1931, expressed its feelings that

the chief cause for the abnormal and sudden decrease in our commerce with China during the latter part of 1929 and 1930 was the sudden great and unprecedented fall in the price of silver. Silver is the only money in China and it is the sole measure of the wealth and purchasing power of its people. From July 1929, to date, the price of silver dropped one half. ²⁰

The pre-war price of silver, say in 1913, was 60 cents an ounce. This was the average price for many years. But this annual average price of silver began to decline in 1926. In that year it was 58 cents an ounce. The decline in the price continued throughout 1927 and 1928 when the average price of silver quoted was 57½ and 57 cents respectively. But still its fall was not that spectacular as to tremendously affect the international trade. The real decline was noticed only in 1929 when the price of silver fell to 46 cents an ounce and within a year it became half the pre-war price. The price of silver quoted on 11 February 1931 was 26.5 cents per ounce. ²¹

This steep fall in the price of silver had a damaging effect on Chinese commerce as regards her relations with those countries which had currencies backed by gold. In 1928 China used to exchange two of her silver dollars for one American gold dollar with which to purchase American products. By 1931 due to the fall in silver price, she had to exchange four of her

20 Congressional Record, vol. 74, p. 4701.

21 Ibid.

silver dollars for one American dollar. Consequently her purchasing power in international market had become virtually half.

The fall in silver price not only reduced the purchasing power of Chinese money and thereby affected China's import trade but also contributed to its economic collapse in another way. The disrupted exchange added to the difficulty of the customs tariff of China. The customs duties were originally based upon silver. The revenue earned out of it were mostly allocated to the payment of foreign service debts. In view of the low exchange rate of silver money these revenues became sufficiently inadequate to meet the requirements of foreign debt service. In January 1930, it was stated that the immediate loss to the Chinese government on account of the decline of silver was over silver $\text{¥}10,000,000$ ²². The Chinese Government, therefore, placed the tariff duties on a gold unit basis so as to keep up the original earnings acquired from the tariff duties in relation to gold dollar. For example, if duty was 40 cents on a particular article, the importer would be asked to pay silver in an amount that would exchange for 40 cents gold. Thus according to the then prevailing exchange rate he was supposed to pay $\text{¥}1.80$ in Chinese silver money. As a result of this process the tariff for the Chinese importer was increased four and a half times. Thus on the one hand the depreciated silver reduced the purchasing power of the Chinese money and on the other hand the revised

22 Herbert M. Bratter, "The Price of Silver"; *ibid.*, vol. 72, p. 8615.

rate of China tariff, a by-product of the fall in silver price, discouraged imports into China still more.

The disrupted exchange rate not only had a depressing impact on the Chinese but had some beneficial effects too. The high price of foreign goods, partly caused by low exchange rate of Chinese currency and partly by imposition of high tariff duty in China, tended to boost Chinese industrialization. The Americans feared that if this unfavourable international monetary exchange situation were to continue, it could hasten the Chinese industrialization to the detriment of America's China trade. Not only would the Chinese market be closed to America, but China herself would emerge as a potential competitor to America in the international market. This was because China had two basic ad-²³vantages: cheap labour and plentiful reserves of raw materials.²⁴

23 Ibid., vol. 75, p. 290; see also vol. 77, p. 118.

24 Similar views were also expressed in Britain. Sir Hugo Cunliffe-Owen wrote in the Financial Times (London), 23 September 1931:

"What, then, are the causes of our economic and financial troubles? Put very briefly, they are the appreciation of gold in gold-standard countries and the depreciation of silver in silver standard countries....

"Not only has the fall in silver impaired the power of the East to buy our goods but it has enabled--indeed, forced them to sell their manufactured products in competition with our own, at prices so low as to oust our goods from important neutral markets. Self-interest alone, leaving aside altogether any question of equity or humanitarianism, demands that the West should realize its responsibility and that the more powerful gold-standard countries should regard it as their inseparable duty to insure at least the maintenance of a minimum price of silver. Action along this line would directly

To meet this competition, American labour costs would be forced to the level of labour costs in China.

Whatever might be the effect of depreciated silver on the Chinese economy, it certainly was detrimental to American foreign commerce in two ways. In the short run it affected the American export to China and in the long run it threw up the possibility of China's emergence as an industrial nation to the detriment of American foreign commerce.

The Pittman committee came to the conclusion that it was the depreciated silver that was directly responsible for the slump in Sino-American trade.²⁵ In the years 1918-20 when the price of silver was \$1.34 an ounce, American export trade to China flourished.²⁶ But towards the close of the 1920s, when the silver price in the world market began to fall rapidly, American exports also dwindled. Julius Klein, the Assistant Secretary of Commerce, who for many years had directed the Department of Foreign and Domestic commerce and who was an authority on international trade, said that one of the reasons for the fall in U.S.

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assist in restoring prosperity, not only to silver using countries like China and India but also to silver producing countries like Mexico, whose capacity for buying other products has been seriously depleted. The immediate result would be a marked revival in the trade of the gold standard world".
See *ibid.*, vol. 77, p. 118.

25 For the Report of the Sub-Committee see *ibid.*, vol. 74, pp. 4700-4704.

26 *Ibid.*, vol. 75, p. 292.

export trade with China was the low price of silver. He said: "China cannot buy as much goods from abroad for 36 cents as it could for 64 cents." The normal price of silver which was 36 cents per ounce in 1930 had remained around 64 cents for past ²⁷ eight years.

China had nothing but silver money. In China that kind of money used to pass at par as American silver dollars passed at par in America. Whatever was the price of silver the Chinese would get the same amount of money for their labour, the same amount of money for their rice or other products. But when they had to import something from the United States they would have to pay in their money depending upon exchange rates. ²⁸ As the value of silver declined four-five times so the value of an export product from America increased four-five times. For example, under this changed exchange rate the Chinese, instead of paying \$20 a thousand for lumber, were paying \$90 a thousand; instead of paying \$600 for an automobile, were paying \$2,700 in ²⁹ their money. Of course by this the American exporters did not get any more profit but the Chinese importers had to pay many times more. If we see the volume of American exports to China after silver price began to fall we can very well visualize its

27 Ibid., vol. 74, p. 46.

28 Ibid., vol. 77, p. 117.

29 Ibid., vol. 75, p. 286.

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serious impact on America's China trade. It is significant to note here that the sudden rise in price of silver in November 1931 from 25 cents an ounce to 36 cents an ounce caused an increase in trade with the countries using silver as money. About this incident the China Monthly Trade Report for December 1931, issued by the Department of Commerce of the United States, stated:

The rapid rise in the price of silver during the earlier part of November brought the price in American raw cotton in local currency to still lower levels than it was previously and resulted in large sales in American staple. Arrivals during the month are estimated to be larger than any previous month, and importers state that December arrivals will be still greater. Many Chinese mills are reported to have purchased or contracted stocks sufficient to last them for many months in the future. In certain industries it is believed that stocks sufficient for 2 years' operation have been contacted. 31

The decline in silver price which had helped Chinese industrial growth brought great changes in the nature of American exports to China. Though there was a sizable cut in America's overall export trade with China, this cut was particularly severe in finished products. So far as raw materials were concerned their percentage in the exports considerably decreased. In 1928, 30.5 per cent of the American exports to China consisted

30 From 1928 as the silver price went on declining American exports to China also continued to fall. In 1928, American export to China was worth \$150,466,000. In 1929 it fell to \$142,326,000, 504 per cent fall. In 1930 it still fell further by 27 per cent and this year the export amounted to \$103,755,000. See *ibid.*, vol. 74, p. 4868.

31 *Ibid.*, vol. 77, p. 123.

of crude materials, 10.1 per cent consisted of food stuffs, 12.1 per cent consisted of semi-manufactured goods. In 1931, 49 per cent of the exports consisted of crude materials, 13.9 per cent consisted of food stuffs, 10.7 per cent of semi-manufactured goods, and 26.4 per cent of finished manufactured goods. The imports of China from the United States of raw materials actually increased while those of finished goods were approximately cut in half.³² In 1898 China purchased 170,000 bales of cotton from the United States and in 1931 this number had increased to 880,000.³³

This change in the nature of American export to China was significant. It showed that Chinese industrial growth was on the move. Had this industrial growth, which had already been crippling American sales to China, continued for a long time, it would have not only supplied ~~the~~ China with all her requirements but constituted "the most destructive competition for the rest of the world that the world has ever known."³⁴ The United States with its high labour cost in comparison to China, would have been put in a difficult position in international market.

The American industrialists were not only concerned with

32 Similar was the case with all the gold using countries. In their case "the decline of total imports from 1928 to 1931 was 45 per cent. The decline in raw products and foodstuffs, however, was only 12 per cent, while the decline in semi-manufactured and manufactured articles was 55 per cent." See *ibid.*, vol. 77, p. 118.

33 *Ibid.*

34 *Ibid.*

the dwindling American export trade and the growing industrialization of China resulting from depreciated silver but they were also worried about the credit system. The uncertainty of the exchange rate for silver made credit transactions practically impossible. American exporters insisted that all business with China must be done on a cash basis. This destruction of the credit affected the Sino-American trade.

Not only did the fall in the price of silver affect U.S. China trade but it also had an impact on the trade of many other gold-using countries which in turn had an indirect bearing on American commerce. The Wall Street Journal in a survey of trade conditions in 1930 stated that American trade with China, which was of the order of \$300,000,000 a year, was affected. It further observed that American cotton supply to Great Britain had also suffered a decline as the demand for British finished cotton products had fallen in the Chinese market on account of the same reason of depreciation of the Chinese currency. This can be best illustrated by the fact that in 1928 Great Britain sold 153,399,100 square yards of cotton piece goods to China. In 1931 this export fell to 41,553,400 square yards, less than one-third of her sales in 1928. In 1928 England purchased 1,997,000 bales of cotton from the United States, a reduction of more than 50 per cent. In 1928, 37.9 per cent of the exports from the

35 Ibid., vol. 74, p. 46; see also p. 470.

36 Ibid., p. 4707.

37 Ibid., vol. 77, p. 118.

United States to Europe consisted of crude materials, in 1931³⁸ it had come down to 25.5 per cent.

It would appear that as American foreign trade constituted only 10 per cent of the total American trade, the remainder being domestic trade, the silver issue only affected a fraction of American trade. But this was not the case. There is close relationship between domestic and foreign commerce. The disrupted exchange not only affected the American foreign commerce but also domestic commerce which fell by 40 per cent. During this period the steel plants were operating at only 30 per cent of their capacity and the conditions in other industries was not far different. This no doubt was partly due to the loss of demand in foreign market but loss of demand in domestic market also contributed to it significantly.³⁹ To take an example, cotton was America's greatest export product, When its value was reduced by one-half due to a decline in the purchasing power of those people who were the greatest consumers of cotton cloths, for example China, then the purchasing power of Americans engaged in the cotton farming and textile industry was also reduced by one-half.⁴⁰

REASONS FOR THE FALL IN THE PRICE OF SILVER

Here we would like to examine the reasons for this dramatic

38 Ibid.

39 Ibid., vol. 75, p. 256.

40 Ibid., vol. 74, p. 4702.

fall in the price of silver in the closing years of the 1920s. It was generally believed that this was due to an over production of silver which greatly increased the supply of silver in the world market and as a result its price depreciated. This belief had no foundation in fact. Though there was a slight increase in the normal production of silver in the 1920s it was not so much as to affect its price drastically. The following table showing world production of silver in the 1920s will make this point clear.

<u>Year</u>	<u>Ounces</u>
1921	171,580,712
1922	209,828,662
1923	246,275,858
1924	239,680,209
1925	245,280,193
1926	253,806,386
1927	251,396,555 (41)
1928	254,869,163
1929	261,265,718
1930 (approx.)	225,000,000 (42)

It would be thus evident that there was no over-production of silver in the 1920s which might have lowered the price of silver. Not only there was no over-production of silver but on the contrary in 1930 during each month of the year, when the price of silver was very low, there was a substantial reduction in the production. It was at least 15 per cent below the production

41 Ibid., vol. 74, p. 46.

42 Ibid., vol. 74, p. 4702.

43 $37 \frac{7}{8}$ an ounce, see *ibid.*

⁴⁴
of 1929.

Moreover, if there was an over-production of silver at all, it could have hardly affected the value of silver in relation to gold. Silver as a metal is a by-product of gold, copper, lead and zinc. So silver production varies with the production of these metals. The production of silver, or so to say its value in relation to other metals, therefore, is automatically controlled and regulated by the production of gold, copper, lead and zinc. Had silver production really increased in the 1920s, it must have also caused an increase in gold production too and thus would have retained the ratio between gold and silver at par ⁴⁵ as before.

Although there was no over-production of silver in the 1920s there was certainly an over-supply of silver in the international market. This over-supply commenced in 1927 and extended through 1928 to 1930. How did this over-supply of silver come about? There were two reasons: (1) the debasement of silver coins or, in other words, the reduction of the amount of silver in silver coins, and the selling of the surplus silver so derived and (2) the melting up of silver coins in India and the sale of such ⁴⁶ silver as bullion in the world market.

The British Government of India by the India Act of 1926

44 Ibid., vol. 74, p. 46.

45 Ibid., vol. 74, p. 4702.

46 Ibid.

adopted the gold standard for India thereby replacing the silver standard.⁴⁷ The implementation of this policy contemplated the acquisition of approximately 300,000,000 dollars in gold through the melting up of silver rupee coins and the sale of the bullion derived therefrom in the world market. This sale of silver commenced in 1927. During 1927 and 1928 the British Indian Government sold 31,700,000 ounces of silver in 1929,⁴⁸ 25,000,000, and in 1930, 29,500,000 ounces. According to the well known Bombay journal Cotton and Finance of January 1931, in December 1930, the British Indian Government sold 2,938,000 ounces of silver, at a time when silver was only 37-7/8 cents⁴⁹ an ounce. This huge dumping of silver on the world market by the Indian government caused a sudden over supply of silver resulting in a considerable fall in its price.

The situation was further aggravated by the behaviour of the silver speculators, particularly those of China. They could very well anticipate the effects of the dumping policy of India on the price of silver and as such there was a panic among them to sell off their silver reserves. They knew that with an available 400,000,000 ounces of silver, which India could and

47 For why India switched over from silver standard to gold standard see T.B. Desai, Economic History of India Under the British (Bombay, 1968), pp. 180-89. Also see Vera Anstey, The Economic Development of India (New York, 1949), pp. 419-32.

48 Congressional Record, vol. 74, p. 4702.

49 Ibid.

apparently intended to dump under the India Act of 1926, there was no gain in preserving silver. This feeling of the silver speculators all over the world contributed to a further unloading⁵⁰ of the stock of silver in the world market.

SUGGESTED REMEDIES FOR ALLEVIATION
OF THE PROBLEM

The quite sizable cut in the American exports to China naturally caused concern in the American industrial and business circles and various proposals were made to deal with the problem. One thing was generally accepted that the purchasing power of China must be increased to enable her to buy American products. Senator Pittman who visited China in 1931 in his capacity as the Chairman of a Sub-committee of the Senate Foreign Relations Committee, appointed to enquire into the decline in the Sino-American trade, said that as the per capita trade of China in 1925 was above \$4.30 a slight increase of \$1 per capita would mean an increase of \$450,000,000 to American trade because Chinese population was at that time estimated roughly at 450,000,000. Therefore, a slight improvement in the purchasing capacity of China was likely to have a very favourable effect⁵¹ on American foreign commerce. Although the depreciation in the price of silver had affected America's China trade in general, yet two classes of American industrialists and businessmen were

50 Ibid.

51 China Weekly Review, vol. 57, 13 June 1931, p. 53.

particularly the worst sufferers. In the first category were those merchants and industrialists whose goods and products were in maximum demand in China, such as exporters of cotton products, automobile manufacturers and wheat growers who used to export surplus wheat to China. In the second category came those whose interests were directly affected by the decline in the price of silver. They were the silver producers of the western mountain states of the United States such as Montana, Idaho, Nevada, Utah, Arizona, Colorado and New Mexico. In 1930, these states produced 19 per cent of the world's silver. Normal domestic consumption in the United States was about two-thirds of the total domestic production.⁵² When the price of silver fell in the world market these silver interests suffered loss. The silver using countries, of which China was the greatest consumer of American silver, now began to pay less for their silver purchase from the United States. In 1928 the total Chinese import of silver amounted to 136,700,000 ounces.⁵³ In the same year American production of silver was 58,400,000 ounces and American exports and re-exports of silver to China amounted to \$58,100,000.⁵⁴

To boost up the declining China trade several remedies were suggested. In the first place it was proposed that since

52 Walter Lippmann (in collaboration with William O. Scroggs), The United States in World Affairs: An Account of American Foreign Relations, 1931 (New York, 1932), p. 26.

53 Bratter, n. 22, p. 8613.

54 Ibid.

the decline was caused primarily by the dumping policy of the British Indian administration, the latter should be advised to abandon such a policy.⁵⁵ If this was done it would reduce the abnormal supply of silver in the world market and automatically raise the price of silver and stabilize it. This was to be followed by a gigantic aid to the Chinese government by such countries as the U.S.A., Great Britain, France, Japan and others, which had enjoyed great commercial benefits in China, to help stabilize the Chinese currency.⁵⁶ This could also be done by the provision of a silver fund for China by the interested governments. When needed, money could be advanced from this fund subject to the approval of a commission of the powers participating in such a fund.⁵⁷ The United States had in its Treasury between 400,000,000 and 500,000,000 silver dollars which constituted a dead asset earning no interest.⁵⁸ This huge treasure of silver could be used to meet the emergency. This treasure if lent to China could increase her purchasing power and thereby increase the American trade there. It was, however, argued that it was unreasonable to think that only the United States should shoulder the entire responsibility. The responsibility had to be shared by other interested nations.⁵⁹ The Pittman sub-committee

55 Ibid., vol. 74, p. 47.

56 Ibid.

57 Ibid.

58 Ibid.

59 Ibid.

suggested the ways in which financial aid could be given to China. To lend China some two or three million ounces of silver was fraught with grave risk because China was at that time passing through a chaotic political situation and at any moment there could be a change of government. As such the Pittman sub-committee suggested that a silver fund or pool might be established, that might make an advance to China from time to time, and in this pool all interested nations could participate. The director or directors of the pool would be in touch with the Government of China to carry out the project properly. Advances would only be made after the Government of China would have clearly indicated as to how the advance was to be utilised and how it was to be repaid. The sub-committee in order to avoid difficulty of establishing a price at which such silver should be lent suggested that advances were to be measured in ounces of silver and not in dollars. It was to be only a loan of commodity to be returned in kind.⁶⁰ It may be noted here that the report of the British Economic Mission to the Far East for 1930-31 which consisted of Sir Ernest Thompson, J.P., as Chairman and a group of distinguished economists and financiers of Great Britain, made a similar suggestion built around the idea⁶¹ of multinational responsibility for helping China. On 22 September 1931, the China Association of Great Britain, under the chairmanship of Sir Robert Horne, former Chancellor of the

60 Ibid., vol. 74, p. 4704.

61 Ibid., vol. 75, p. 292.

Exchequer, adopted the following resolution:

That this meeting states its conviction that the raising of the price of silver and its restoration to a place in the world's monetary system offers the quickest and most effective remedy to the present disastrous fall in prices, and expresses the hope that the governments principally concerned will at the earliest possible moment confer with this object in view. 62

Apart from these it was also suggested that sufficient financial assistance should be given to China so that she could improve her communication system, build new roads etc. which would accelerate her economic development. China was a vast country as large as the United States and Mexico combined and a population of about 450,000,000. If they were given, it was suggested by the sub-committee, employment and prosperity they would provide America with a lucrative market for years to come.⁶³ War in China must be replaced by work. Through lack of work people of China were compelled to fight in the armies for food. Therefore, it was argued, all nations interested in the Chinese market must come to China's aid. Similar feelings were also expressed by Canadian Minister for Trade and Commerce, H.H. Stevens. In his discussion with British and American financiers he emphasized that there would not be economic stability in the world if China with nearly one-third of the world population was allowed to remain in a chaotic condition. He further suggested

62 Ibid., vol. 77, p. 118.

63 Ibid., vol. 74, p. 4704.

that her economy could be revived by huge assistance from other countries like United States, Canada, Great Britain etc. An-⁶⁴ other thing which China needed most was transportation. China had only seven or eight thousand miles of roads where automobiles could safely be driven and some seven thousand five hundred miles of railroads, which was less than those in any small state of the United States.⁶⁵ If American assistance helped to build the road system that would have on one hand facilitated the recovery of China's internal economy and on the other hand would have boosted the sale of American automobiles. During the concluding years of the 1920s United States sold to China 80 per cent of the automobiles that she used. With the inauguration of the proposed road system there would be thousands of miles of roads added to the existing system which would greatly increase the demand of automobiles from foreign countries in which America had already had a lion's share.⁶⁶

THE PROPOSALS OF THE SILVERITES

Apart from the suggestions discussed above the most effective proposal to boost up China trade came from the silver bloc in the American Congress. The fall in the price of silver had badly affected the silver mining industries of the western

64 New York Times, 11 January 1931, part III, p. 8.

65 Congressional Record, vol. 74, p. 4704.

66 Ibid.

mountain states of America. So the Representatives and the Senators coming from these states formed an important interest group in the Congress and became instrumental in influencing the administration to take such steps which would apparently boost up the price of silver and thereby increase China's purchasing power to the benefit of America's China trade but would in fact directly benefit American silver producers. The leader of this silver bloc was Senator Key Pittman of Nevada.⁶⁷

The history of the silver bloc goes back to the days of mining adventures in the west nearly a century ago. It had always pressed the American administrations to cheapen the American money by increasingly using silver as the basis of monetary system. After 1873, when silver was completely discarded and gold became the only monetary base, the silver bloc very strongly supported the Populists who stood for easy money. The main plank of the Populists was "Free Silver" which the Democratic Party's Presidential nominee in 1896 William Jennings Bryan took

67 It can be noted here that it was Senator Key Pittman who brought the silver problem to the notice of the Senate. He persuaded the Senate Foreign Relations Committee to appoint a special sub-committee to look into the causes of decline in the Sino-American trade. When such a sub-committee was appointed it came to be headed by Pittman himself. See Lippmann, n. 130, p. 27. See also William E. Leuchtenburg, Franklin D. Roosevelt and the New Deal, 1932-40 (New York, 1963), p. 82.

68 Morris E. Garnsey, America's New Frontier: The Mountain West (New York, 1950), p. 194.

69 Arthur M. Schlesinger, Jr., The Age of Roosevelt: The Coming of the New Deal (Cambridge, Mass., 1958), p. 248.

up in his campaign. Bryan actually had not much idea about silver but since people of Nebraska stood for free silver he also did so. Richard Hofstadter, an eminent American historian, wrote, "It was the only time in the history of the Republic when a candidate ran for the presidency on the strength of a monomania"⁷⁰. Bryanism again became active in the 1930s. Bryan's cry in 1896 "to save mankind from crucifixion on a cross of gold"⁷¹ was recalled by the Silverites and the Senators and the Representatives coming from the Silver states once again rallied in favour of a silver monetization program which, they argued, would boost up trade with countries using silver as money. Whereas the end of gold buying programme of the Roosevelt administration had appeased the conservatives, it intensified the demands of the inflationists, and particularly of the Silverites,⁷² for bimetallism. Arthur Schlesinger, Jr., wrote, "If gold was for Herbert Hoover (as he once put it) a commodity enshrined in human instincts for ten thousand years, silver was for most southern and western congressmen a commodity enshrined in American political sanctity for well over half a century"⁷³. Once Senator Henry Fountain Ashurst (Democrat, Arizona) retorted

70 Richard Hofstadter, The American Political Tradition and the Men who Made It (New York, 1965), p. 186. For a detailed study of Bryan as a champion of Free Silver see Wayne C. Williams, William Jennings Bryan (New York, 1936), pp. 160-95.

71 Schlesinger, Jr., n. 69, p. 248.

72 Leuchtenburg, n. 67, p. 82.

73 Schlesinger, Jr., n. 69, p. 248.

to Henry Morgenthau when the latter baffled by the irreconcilability of the Silverites tried to reason with them: "My boy I was brought up from my mother's Knee on silver and I cannot discuss that any more with you than you can discuss your religion with me."⁷⁴

The silver group was primarily interested to raise the price of silver, for the depreciation of the price of silver in the international market had resulted in much loss to the silver industry in both domestic and foreign markets. It was true that the fall in the price of silver had in general affected the purchasing power of all silver using countries, particularly China, and thereby had affected American foreign commerce, yet it were the producers of silver who were directly affected. They were a small group in comparison to other affected groups yet they were the worst sufferers.⁷⁵ America produced about 19 per cent of world's silver of which two-thirds was consumed domestically and the rest by the outside world.⁷⁶ So when the silver price declined from 58 cents an ounce in 1928 to 23.8 an ounce in 1932 the American silver producers suffered considerable loss.⁷⁷ Apart from the domestic market which was passing

74 Leuchtenburg, n. 67, p. 82.

75 Congressional Record, vol. 74, p. 47.

76 Lippmann, n. 52, p. 26.

77 Ferdinand Lundberg, "U.S. and China and the Silver Pyramid" (Literary Digest, April 12, 1934). Reproduced in China Weekly Review, vol. 68, 19 May 1934, p. 456.

through a great slump, the foreign market too was quite depressed for the American silver producers. The demand for silver was mainly concentrated in China and India. As estimated, in 1928 China bought 136,700,000 and India 81,800,000 ounces of silver which constituted 70 per cent of the total demand. Of this the United States supplied silver worth \$78,700,000 in the same year to these countries, which constituted 90 per cent of the total American silver export.⁷⁸

As the price of silver kept on declining the silver producers in America reduced the production. The silver production in America which was 139,466,000 ounces in 1928 came down to 72,740,000 in 1932 and 20,955,000 in 1933. Consequently U.S. exports of silver also declined. The United States which had exported 127,500,000 and 145,303,000 ounces of silver in 1927 and 1928 respectively, exported in 1932 and 1933 only 42,287,000 and 43,276,000 ounces respectively.⁷⁹ The Chinese and the Indian

78 Congressional Record, vol. 72, p. 8613.

79 Silver exports and re-exports of the United States in 1928

	(in millions of dollars)		
	To China	To India	To all countries
Exports	39.0	19.4	64.3
Re-exports	19.1	1.2	23.1
Total	58.1	20.6	87.4

Source: Annual Report of the Director of the Mint for the Fiscal year ended 30 June 1929, pp. 49 & 53. See *ibid.*

80 Lundberg, n. 77, p. 456.

demand for silver was also drastically reduced during these years. Chinese imports of silver fell from 124,000,000 ounces in 1928 to 40,000,000 in 1932⁸¹ and that of India from 89,000,000 ounces in 1928 to only 12,000,000 ounces in 1932.⁸² These figures speak for themselves. As the depreciation in the value of silver badly affected the silver industry of America, the Representatives and Senators who came from the silver producing states became very much concerned.

It was likely that the support of the Silverites for silver alone might give rise to misgivings regarding their motives. They, therefore, took up the issue of the China trade and tried to argue that it was the fall in the price of silver which was solely responsible for the decline in China trade. It can not be doubted that China trade was affected by the fall in the price of silver but probably it is also true that the Silverites over-emphasized it. Moreover, as has already been pointed out, China trade itself constituted a small fraction of America's foreign commerce,⁸³ and therefore it did not affect as large number of

81 The cause of decline in Chinese import of silver were the civil war, irregular taxation, general unrest in the interior of the country, etc.
See Congressional Record, vol. 74, p. 4867.

82 Lundberg, n. 77, p. 456.

83 U.S. export to China:- Percentage of total U.S. exports

1929 - 2.4;	1930 - 2.3;	1931 - 4.00;	1932 - 3.5;
1933 - 3.1;	1934 - 3.2;	1935 - 1.7;	1936 - 1.9;
1937 - 1.5;	1938 - 1.1;	1939 - 1.8.	

See Dietrich, n. 5, p. 106.

people as the Silverites made it.

The Silverites made various proposals to boost up Sino-American trade by doing something for silver. It was suggested that silver should be monetized. This would have curbed the deflationary tendency of the American dollar and made the American currency more broad-based. It would have also forced the American administration to buy silver to be kept as monetary reserve and increased the price of silver. During this period American economy was passing through the worst depression in recorded history. It was not a problem of scarcity in supply but over supply, not of soaring price of things but of low price of things. To the Silverites the monetization of silver was the panacea. According to them this would have brought about an inflation in the domestic market and raised the price of silver in international market. The latter would have resulted in a revaluation of the currencies of those countries which had silver as money. Chinese currency, thus, would have gained its purchasing power and America's China trade which had dwindled would be boosted up. Speaking about the problem in foreign trade caused by the silver imbroglio Senator William E. Borah, Chairman of the Senate Foreign Relations Committee, who also happened to represent the silver producing state of Idaho, stated on

⁸⁴
12 January 1931:

I do not know of a more important phase of our economic depression than that which arises out of the treatment of silver. It is estimated

that the monetary stock of gold for the world is about \$10,000,000,000 or less. Of this amount 65 per cent is controlled by the United States and France. In July 1930 France had about \$1,900,000,000, the United States \$4,516,000,000. These two nations have a population of about 170,000,000. The world population is about 1,930,000,000. So about 1,760,000,000 of the world population must do business with about \$3,694,000,000 of gold. In other words, about 1,700,000,000 throughout the world have a gold supply of about 20 cents per capita.

These naked figures of themselves seem to me to prevent the unanswerable agreement in favour of doing something for silver. There are at least 800,000,000 to 900,000,000 people in the world who want to use silver as money. Through long years of custom and practice they have become used to silver and they are anxious to have it. But the cruel and brutal financial policy which has dominated of late years has deprived them of an opportunity to have silver except at a most reduced value.

After England forced the gold standard upon India and India began to unload her silver upon the world, silver went from about 64 to 31 or 32 cents. The purchasing power of these millions of people was reduced by half. What we need in this country is fewer appropriations from the United States Treasury and more markets for our goods. Those markets, so far as a vast amount of the human race is concerned, can be restored to a marked degree by a proper treatment of silver.

I do not believe that the United States alone, however, can solve this problem. I think it would greatly damage our cause to advocate any such theory. The silver problem is really a phase of the world's economic problem, and as such we ought to treat it. But I do believe that by the United States taking a lead, we might bring about an international agreement establishing a proper ratio between silver and gold which would enable these people who want silver to use it, and which they undoubtedly would do. 85

85 It may be noted that this statement was added to the Report which Senator Pittmann submitted before the Senate Foreign Relations Committee.

With these objects in view the silver group became very much vocal in the American Congress and tried to impress upon the Administration the urgency to do something for silver. Coming from seven silver producing states it had a band of four-⁸⁶teen Senators and many Representatives. To this dedicated group was added people from outside too who also owed their allegiance to the cause of silver. Winston Churchill and Bernard Baruch considered themselves Silverites. Raymond Moley, a member of the Roosevelt's "Brains Trust", had declared it "unfair and unintelligent to try to laugh away the fundamental⁸⁷ contentions of the silver advocates." Another very influential man who came in the ranks of silver was Father Charles E.⁸⁸ Coughlin. It has been said that "of all the blocs in Washington none has had a more interesting and more successful career than the silver bloc."⁸⁹ Indeed many interests were represented in this bloc yet on the question of silver they were united. Whereas some of the silver Senators, notably Nevada's Key Pittmann, keenly desired to benefit silver interests, Senator Elmer Thomas (Dem., OKL) caring little for the metal wished to use silver as an inflationary device. In their devotion to the⁹⁰ cause of silver both the groups were fanatical.

86 Schlesinger, Jr., n. 69, p. 249.

87 Ibid.

88 Ibid., p. 250.

89 Garnsey, n. 68, p. 194.

90 Leuchtenburg, n. 67, p. 82.

Taking bimetallism as their motto, the Silverites wanted the United States Government to start a silver purchase programme. "The Nation" said Senator Burton K. Wheeler (Dem., Montana),⁹¹ "must adopt bimetallism or face bolshevism." This slogan was partly successful when Pittman extracted from the London Economic Conference of 1933 an international agreement by which the principal silver producing and silver using countries agreed to ration the sale of their silver reserves and to absorb the newly⁹² mined silver for next four years. In substance it committed the United States to buy almost the entire amount of annual production of American silver for next four years. Even though other nations were not serious about these measures, the United States, due to the pressure of the Silverites was forced to⁹³ implement them. Pittmann persuaded President Roosevelt to ratify it by a presidential edict, using his power under the Thomas⁹⁴ amendment. On 21 December 1933, a Presidential announcement was made declaring that government would buy the annual output of⁹⁵ silver at 64.5 cents an ounce which was 21 cents above the current

91 Schlesinger, Jr., n. 69, p. 249.

92 Ibid.

93 Ibid.

94 The Thomas Amendment to the Agriculture Adjustment Act empowered the president to "introduce the free coinage of silver at any ratio to gold on which he might decide..." Harry J. Carman and Harold C. Syrett, A History of the American People, vol. II, since 1865 (New York, 1955), p. 528.

95 See Samuel I. Rosenman, compiled and collected, The Public Papers and Addresses of Franklin D. Roosevelt, vol. 2, The Year of Crisis, 1933 (New York, 1938), p. 535.

market price for the next four years.⁹⁶

The presidential announcement was received with great jubilation in the West.⁹⁷ The Silverites were, however, not fully satisfied. They thought that whatever step the President had taken was of a temporary nature and so whatever had been achieved in London needed to be given due sanctity by a permanent domestic legislation. In January 1934, Senator Wheeler tabled a bill to force the administration to purchase another billion ounce of silver, and to issue currency against it. The bill could not be passed. Thereupon on 19 March 1934 on the seventy-fourth birth anniversary of William Jennings Bryan, the great champion of silver, the House passed a bill presented by Representative Martin Dies (Dem., Texas) providing for the sale of agricultural surpluses abroad in exchange for silver at a rate above the world price. It united the Silverites, agrarians and the inflationists.⁹⁸ The Senate Agriculture Committee unanimously reported a modified version "with still more bounties for the silver states."⁹⁹

96 Leuchtenburg, n. 67, p. 82. Another source says that silver was bought at 62.5 an ounce. See Fred Albert Shannon, America's Economic Growth, 3rd edn. (New York, 1951), p. 756.

97 Leuchtenburg writes, "When news of Roosevelt's proclamation reached the West, miners shot off revolvers in the streets of Leadville and danced with girls atop the bars of Tonopah." n. 67, pp. 82-83.

98 Schlesinger, Jr., n. 69, p. 250.

99 Leuchtenburg, n. 67, p. 83.

THE SILVER PURCHASE ACT

The Silverites could not rest content without gaining their objective of a legislation of permanent nature guaranteeing a silver purchase programme. Their activity went on incessantly. The Roosevelt Administration tried its best to withstand the pressure but ultimately had to concede to their demand. Both President Roosevelt and Henry Morgenthau, Secretary of the Treasury, were opposed to doing anything more for silver. Before bowing down to the Silverite pressure the Administration wanted to get some more information about the economic situation in China. With this object in view Secretary Morgenthau sent Professor Jams Harvey Rogers to China in the spring of 1934. This aroused doubts as to the intention of Government among the 'Silverites'. They intensified, therefore, their pressure and became more adamant. Once when President Roosevelt called the Silverites to the White House and argued with them on merits of their stand on silver issue, one Senator said wearily that "We discussed silver from the time of the finding of the first nugget." When conciliatory methods failed the President asked Morgenthau to publish a list of silver speculators. Morgenthau

100 Dorothy Borg, The United States and the Far Eastern Crisis of 1933-1938: From the Manchurian Incident Through the Initial Stage of the Undeclared Sino-Japanese War (Cambridge, Mass., 1964), p. 12. For the criticism of the Rogers Mission by the 'Silverites' in the Congress see Congressional Record, vol. 78, pp. 4814-16.

101 Leuchtenburg, n. 67, p. 83. The Senator is not identified.

who had launched an investigation of silver speculators in February 1934 started the publication on 24 April 1934 in instalments.¹⁰² This was meant to tarnish the image of the Silverites by exposing their capricious interest which they nurtured behind their nationalistic garb. Although object of the publications was partly satisfied, the uproar over it was shortlived. The silver bloc had the votes and the President being afraid of filibustering which would hamper New Deal's legislative programme thought it wise to compromise.¹⁰³ On 19 June 1934 the Silver Purchase Act was passed.¹⁰⁴ The main provision of the Act directed the Secretary of the Treasury to buy silver in unlimited amounts "so long as the proportion of silver in the stocks of gold and silver in the United States is less than one-fourth of the monetary value of such stocks,"¹⁰⁵ or until the

102 Schlesinger, Jr., n. 69, p. 251.

103 It may be noted here that the American Government and the Silverites in America in dealing with the silver problem were not much dictated by American silver policy's possible impact on China. When in December 1933, the New Deal launched a massive silver buying programme there was an exodus of silver from China which tended to put Chinese economy in a chaotic situation. In February Chinese Bankers Association sent a cable to President Roosevelt urging him to reconsider his silver policy which the President, it was proved, paid no heed to. See China Weekly Review, vol. 68, 3 March 1934, p. 34.

104 For the text of the Silver Purchase Act of 1934 see Congressional Record, vol. 78, p. 9217.

105 Garnsey, n. 68, p. 194. "When the Act was passed, 1,200,000 ounces of silver would have met the requirement." Blum, From the Morgenthau Diaries, I, p. 188. Quoted in John A. Brennan, Silver and the First New Deal (Reno, Nevada, 1969), p. 136.

world price of silver climbed to ¹⁰⁶ \$1.29 an ounce. The Silver Purchase Act of 1934, observed Schlesinger, Jr., thus "assured the producers of silver a lavish subsidy, while the government received in exchange growing stocks of a metal which it did not need and for which it had no use."¹⁰⁷

106 Leuchtenburg, n. 67, p. 83.

107 Schlesinger, Jr., n. 69, p. 252.

Chapter III

**BETWEEN THE SILVER PURCHASE ACT AND THE BEGINNING
OF THE SECOND WORLD WAR**

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BETWEEN THE SILVER PURCHASE ACT AND THE BEGINNING OF THE SECOND WORLD WAR

The enactment of the Silver Purchase Act of 1934 and the commencement of the silver buying programme of the United States Government, it was hoped, would boost up America's China trade. But it was soon realized that far from stabilizing the Chinese currency and thereby accelerating America's China trade, the U.S. silver purchase programme had struck at the very foundation of the Chinese economy. The programme only succeeded in initiating an unabated drain of silver from China which eventually forced China to abandon its silver money and adopt a managed paper currency. This led to the growth of ill feeling between the United States and China which cast its shadow on America's China trade. While this was the state of affairs in the Sino-American economic relations, the civil war in China between the Communists and the Nationalists and the mounting pressure of Japan on China for territorial gains were further adding to the economic problem. Thus with a weakened economy and an unstable central government, China presented no prospect for trade and investment. America's export to China which had witnessed a considerable decline during the first years of the 1930's did not pick up and till the beginning of the Second World War it did not rise above the low point of \$56,000,000.

AFTERMATH OF THE SILVER PURCHASE ACT

Although the Silver Purchase Act was a spectacular triumph for the Silverites yet it hardly brought the desired

results. The United States silver buying programme was "one of the most irrational chapters in the American financial history."¹ No act passed under the Roosevelt administration had less excuse than the Silver Purchase Act of 1934. "Our silver program," Henry Morgenthau, the Secretary of Treasury, confessed in 1935, "is the only monetary fiscal policy that I cannot explain or justify."² Only class which benefitted by this was a handful of silver producers.³ Within fifteen years after the passage of the Act in 1934 they extorted nearly a billion and a half dollars from the federal government. The silver purchase programme neither effectively aided recovery nor could approximate the 25 per cent reserve requirement despite the Treasury's enormous spending. Its effort merely succeeded in acquiring thousands of tons of silver only to be kept in Fort Knox.⁴

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- 1 Raymond F. Mikesell, United States Economic Policy and International Relations (New York, 1952), p. 34.
 - 2 Arthur M. Schlesinger, Jr., The Age of Roosevelt: The Coming of the New Deal (Cambridge, Mass., 1958), p. 252.
 - 3 With the implementation of the Silver Purchase Act of 1934 the price of silver soared up benefitting a handful of silver producers. In 1932, silver was sold for 24.5 cents an ounce. In 1934, after the Treasury's buying programme started it rose up to 50 cents. In 1939 it was 71.11 cents an ounce and in 1946 it touched a price as high as 90.5 cents an ounce. See Clair Wilcox, Public Policies Toward Business (Chicago, 1955), p. 314. See also Morris E. Garnsey, America's New Frontier: The Mountain West (New York, 1950), p. 194; The Nation (New York), vol. 140, 8 May 1935, p. 521.
 - 4 For detailed study as to how the silver policy of the United States failed to bring domestic recovery see Harry J. Carman and Harold C. Syrett, A History of the American People, vol. 2, since 1865 (New York, 1955), pp. 528-29.

The purchase of silver by the U.S. Government did not help in stabilizing the currencies of the countries using silver as money, particularly China. The rise in the price of silver from 25 cents an ounce in 1932 to 81 cents in 1935 greatly appreciated the Chinese currency thereby creating a great deal of deflation.⁵ Chinese silver in circulation or in reserve began to flow to the United States and soon China with a view to control its chaotic monetary situation had to accept a managed paper money in 1935.⁶ In China, the American silver policy came to be strongly criticized. When the American Economic Mission, led by W. Cameron Forbes arrived in China on 22 April 1935 to investigate into the state of Sino-American trade the Chinese press utilized the opportunity to publicize their dissatisfaction with the American silver policy. The Central Daily News, an official organ of the Kuomintang, and one of the leading news papers in Nanking, stated that "since the adoption of the policy of the nationalization of silver by America, China has

5 Mikesell, n. 1, p. 35.

6 Between June and September 1934, the monthly export of silver from China had increased seven-fold. See Dorothy Borg, The United States and the Far Eastern Crisis of 1933-1938: From the Manchurian Incident Through the Initial Stage of the Undeclared Sino-Japanese War (Cambridge, Massachusetts, 1964), p. 122.

7 John King Fairbank, The United States and China (Cambridge, Mass., 1967), p. 260. See also The Nation, vol. 141, 13 November 1935, p. 550.

8 See China Weekly Review (Shanghai), vol. 72, 27 April 1935, p. 295.

been the first and the worst sufferer." It further added, "we are now too busy in our efforts to save ourselves, how could we have time to plan to increase the purchasing power of our people."⁹

America's China trade which had reached a very low level could not be revived by raising the silver price in the international market. It could not even regain the level of 1930, the year when the decline had set in considerably. American export to China in that year amounted to U.S. \$103,755,000 which was 27 per cent less and American import from China amounted to U.S. \$108,547,000 which was 33 per cent less than the previous year.¹⁰ After the commencement of the silver purchasing programme in accordance with the Silver Purchase Act the figures of Sino-American trade for 1935 and 1936 revealed not a very heartening picture.¹¹ In 1935 American export to China was only U.S.

9 For a perusal of similar opinions expressed in other Chinese newspapers and journals see C.Y.W. Meng, "American Silver Policy and the revised Treaty stand in way of Full Friendship with China," *ibid.*, vol. 72, 4 May 1935, pp. 322-23.

10 Congressional Record, vol. 74, p. 4868.

11 The following table of U.S. exports to China in 1935 and 1936 if compared with the table of 1928 (shown in p.22, footnote no.59) will show how much U.S. trade with China was lagging behind even after the commencement of the silver buying program which was supposed to remedy the ailing Sino-American trade.

Commodities	Unit	1935	1936
Cotton, Raw	Bales	86,000	23,000
Wheat Flour	Barrels	7,000	6,000
Douglas Fur	Feet	140,000,000	114,881,000

(Contd. on next page)

12

¥51,447,000 and U.S. import from China was U.S. \$78,443,000.

Fuel Oil	Barrels	96,000	321,000
Gasoline	"	204,000	388,000
Kerosene	"	481,000	359,000
Lubricating Oil	"	173,000	233,000
Copper	Pounds	2,813,000	5,096,000
Aniline Dyes	"	8,669,000	6,201,000
Tobacco Leaf	"	15,842,000	30,627,000
Newsprint, paper	"		
Silver, Reexports and Domestic	Ounces	-	-
Wheat	Bushels	-	-
Automobiles, Passenger	Number	1,212	906
Automobiles, trucks	"	1,322	1,068
Aeroplanes	"	81	114
Raw Silk	Pounds	3,485,000	2,467,000
Waste Silk	"	1,747,000	3,725,000
Goat Skins	Pieces	5,560,000	7,584,000
Wood Oil	Pounds	108,338,000	127,827,000
Bristles	"	3,887,000	4,693,000
Antimony	"	-	4,235,000
Raw Cotton	"	-	13,481,000
Sesamum Seeds	"	138,386,000	109,270,000
Sausage Casings	"	1,346,000	1,349,000
Silver Bullion and Base	Ounces	493,000	14,310,000
Carpet Wool	Pounds	-	25,511,000
Tea	"	-	4,613,000

Source: China Weekly Review, vol. 80, 3 April
1937, p. 184.

12 Details:-

Exports to China	U.S. \$38,156,000
Exports to Hongkong	U.S.G.\$ 9,104,000
Exports to Kwang tung L.T.	U.S.G.\$ 4,187,000
Total:	U.S.G.\$51,447,000
Import from China	U.S.G.\$64,164,000
Import from Hongkong	U.S.G.\$ 8,967,000
Imports from Kuangtung L.T.	U.S.G.\$ 5,312,000
Total:	U.S.G.\$78,443,000

See Ibid.

In 1936, there was a modest increase but still it was lagging far behind the figure for 1930. In that year American export to China amounted to U.S. \$58,911,000 and import from China amounted to U.S. \$86,815,000.¹³ Not only the American exports did not increase but the adverse balance of trade also was not reversed. In 1928 America had a very favourable balance of trade with China.¹⁴ This position began to change and continued even after the commencement of the silver purchase program. However, the adverse balance was gradually getting narrowed in America's favour. While the 1936 export figure showed an increase of 14.5 per cent from the previous year the import figure for the same year showed an increase of only 10.7 per cent from the previous year.¹⁵

13 Details:-

Exports to China	U.S.G. \$46,819,000
Exports to Hongkong	U.S.G. \$ 8,550,000
Exports to Kwangtung L.T.	U.S.G. \$ 3,542,000

Total:	U.S.G. \$58,911,000
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Imports from China	U.S.G. \$74,340,000
Imports from Hongkong	U.S.G. \$ 8,540,000
Imports from Kwangtung L.T.	U.S.G. \$ 3,935,000

Total:	U.S.G. \$86,815,000
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Ibid.

14 In 1928 American exports to China amounted to Haikwan Taels 205,541,351 and Chinese exports to the United States amounted to Haikwan Taels 127,204,573. See Rose Leibbrand, "America's Economic Foothold in China", China Weekly Review, vol. 53, 16 August 1930, p. 415.

15 China Weekly Review, vol. 80, 3 April 1937, p. 184.

GROWTH OF SINO-AMERICAN DIFFERENCES
OVER THE QUESTION OF SILVER

As has already been said the silver policy of the United States had adverse impact on the Chinese economy. The Chinese Government had requested the Washington administration several times to revise its silver policy to save Chinese economy from complete collapse. But since the Departments of State and Treasury had completely divergent views on the fate of the Chinese economy nothing was done and in 1935 China changed over to a managed paper currency.

Ever since the silver Purchase Act there was a tendency of silver going out of China. In December 1934 H.H. Kung, Minister of Finance at Nanking, protested against the American silver policy and told the U.S. Government that so long a disparity between the prices of silver within and without China would remain silver was bound to flow out of China. He, therefore, requested the United States to announce its desire not to purchase silver at more than 45 cents an ounce. The U.S. Under-Secretary of State, William Phillips, sent Kung's message to the President along with some cables from prominent American businessmen in Shanghai, and informed him about the growing opposition in China to the U.S. silver policy.

16 See Foreign Relations of the United States: Diplomatic Papers, 1934, vol. 3 (Washington, 1950), pp. 441, 444, 449, 451.

17 Ibid., p. 456.

Throughout December 1934, both the State and Treasury Departments seriously considered the conditions of the Chinese economy. A memorandum of the State Department suggested that as the United States could not aid China unilaterally without possibly hurting the Japanese sentiment, she should abandon her silver policy and, if that was not possible, it at least should adopt Kung's suggestion and announce that it would not pay more than 45 cents for an ounce of silver.¹⁸

The Treasury Department prepared another elaborate memorandum opposing the point of view of the Department of State. It was against the outright abandonment of the U.S. silver purchase programme. It said that the U.S. Government should not take any step which would drastically raise the price of silver, and suggested that financial aid should be given to China to help stabilize her monetary system.¹⁹

The views of the State and Treasury departments were so divergent that they could not be resolved by mutual discussions without the intervention of President Roosevelt himself.²⁰ As a result of his intervention a policy was evolved which was more in line with the State Department than with the Treasury Department's views. It was proposed that the world price of

18 Borg, n. 6, p. 123.

19 Ibid.

20 Warren I. Cohen, America's Response to China: An Interpretative History of Sino-American Relations (New York, 1971), p. 140.

silver be kept around 55 cents and silver be purchased inside²¹ China at that price and from the Chinese Government only. But this scheme could never be implemented. When the Silverites came to know about this secret scheme they brought intense pressure on the administration, and forced the latter to give up²² the scheme. The Silverites, however, were far from satisfied. When it was known that Dr. T.V. Soong of the Chinese National Economic Council would be arriving in the United States soon for consultation, Senator Pittman, the then Chairman of the Foreign Relations Committee of the Senate, emphatically demanded that there should be a prior understanding that America's silver policy would not be a subject of discussion with the visiting dignitary. Under such pressure the President had to give up²³ the entire proposal.

While the American silver policy was causing great problem for the Chinese administration, a new development was taking place in the Far East in January 1935, which had considerable impact on Sino-American economic relations. Soong reported that taking advantage of the Chinese economic crisis Japan had proposed to the Nanking Government that it would extend a loan to stabilize the Chinese economy on condition that China would not²⁴ allow any western country to interfere in her internal affairs.

21 See Foreign Relations, n. 16, p. 457.

22 Ibid., p. 461.

23 Borg, n. 6, p. 124.

24 See Foreign Relations of the United States: Diplomatic Papers, 1935 (Washington, 1953), vol. 3, p. 532.

The Chinese did not regard this Japanese precondition as an interference in their domestic affairs. They believed that the American silver policy itself amounted to interference in the Chinese economy and therefore for them it was merely a question of "choosing between executioners"²⁵. But for America the reported Japanese move was quite, alarming. The U.S. State Department felt that if on account of the U.S. silver policy, Nanking government accepted the Japanese proposal then that would mean a virtual diplomatic surrender of the Chinese Government to the Japanese.²⁶

When such development was haunting the State Department regarding the U.S. relations with China a new proposal came from Dr. Kung. He requested the United States to extend a loan of \$100 million to help China adopt a currency based on gold as well as silver. He also asked for a credit of the same value to meet an emergency.²⁷ The State Department considered it undiplomatic to answer the proposal. A 'yes' would have meant Japanese antagonism to America and a 'no' would have meant China's economic surrender to Japan.²⁸ The only logical alternative to the Department of State, therefore, was to make a counter-proposal. It advised the Chinese to send a proposal,

25 Cohen, n. 20, p. 139.

26 See Foreign Relations, n. 24, p. 45.

27 Ibid., p. 126.

28 Borg, n. 6, p. 126.

identical to one that they had sent to the United States, to several other governments which had "shown themselves most interested in projects dealing with the Chinese financial problem and especially in projects for Chinese currency reform."²⁹

The draft proposal of the State Department resulted in widening the gulf between the State Department and the Treasury Department which marked their attitude towards the Chinese situation. Morgenthau believed that the United States should unilaterally come to the financial assistance of China. But the State Department, treating the entire problem not merely as an economic but also as a political one, disagreed with Morgenthau. It believed that any action without Japanese participation would not be practicable as Japan would vehemently oppose any such plan. To Morgenthau this appeared as too conciliatory toward the Japanese.³⁰ The difference between Secretary of State, Cordell Hull and Morgenthau was so vital that ultimately the President had to intervene and eventually on 26 February 1935 a note was sent to China which stated that:

The American Government deems it not practicable for the United States to embark upon an undertaking such as is envisaged in this outline and venture to enquire whether the Chinese Government has given thought to the possibility of presenting this outline or an outline similar in essential features simultaneously to the governments of those foreign powers--of which the United States is one--which have in the past manifested interest

29 See Foreign Relations, n. 24, p. 539.

30 Borg, n. 6, pp. 126-27.

in projects relating to Chinese financial problems and especially in projects for Chinese currency reform.... 31

Even with this clear victory for the viewpoint of the State Department the differences between the Treasury Department and the State Department were not resolved. For President Roosevelt who often found himself in the midst of warfare between his subordinates this was not something unusual. President's typical policy in dealing with his subordinates with irreconcilable viewpoints, was to allow them to differ till one outmanoeuvred the other or to vacillate between the two views until the problem solved itself. In this case Roosevelt wanted a policy that would neither antagonise the silver bloc at home nor offend the Japanese in the Far East. Unfortunately, the existing American silver policy, against which the Chinese were protesting, seemed to be the only policy to fit in the criteria. Roosevelt, despite his outward sympathy for the Chinese, declared that the problem was "China's business and not ours; that they could stop the outflow of silver if they so desired and that it was not up to us to alter our policy merely because the Chinese were unable to protest themselves."

Faced with several unacceptable choices formulators of America's China policy could not decide the direction in which

31 Secretary of State to Chinese Minister (Sze), 26 February 1935, see Foreign Relations, n. 24, p. 543.

32 Cohen, n. 20, p. 140.

33 Ibid., also see Borg, n. 6, p. 128.

to move. This stalemate was broken when the State Department discovered in the British an unexpected ally. The British too had received similar appeal from China which it had sent to the United States. Britain's response to the appeal was similar to that of the United States. Both the countries now thought that if the proposal could be worked out, it could serve as a palliative for the Chinese economic crisis. Unfortunately, nothing ultimately materialized on account of Japan's misgivings³⁴ against the entire scheme.

While Sino-American relations were passing through growing strains during the first half of 1935, the sudden rise in the price of silver from about 55 cents an ounce in February to 81 cents in April aggravated the tension. A rapid drain of silver out of China ensued and 173 million ounces of silver were smuggled out of China in 1935 in contrast to only 15 million ounces in 1934.³⁵ Although Roosevelt was desirous of getting China out of this economic doldrums, he could not do anything due to the strong opposition of the silver bloc in the Congress. The situation in China went on deteriorating and ultimately on 3 November 1935 China nationalized silver and ordered its exchange for legal tender notes to be issued³⁶ by three government banks.

The predicted Chaos in the Chinese economy which was

34 Borg, n. 6, pp. 128-29.

35 Ibid., p. 130.

36 Ibid., p. 133.

supposed to follow this step did not materialize due to sympathetic attitude of the American and the British Governments. Secretary Morgenthau proved to be particularly sympathetic to the Chinese cause and agreed in consultation with the President to purchase silver from China as was requested by the latter. In April 1936, K.P. Chen, a well-known Chinese banker, came to the United States to discuss the financial situation prevailing in China. Soon an agreement was reached between the United States and China according to which the United States agreed to exchange U.S. \$20 million with Ch. \$75 million, i.e., against a deposit of 50 million ounces of silver. This agreement was signed on behalf of the Treasury Department and the Chinese Finance Ministry just to avoid the complications which an agreement entered into by the State Department might give rise to. On 19 May 1936, Secretary Morgenthau issued a statement which stated:

...in accordance with our silver purchase policy we have definitely indicated our willingness, under conditions mutually acceptable, to make purchases from the Central Bank of China of substantial amount of silver, and also to make available to the Central Bank of China, under conditions which safeguard the interests of both countries, dollar exchange for currency stabilization purposes. 39

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37. Robert W. Barnett, Economic Shanghai: Hostage to Politics, 1937-1941 (New York, 1941), p. 115.
38. Eorg, n. 6, p. 136.
39. Foreign Relations of the United States: Diplomatic Papers, 1936 (Washington, 1954), vol. IV, pp. 482-83.

The Chen-Morgenthau agreement of 1936 healed to a great extent the injury which the Sino-American relations had suffered on account of the American silver policy. The agreement was so cleverly and diplomatically manipulated that it neither hurt the sentiment of Japan nor breached the Anglo-American co-⁴⁰operation in the Far East. Morgenthau claimed that this step taken by the United States and China would "improve the internal stability of national currencies and with this achieve a greater⁴¹ international stability."

BETWEEN THE UNDECLARED SINO-JAPANESE WAR
AND THE BEGINNING OF THE SECOND WORLD WAR
(1937-1939)

The state of the American trade and investment in China during the last years of the 1930s did not present any encouraging picture. The United States' China trade which had already been in a state of doldrums since the fall in the price of silver in the world market received another blow with the commencement of Sino-Japanese undeclared war in July 1937. The war⁴² put the Chinese economy under heavy strains and thereby adversely affected the American export trade with China. The by-products

40 Borg, n. 6, p. 137.

41 Foreign Relations, n. 38, p. 483.

42 For how Japan tried to cripple the Chinese economy by waging a currency war see Frank H.H. King, A Concise Economic History of Modern China, 1840-1961 (Bombay, 1968), p. 141.

of the war, such as Japanese violations of the Open Door privileges during the course of the war, further worsened the trade relations. The overall consequence was that the American exports to China in 1939 did not exceed the low point of \$56⁴³ million of 1932.

Just before the beginning of the Sino-Japanese conflict a new trend in America-China trade was making itself manifest. The United States, which had hoped to increase its sale of consumer goods to China by raising the standard of living of a people who formed one-fourth of the total population of the world, had come to realize by 1936 that such a possibility was, indeed, remote. She now felt that in an expanding Chinese economy the possibility of expansion of America's China trade⁴⁴ was through the sale of capital goods. Unfortunately, when this new trend in American export to China was just in the offing the Sino-Japanese war came as a big setback. Soon America's losses in China began to be apparent. Shanghai public utilities, in which the United States had sizable stake, were operating at a tremendous loss. Electric consumption came down to 22 per cent of the season's normal consumption, gas

43 Cohen, n. 20, p. 149. In 1937 American exports to China amounted to \$49,703,000. See Ethel B. Dietrich, Far Eastern Trade of the United States (New York, 1940), p. 105. According to Lowe Chuan Hua, American exports to China in 1937 was \$188,859,040 / Japan's Economic Offensive in China (London, 1939), p. 135/. Since Dietrich's statistics is based on U.S. Bureau of Foreign and Domestic Commerce, Foreign Commerce and Navigation of the United States, 1931-1937, it seems to be more credible.

44 Dietrich, n. 43, p. 36.

consumption to 50 per cent, telephone revenues to 66 per cent, street car revenues to 25 per cent, bus revenues to 50 per cent⁴⁵ etc. During the first eight months of 1938 Sino-American trade⁴⁶ decreased by two-thirds and according to an estimate, during the first ten months of the war, i.e., up to 6 May 1938 direct losses sustained by Americans in China were more than U.S.⁴⁷ \$150,000,000. Jules Arnold, the U.S. Commercial Attache in China, stated in an address in San Francisco in September 1938:

Unless Americans and those on the western slope - awoken to what is transpiring in the orient, this nation will lose its place as a Pacific Power and its lucrative trade with China. 48

Apart from the direct loss caused by the general weakness of Chinese economy due to the war, American commerce had to face a tough time on account of Japanese encroachment upon American Open Door privileges. The result of these violations of the Open Door as well as the general depression of the Chinese economy was a decrease in the American export to China. The following table will show the amount of American exports to⁴⁹ China for the years 1937, 1938 and 1939:

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- 45 Frank Gapp, "Can Americans Withdraw from China?", China Weekly Review, vol. 82, 13 November 1937, p. 246.
- 46 Chuan-Hua, n. 43, p. 136.
- 47 Ibid., p. 139.
- 48 Ibid., pp. 138-39.
- 49 Cohen, n. 20, p. 149.

American Exports to China

Year	Value of Exports (U.S. \$)	Percentage of total U.S. Export Trade
1937	50,000,000	1.5
1938	35,000,000	1.3
1939	56,000,000	1.8

As the Sino-Japanese war dragged on and as the violations of Open Door right by Japan became more and more endemic the United States' concern over the issue of China trade also began to mount. Although President Roosevelt felt concerned over the fate of China, he was unwilling to invoke the Neutrality Act of 1937. His action indeed would have affected American exports to Japan but it would have also resulted in the stoppage of the flow of goods to China and would have resulted in real hardship to China. Whether it was concern for the Chinese or for the pocket books of the American exporters, or the feeling that his action would not be supported by the public and the Congress, the fact remains that the United States did not invoke the Neutrality Act. The President was, however, alarmed at the gathering clouds of war in Europe which would have threatened the security of the United States. He decided to arouse the American public to the danger of the threat posed by the policies of the dictatorships of Europe. On 5 October 1937 the President delivered a speech in Chicago attacking their

policies and asking for a policy of "quarantine" against the dictators. In the speech the President only indirectly assailed the Japanese resort to war in China. He was more concerned with the situation in Europe. A year later on 6 October 1938, in a note the United States drew Japan's attention to its systematic violation of the Open Door in China and pleaded with it to take the following effective measures:

1. The discontinuance of discriminatory exchange control and of other measures imposed in areas in China under Japanese control which operate either directly or indirectly to discriminate against American trade and enterprise;
2. The discontinuance of any monopoly or of any reference which would deprive American nationals of the right of undertaking any legitimate trade or industry in China or of any arrangement which might purport to establish in favor of Japanese interests any general superiority of rights with regard to commercial or economic development in any region of China; and
3. The discontinuance of interference by Japanese authorities in China with American property and other rights including such forms of interference as censorship of American mail and telegrams and restrictions upon residence and travel by Americans and upon American trade and shipping. 51

In response to this American protest against repeated violations of the Open Door in China, Japan took the position that the new political developments in East Asia had rendered the old principles impractical. In a note sent on 18 November 1938, the Japanese Foreign Minister wrote:

50 See Department of State, United States Relations with China: With Special Reference to the Period 1944-1949 (Washington, 1949), p. 19.

51 Ibid., p. 20.

It is the firm conviction of the Japanese Government that now, at a time of the continuing development of new conditions in East Asia, an attempt to apply to present and future conditions without any changes concepts and principles which were applicable to conditions prevailing before... does not in any way contribute to the solution of immediate issues and farther does not in the least promote the firm establishment of enduring peace in East Asia. 52

Unwilling either to accept this Japanese argument, or in other words, to cooperate with Japan in its plans for Eastern Asia, or to enter into an armed conflict with it, the Washington administration could do little to safeguard the Open Door. Only thing it did was to begin supporting the Chinese resistance against Japan and on 15 December 1938 extended a loan of \$25 million to the Chinese Government through the Export-Import Bank. 53

With Japan's continuous victories in China the Americans began to fear that that the entire East Asia might fall under the Japanese domination. Yet the United States did not intervene because of the very strong isolationist sentiment in the country. It refrained even when Japan moved against the countries of South-east Asia but when on 7 December 1941 Japan attacked Pearl Harbour, America could not stay out of the war. With that attack an uneasy relationship among these three Pacific countries came to an end. The stakes became dear and

52 Ibid., p. 21.

53 Thomas A. Bailey, A Diplomatic History of the American People (Seventh Edition) (New York, 1964), p. 707. See also Dietrich, n. 43, p. 44.

the line was firmly drawn between the Chinese friends and the Japanese foes.

CONCLUSION

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The U.S. entry into the Second World War following the Pearl Harbour incident proved the extent of America's deep political involvement in the Far East. This political involvement was an outgrowth of America's economic interest in the region. China was a lucrative market as well as a source of raw materials for both the United States and Japan, and it was their mutual rivalry and antagonism over China that finally dragged these two Pacific Powers into a bloody confrontation.

The United States had begun to manifest interest in trade with China as far back as 1784. Within the span of a century America's China trade had grown to a sizable proportion. It was, therefore, natural that when following the Sino-Japanese war of 1894-95 a scramble among European powers for concessions and spheres of influence in China ensued, Washington felt acutely concerned. It feared that if this was allowed to continue, it might lead to dismemberment of China into various spheres of influence in which case there was every possibility that the American commerce would greatly suffer. To forestall this development, America stood for keeping the 'Chinese melon' in tact. The natural culmination of American policy was the enunciation of the "Open Door" which implied support for the independence and integrity of China, which would assure free trade, which if it would not be to the advantage of the United States at least would not be its disadvantage. This Open Door doctrine, pronounced in 1899 by Secretary of State John Hay

remained the central theme of the American Far Eastern policy for decades till the People's Republic of China rose over the ashes of the Republic of China and unified China.

The China trade of the United States which had been growing rapidly since the acceptance of "the Open Door" by all concerned powers on account of government patronage and increasing private investments, received a tremendous boost-up after the conclusion of the first world war. The inter-war period witnessed both a boom and a depression in Sino-American trade one after another. The twenties was a decade of prosperity. The overall industrial and economic prosperity of the United States during the 1920s found expression in the America's China trade as well. During this decade American export to China almost doubled and reached a height which was never surpassed. But unfortunately, this boom in China trade did not prove to be enduring. The Great Depression of 1929 which gripped the world economy deeply affected the Sino-American trade. America's trade with China began to decline and for a decade it did not show any sign of revival.

The 1930s was a period during which Sino-American economic relations were strained due to various reasons. Initially, it was China's own depreciated currency which contributed to the sharp decline in the American export to China. But when America followed an unrealistic policy of restoring the value of Chinese money in the international money market and in the process almost destroyed the Chinese monetary system, the hitherto cordial

relationship between the two countries became seriously strained. American export to China fell dramatically and soon it reached a stage from where any prospect of recovery seemed bleak.

The depression in the Sino-American trade which continued throughout the 1930s must not, however, be viewed in isolation. It was a period when world economy and world politics were passing through a deepening crisis. While the economic depression had brought numerous a complex problems in its train, in politics the mounting lawlessness among powers in their international dealings had been causing concern to the diplomats all over the world. Therefore, it is only against the background of this continuing crisis that one must analyse the State of America's economic relations with China.

The great crash on the Wall Street Stock Exchange in 1929 inaugurated an era of economic crises. The inter-allied debt system, the problem of reparation, the appreciation of gold in gold-standard countries and depreciation of silver in silver using countries, etc. all combined to bring the world economic system to a grinding halt. The destruction of the international credit system and the fluctuations of international exchange ratio made the international commercial traffic highly difficult. Under such situation Sino-American economic relations faced even a greater crisis. The appreciation of gold in gold-using America and depreciation of silver in silver using China drastically upset the exchange rate of their dollars. Moreover, in domestic economies the two countries confronted such

divergent problems that solution of one meant accentuating problems of the other in the long run. The United States with an appreciated gold had the problem of deflation whereas China with a depreciated silver had an inflation. When with a view to bring inflation in its economy the United States decided to increase the quantity of money in circulation by giving a place to silver in its economy it resulted in the accumulation of a huge quantity of silver in the country. The price of silver in the United States went up and caused thereby a tremendous outflow of silver from China. Theoretically this would have brought for the time being a deflation in Chinese economy but in due course it upset the entire Chinese monetary system. Thus these inter-twined problems of international and domestic economy made the issue of Sino-American economic relations more complicated.

Thus while the problems of world economy were posing threats to Sino-American economic relations the deteriorating condition of world politics was further adding to the complexities. Violations of international order had become chronic. While the militaristic ambitions of Germany and Italy were causing nightmares to European diplomatists, Japan's political and economic penetration into China was causing acute concern to the American and Chinese governments. If Japan was allowed to pursue her political and economic ambitions in China then that would have meant the end of the Open Door in China to the detriment of American trade. America could not reconcile itself

to such a development. It had a lucrative trade as well as political commitment in China. But it also could not afford to antagonize Japan with whom it had a trade which was much larger than that with China. Thus America confronted a dilemma which offered no easy solution.

The problems of America's China trade were not only linked with the international political and economic developments but were also enmeshed in its domestic problems. There the question of a declining China trade and the remedies for its uplift became a three dimensional issue. The fall in the price of silver had not only affected America's China trade but also caused loss to the American silver industry. To these two aggrieved groups - the silver industrialists and the China traders - was added a class whose grievances also centred round the silver issue. They were the southern agriculturists who stood for inflation and easy money by the remonetization of silver.

To all these interest groups in America, a rise in the value of silver in the world market and winning for it a place in the American monetary system seemed to be the only possible panacea for all evils. It was hoped that this would, on one hand, revitalize American silver industry and, on the other, raise the value of Chinese money to the advantage of America's China trade. Moreover, if silver was monetized in some form or other, it would have increased the quantum of dollars in circulation in America and brought about an inflation which in turn would have ushered recovery of the economy.

The silver issue, which otherwise would have remained a subject of interest for Sino-American trade, thus became a matter of wide interest in America's domestic politics. The Senators and the Congressmen who came from the silver producing states of the north-west and who constituted the 'silver bloc' in the American Congress, became the spokesmen of these interest groups. The 'silver bloc' which had political power and influence, capitalized on the problem and by using pressure tactics got the Silver Purchase Act passed in 1934. Apparently the Act was meant to boost up China trade and guarantee recovery in America by bringing inflation but actually it only benefitted a handful of silver industrialists.

The issue of depreciated silver and a depressed China trade had its ramification in international relations. Taking advantage of the staggering economy of China, Japan wished to fulfil her age-old imperialistic ambition at China's expense. American 'Open Door' was endangered. The United States was morally committed to oppose any encroachment on Chinese independence and territorial integrity, so after the rape of Manchuria America had pronounced the Stimson Doctrine of non-recognition of any change brought about by Japan by force. Although American trade suffered a loss by the dismemberment of Manchuria from China yet America since was not very much prepared for a direct confrontation with Japan it allowed things to pass in Japan's favour. The Stimson Doctrine seemed to be a face saving device. But as the encroachment on Open Door privileges during the undeclared Sino-Japanese war of 1937 became more and more repetitive

American stand became more and more firm. But even during this time the United States was put in a dilemma. If it openly supported China then that would lead to a misunderstanding with Japan to the detriment of American economic interest in the Far East, for Japan had a sizable share of America's Far Eastern trade. If it invoked the Neutrality Act and put an embargo on all goods going to the belligerents then that would have meant complete absorption of large portions of China into the Japanese empire. Only possible course open to the United States in this Far Eastern imbroglio was to help the Chinese resistance against Japan and it did it.

It will thus be seen as to how the Sino-American economic relations during the thirties got entangled into the issues of American domestic politics and international clash of interests. But in solving the problem on both these fronts the United States government vacillated and was indecisive. In tackling the problem of silver at domestic and international level it was pressurized into adopting a policy which served the interest of a narrow group. American silver policy neither brought recovery to the American economy nor did it stabilize the international exchange to the advantage of the United States. It, as a matter of fact, brought disaster to the Chinese economy. The sudden rise in the price of silver caused by the American policy resulted in a tremendous flow of silver out of China and eventually led to the abandonment of silver standard and acceptance of a managed paper currency. America's China trade far from being boosted up continued to remain at a low point throughout the

decade of the thirties.

American policy did not seem to be very realistic. Treatment meted out to China in preference to Japan was not very sagacious. America had a much bigger volume of trade with Japan than that with China. Not only that, America's trade with Japan was prospering while that with China was declining. In 1932 American exports to China amounted to \$56,000,000 whereas the same to Japan was \$135,000,000. In 1939 while the American exports to China remained static that to Japan had increased considerably and reached the height of \$227,000,000¹.

It is sometimes argued that although China was a less lucrative market than Japan still China presented better prospect for American commerce. American exports to Japan mostly consisted of war materials and therefore were of a temporary nature. As soon as the war had ended American exports would have been curtailed. Contrarily, Chinese imports from America mostly consisted of consumer and capital goods and as such they were of a lasting nature. Moreover, it was argued that China had a population of 450,000,000 and a little increase in their living standard would result in a tremendous increase in the per-capita spending which might increase American exports to China enormously.

As it turned out, these arguments did not prove to be valid. It was not true that Japan used to import only war

1 Warren I. Cohen, *America's Response to China: An Interpretative History of Sino-American Relations* (New York, 1971), p. 149.

materials. Even whatever she used to, was being reduced as arms and ammunition factories were coming up in Japan. On the other hand, China did not seem to be a perspective market for the United States. Torn by internal dissensions, civil war and disorder China did not present any cheerful prospects of recovery in near future.

Thus, to conclude, the American economic policy in China during the thirties was not very successful. It did not revive a declining U.S.-China trade. On the contrary it antagonized China. Neither it did some positive good to China nor it satisfied Japan.

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