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# GERMAN INTERESTS AND POLICIES IN THE FAR EAST

*By*  
KURT BLOCH

*I. P. R. INQUIRY SERIES*

INTERNATIONAL SECRETARIAT  
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## FOREWORD

This study forms part of the documentation of an Inquiry organized by the Institute of Pacific Relations into the problems arising from the conflict in the Far East.

It has been prepared by Dr. Kurt Bloch who was engaged for this purpose as a temporary member of the Secretariat. Dr. Bloch has been economic adviser to the German Federation of Trade Unions; co-editor of *Magazin der Wirtschaft*; in charge of the economic information and press department of the Preussische Elektrizitäts A. G., Berlin, assistant to the President and assistant manager of the Preussische Zentralgenossenschaftskasse, Berlin; special economic adviser to the German economic Enquiry Commission (Enquête-Ausschuss), economic and financial adviser to the National Economic Council of the Chinese Government.

The study has been submitted in draft to a number of authorities including the following, many of whom made suggestions and criticisms which were of great value in the process of revision: Mr. John Wheeler-Bennett, Dr. Arnold Wolfers, Mr. Liu Yu-wan, Mr. A. M. Smithies and Mr. G. E. Hubbard.

Though many of the comments received have been incorporated in the final text, the above authorities do not of course accept responsibility for the study. The statements of fact or of opinion appearing herein do not represent the views of the Institute of Pacific Relations or of the Pacific Council or of any of the National Councils. Such statements are made on the sole responsibility of the author. The Japanese Council has not found it possible to participate in the Inquiry, and assumes, therefore, no responsibility either for its results or for its organization.

During 1938 the Inquiry was carried on under the general direction of Dr. J. W. Dafoe as Chairman of the Pacific Council and in 1939 under his successor, Dr. Philip C. Jessup. Every member of the International Secretariat has contributed to the research and editorial work in connection with the Inquiry, but special mention should be made of Mr. W. L. Holland, Miss Kate Mitchell and Miss Hilda Austern, who have carried the major share of this responsibility.

In the general conduct of this Inquiry into the problems arising from the conflict in the Far East the Institute has benefited by the counsel of the following Advisers:

Professor H. F. Angus of the University of British Columbia

Dr. J. B. Condliffe of the London School of Economics

M. Etienne Dennery of the Ecole des Sciences Politiques.

These Advisers have co-operated with the Chairman and the Secretary-General in an effort to insure that the publications issued in connection with the Inquiry conform to a proper standard of sound and impartial scholarship. Each manuscript has been submitted to at least two of the

Advisers and although they do not necessarily subscribe to the statements or views in this or any of the studies, they consider this study to be a useful contribution to the subject of the Inquiry.

The purpose of this Inquiry is to relate unofficial scholarship to the problems arising from the present situation in the Far East. Its purpose is to provide members of the Institute in all countries and the members of I.P.R. Conferences with an impartial and constructive analysis of the situation in the Far East with a view to indicating the major issues which must be considered in any future adjustment of international relations in that area. To this end, the analysis will include an account of the economic and political conditions which produced the situation existing in July 1937, with respect to China, to Japan and to the other foreign Powers concerned; an evaluation of developments during the war period which appear to indicate important trends in the policies and programs of all the Powers in relation to the Far Eastern situation; and finally, an estimate of the principal political, economic and social conditions which may be expected in a post-war period, the possible forms of adjustment which might be applied under these conditions, and the effects of such adjustments upon the countries concerned.

The Inquiry does not propose to "document" a specific plan for dealing with the Far Eastern situation. Its aim is to focus available information on the present crisis in forms which will be useful to those who lack either the time or the expert knowledge to study the vast amount of material now appearing or already published in a number of languages. Attention may also be drawn to a series of studies on topics bearing on the Far Eastern situation which is being prepared by the Japanese Council. That series is being undertaken entirely independently of this Inquiry, and for its organization and publication the Japanese Council alone is responsible.

The present study, "German Interests and Policies in the Far East," falls within the framework of the first of the four general groups of studies which it is proposed to make as follows:

I. The political and economic conditions which have contributed to the present course of the policies of Western Powers in the Far East; their territorial and economic interests; the effects on their Far Eastern policies of internal economic and political developments and of developments in their foreign policies vis-à-vis other parts of the world; the probable effects of the present conflict on their positions in the Far East; their changing attitudes and policies with respect to their future relations in that area.

II. The political and economic conditions which have contributed to the present course of Japanese foreign policy and possible important future developments; the extent to which Japan's policy toward China has been influenced by Japan's geographic conditions and material resources, by special features in the political and economic organization of Japan which directly or indirectly affect the formulation of her present foreign policy, by economic and political developments in China, by the external policies of other Powers affecting Japan; the principal political, economic and social factors which may be expected in a post-war Japan; possible and probable adjustments on the part of other nations which could aid in the solution of Japan's fundamental problems.

III. The political and economic conditions which have contributed to the present course of Chinese foreign policy and possible important future developments; Chinese unification and reconstruction, 1931-7, and steps leading toward the policy of united national resistance to Japan; the present degree of political cohesion and economic strength; effects of resistance and current developments on the position of foreign interests in China and changes in China's relations with foreign Powers; the principal political, economic and social factors which may be expected in a post-war China; possible and probable adjustments on the part of other nations which could aid in the solution of China's fundamental problems.

IV. Possible methods for the adjustment of specific problems, in the light of information and suggestions presented in the three studies outlined above; analysis of previous attempts at bilateral or multilateral adjustments of political and economic relations in the Pacific and causes of their success or failure; types of administrative procedures and controls already tried out and their relative effectiveness; the major issues likely to require international adjustment in a post-war period and the most hopeful methods which might be devised to meet them; necessary adjustments by the Powers concerned; the basic requirements of a practical system of international organization which could promote the security and peaceful development of the countries of the Pacific area.

EDWARD C. CARTER  
*Secretary-General*

*New York,  
January 16, 1940*



## AUTHOR'S PREFACE

The following study was first submitted in draft form in 1938. It was then widely commented upon, revised and brought up to date in December of last year. Now that it is going to press, the sequence of events which led to the outbreak of another great European war has so basically changed Germany's attitude toward the Far East that it does not seem worthwhile to fill the gap between December 1938 and August 1939 with a description of close German-Japanese friendship and its various manifestations.

When in the Spring and Summer of 1939, internal dissension in Japan resulted from the pressure of the Japanese military for a definite German-Japanese military alliance, and when Anglo-Japanese friction developed as a result of such pressure, it seemed for a while as though the German-Japanese understanding was really aimed not so much against the Communist International and the Soviet Union as against the British Empire. That this was the real background of German-Japanese co-operation was, moreover, often asserted by many commentators of different nationality.

However, the aftermath of the conclusion of the German-Soviet Non-aggression Pact of August 1939 seems to indicate that, at least so far as Japan is concerned, her friendship with Germany and the resulting Anti-Comintern Pact were based on the assumption of a "natural" German-Japanese antagonism toward the Soviet Union. Accordingly, the Japanese Ambassador in Berlin, one of the most ardent advocates of German-Japanese friendship, was instructed to protest against the German-Soviet Pact as violating the spirit of the German-Japanese Anti-Comintern Pact.

Moreover, a Cabinet crisis in Japan resulted in a new Japanese Cabinet which has announced, through responsible spokesmen, that Japan's foreign policy would now be directed exclusively toward defending her own interests in Eastern Asia, and that Japan would try to avoid European entanglements. This, it seems, may be taken to mean that Germany's Far Eastern poli-

cies have now ended in provoking coolness, if not hostility, in both China and Japan.

It is, of course, too early to foresee what economic and political effects the European war will have on the relations between Germany, on the one hand, and China and Japan, on the other hand. Already, however, orders originally intended for Germany are being switched to other countries by the authorities and enterprises of Manchukuo. Moreover, these authorities will be forced to find new outlets for Manchurian soy beans which, it would seem at present, cannot be shipped to Germany.

Moreover, it is unlikely that Germany can continue exports to the Far East. Though theoretically Germany's Far Eastern trade might be rerouted via the Siberian railways of the Soviet Union, not only would the cost of such transportation probably be prohibitive, but Soviet-Japanese friction makes such traffic extremely improbable. Additional difficulties will presumably result from the virtual dissolution of the Hongkong branches of German trading firms following from the internment of the German residents of Hongkong.

As to German-Chinese political relations, it is reliably reported that in May 1939 a minor barter deal was concluded along the lines of the original Hapro agreement of 1936. In addition, arms shipments from Germany to China were arranged, it is said, at the same time.

If Sino-Soviet friendship and the German-Soviet rapprochement are taken into account, it would seem possible that Germany may ultimately answer the shift in Japanese foreign policy by a similar shift of her own stand with regard to the Sino-Japanese conflict. For the time being, however, both economically and politically, Germany seems to have fully withdrawn from the Far East where her future role obviously depends upon the outcome of the European war.

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## CHAPTER I

### GERMANY, CHINA AND JAPAN BEFORE THE WORLD WAR

Germany's pre-War policy in the Far East was conditioned by her general trade expansion, by her colonial ambitions and by her position in the changing European balance of power.

Since the middle of the nineteenth century Germany's trade had been rapidly growing, and in the sixties German interests in the Far East were important enough to warrant a diplomatic mission and the conclusion of most-favored-nation treaties with both China and Japan by Prussia on behalf of the German Customs Union, and the establishment of diplomatic missions in Peking and Tokyo by the King of Prussia.

Typical of the close relationship between German trade expansion and the German drive for colonies was the demand voiced in 1871 by merchants of Bremen, that Germany, in the peace negotiations with France held at Frankfurt-on-Main, should demand the cession of the French Far Eastern and Pacific possessions, gained by the policies of expansion of Napoleon III. This demand, however, was rejected by Bismarck who argued that Germany lacked both the trained personnel and the financial strength to embark on such colonial expansion.<sup>1</sup>

Germany's military prestige was greatly enhanced by the successful war against the French Empire, and, accordingly, a German military mission was substituted in Japan for the French mission which had assisted till then in the organization of the Japanese army along modern lines. Similarly, German officers served in the Chinese army and later took an active part in the Sino-Japanese war of 1894-5.

In the eighties Germany fundamentally changed her attitude toward colonial expansion. She entered the Far Eastern political stage toward the end of the Sino-Japanese war when Germany,

<sup>1</sup> It should be noted that at this period and later, the desire for colonies was limited mainly to a few of the larger merchant houses and shipping lines of the North Sea towns and some enthusiastic theorists. These were soon to be supported by the Navy as well.

Russia and France jointly intervened in favor of China. This action may be regarded as a first step toward a continental alliance against Great Britain and Japan who was then considered a British ally.

"It was the Kaiser's master strategy to keep Russia busily engaged in the Far East and thus to avoid any direct collision with her in Europe. Yet Germany also sought her 'place in the sun' in the Far East and she found it to her best interest to keep a close check upon the growing intimacy of Russia and France. In short, Germany was trying to kill two birds with one stone by joining the Dreibund."<sup>2</sup>

For her good services Germany was able to obtain from China the grant of German concessions in Hankow and Tientsin. But Germany did not consider such compensation sufficient,<sup>3</sup> and troubles about the activities of German missionaries provided her with a pretext to occupy Tsingtao in the province of Shantung in 1898, as an act of retaliation.

Part of the German reward for friendly services rendered in 1895 was her participation in the financing of China. In 1895 the Chinese Government concluded a loan with a German syndicate (Arnhold-Karberg Loan) at the same time that it borrowed from British sources (Cassel Loan). In the same year the Deutsch-Asiatische Bank and the Hongkong and Shanghai Banking Corporation formed the first (Two-Power or Anglo-German) China Consortium. This consortium underwrote the two so-called Anglo-German loans of 1896 and 1898. In 1900 an American consular official put the aggregate of German investments in China and Japan at no less than \$90,000,000.

While the so-called lease of Tsingtao was not geographically extended, Germany used Tsingtao as the base of a politico-economic sphere of interest in Shantung province. In 1899 the Deutsch-Asiatische Bank organized the German Shantung Railway Company to build and to operate a railway network in Shantung province for which the Chinese Imperial Government had granted a concession. The most important part of this railway system was the Tsingtao-Tsinan trunk line completed in 1904. German mining concessions in Shantung were incorpo-

<sup>2</sup> R. H. Akagi, *Japan's Foreign Relations, 1542-1936*. Hokuseido Press, Tokyo, 1936, p. 164.

<sup>3</sup> "The concessions in Hankow on the Yangtze River and in Tientsin, granted without any difficulties in the summer of 1895, cannot be regarded as adequate reward for the help granted by Germany." A. J. Irmer, *Die Erwerbung von Kiautchow*. Cologne, 1930.

rated in the Shantung Mining Company which was later merged with the Shantung Railway Company.

Germany also took part in the Anti-Boxer campaign of the Western Powers and participated in the Boxer Indemnity to the extent of 20 per cent of its total.

By 1905 the *Marine-Rundschau*, a review edited by the German Navy, estimated total German investments in China, excluding some of the Shantung investments, German holdings of Chinese Government bonds and the Boxer Indemnity, at about 350 million marks. The grand total of the German investment in China at that time may have been around 700 million marks (about U. S. \$165 million).

Germany's rapidly expanding share in the exploitation of China did not accord well with Japanese ambitions, more especially since Germany backed Russia in her Far Eastern expansion.

"As late as January 3, 1904, the Kaiser wrote to the Tsar that '... it is evident to every unbiased mind that Korea must and will be Russian,' that 'when and how' it is effected 'is nobody's affair and concerns only you and your country,' and that the Russian annexation of Korea 'is a foregone conclusion here like the occupation of Manchuria.'"<sup>4</sup>

In accordance with this general Far Eastern policy, German ships provided the Russian Baltic Fleet with coal—mostly Cardiff coal—during the Russo-Japanese War, provoking a sharp Japanese protest. Moreover, in 1905 the Kaiser tried to conclude a Russo-German alliance.

"The Kaiser directed his energies during 1907-8 in trying to effect a German-Chinese-American entente which would eventually attract Russia. The idea, however, met defeat at the hands of Japanese diplomats through the so-called Root-Takahira Agreement."<sup>5</sup>

With the Anglo-Japanese alliance greatly strengthened after the Russo-Japanese war, Germany lost favor with Japan's diplomats who looked askance at her drive for additional rights and privileges in China, as well as her attempts to join an anti-Japanese and anti-British bloc of Powers. Germany, however, demanded and was granted shares in the building and financing of the Tientsin-Pukow railway (Tientsin-Tsinan sector) and of the Hukuang railway. In fact, German trade with both China

<sup>4</sup> Akagi, *op. cit.*, p. 232 *et seq.*

<sup>5</sup> *Ibid.*, p. 291.

and Japan increased steadily and also grew in relative importance for herself, as appears from the following table.

TABLE 1  
GERMAN TRADE WITH CHINA AND JAPAN, 1890-1913  
(In million marks. China including Hongkong and Tsingtao)

| <i>Year</i> | <i>China</i>   |                | <i>Japan</i>   |                | <i>Per Cent of Total German Trade</i> |                |
|-------------|----------------|----------------|----------------|----------------|---------------------------------------|----------------|
|             | <i>Imports</i> | <i>Exports</i> | <i>Imports</i> | <i>Exports</i> | <i>Imports</i>                        | <i>Exports</i> |
| 1890.....   | 7.8            | 29.9           | 4.7            | 18.5           | 0.3                                   | 1.5            |
| 1895.....   | 18.5           | 35.4           | 7.8            | 26.1           | 0.6                                   | 1.9            |
| 1900.....   | 23.3           | 52.7           | 14.7           | 70.4           | 0.7                                   | 2.7            |
| 1905.....   | 35.5           | 91.7           | 20.4           | 84.6           | 0.8                                   | 3.1            |
| 1910.....   | 101.9          | 74.0           | 36.8           | 89.3           | 1.5                                   | 2.2            |
| 1911.....   | 103.9          | 77.2           | 37.6           | 112.6          | 1.4                                   | 2.3            |
| 1912.....   | 116.0          | 87.7           | 43.1           | 110.6          | 1.5                                   | 2.3            |
| 1913.....   | 131.0          | 130.0          | 46.6           | 122.7          | 1.6                                   | 2.5            |

Germany's trade with China was thus of greater importance than her trade with Japan. The generally unfavorable balance in Sino-German trade resulted from the great importance of German capital invested in China on which interest and amortization were transferred to Germany by shipment of Chinese products. While the number of German residents and the amount of German capital investment in Japan were rather insignificant, German residents in China increased from 1,000 in the nineties to nearly 4,000 (of whom about 1,000 were in Tsingtao) in 1914, and the total German investment in China at the outbreak of the World War has been estimated at around one billion marks (not including Germany's share in the Boxer Indemnity).

German expansion in China had aimed at carving out of China a German sphere of interest in Shantung province to border in the north on Russia's sphere of interest in Manchuria, and in the south on a British Yangtze zone, though Germany as well as Britain tried to participate financially and commercially in the economic development of the latter region. No attempt, however, had been made to align this German sphere of interest with the growing Japanese stake in Manchuria and China.

## CHAPTER II

### THE WORLD WAR AND ITS AFTERMATH

When the World War broke out, the German Minister in China tried to induce his home government to return Germany's concessions and Shantung interests to China; but his advice was rejected. Accordingly, Japan, bound by her alliance with Britain and little inclined to forget Germany's earlier intervention against Japan on behalf of both China and Russia, especially since she hoped to gain for herself Germany's sphere of interest in Shantung, entered the war as one of the Allied Powers. Japan captured Tsingtao from its German garrison, and for fully eight years thereafter the diplomats of the world had to deal with the new "Shantung problem," until the Washington Conference returned Shantung to China.

With the Japanese occupation of Shantung, the Allies alienated Chinese sympathies. China, accordingly, did not care to take part in the World War, but stayed neutral, focussing her attention on internal difficulties and on the Japanese attempt to secure hegemony in China. For Japan not only tried to take over Germany's position in Shantung, but also to force China into acceptance of the Twenty-one Demands of 1915. The Southern Republican Party led by Dr. Sun Yat-sen arrived at the conclusion that China should not align herself with Japan and her Allies in a common front against Germany. The Party's pro-German sympathies which thus originated were destined to survive. Yet it should be emphasized that their basis, then and subsequently, was the belief that Germany's and Japan's policies would be in mutual opposition.

In 1917 the President of the Chinese Republic, Li Yuan-hung, accepted the advice of the United States as represented by its minister, Dr. Paul Reinsch, who urged the Chinese Government to sever diplomatic relations with Germany, and declared war on Germany. Immediately after the declaration of war, the Chinese Government took over the German concessions in Hankow and Tientsin and also seized German property in

China. The Armistice was followed by mass repatriation of German residents in China.

The Treaty of Versailles provided that Germany should cede her possessions in the Pacific and in China to the Allied and Associated Powers. China, insisting on the abolition of Germany's territorial rights in China, refused to sign the Treaty. Thus the state of war between Germany and China was ended by proclamation, and in May 1921 a separate Sino-German peace was concluded, to be supplemented in June 1924 by an additional agreement.

By these agreements it was established that German citizens in China were subject to Chinese jurisdiction, like the nationals of the succession states, other newly-established nations of Eastern and Central Europe, and an increasing number of other countries. In actual practice, the application of Chinese jurisdiction in civil cases was greatly restricted by contractual provisions for arbitration in cases of disputes between Germans and other nationals, including Chinese, and among Germans. With the residential and other restrictions generally imposed upon aliens in China still applying to Germans, the latter soon again formed part of China's foreign society.

As to the effects of the loss of extraterritoriality by German citizens in China, conflicting claims have been made; it has been argued that it was harmful in a general way, and it has been said that the Chinese preferred to deal with foreigners subject to the jurisdiction of their own government, and that, accordingly, the loss of extraterritoriality proved profitable. Probably the economic result of the loss of legal privileges was negligible either way. On the other hand, the loss of consular jurisdiction over German nationals proved important for Germans who violated German laws or were out of favor with their home government. They could safely reside in China, practically free from either legalized or malicious persecution from Germany.

Through the agreements of 1921-4, private German property seized during the War, but not liquidated, was returned to its owners, with the exception of private claims against the Chinese Government which were offset by financial claims of China against the German Government. The Deutsch-Asiatische Bank was granted restitution of its rights as house of issue for Chinese Government loans; but the bank could not regain its pre-War importance, Germany being excluded from the new—and in-

operative—China Consortium as established by the Washington Conference, and German interest rates being higher than those charged by other banks. The recognition by the Chinese Government of the German sections of Chinese foreign loans was probably more important for non-German holders of such bonds than for German nationals, especially since during the War private holdings of such bonds had been nationalized in Germany. Insofar as such nationalized bonds had not been sold, they were now used to satisfy Chinese claims against Germany.

During the War Japan also seized German property, not only in Japan and her dependencies, but also in Tsingtao. Liquidation of such property proceeded for a few years after the War. Although a large part of the proceeds of liquidation was eventually restored to the original German owners, it was freely charged in Germany that the liquidation had taken place at prices below the real value of the property, to the advantage of the Japanese buyers who were thus enabled to enrich themselves. As a signatory to the Treaty of Versailles, Japan shared in German reparations. Tabulations by the German Statistical Office give the following amounts (in million Reichsmarks) as paid to Japan during the last four years in which Germany paid any reparations.

|            |    |              |
|------------|----|--------------|
| 1928 ..... | 10 | } Dawes Plan |
| 1929 ..... | 23 |              |
| 1930 ..... | 14 | } Young Plan |
| 1931 ..... | 7  |              |

While Japan profited financially from the Treaty of Versailles, her ambitions in China were largely frustrated by the Washington Conference of 1922. Besides, Japan was greatly weakened by the loss of her alliance with Britain. American pressure and a revolt of Japanese public opinion against the expenses and the graft involved in Japan's Siberian adventure compelled Japan to withdraw her forces from the occupied Maritime Province of Russia and from Vladivostok. Her hopes of ruling Outer Mongolia through the agency of White Russian adventurers were shattered by the successes of the Soviet Army and by the revolutionary developments in Outer Mongolia.

The earthquake of 1923 marked the end of the third stage of Japan's forward policy which began with her declaration of war against Germany in 1914. It took Japan eight years to recover



from the political and economic setback caused by the earthquake, its aftermath of reconstruction speculation, the ensuing financial crash of 1927, and the first inroads made upon her economic life by the approaching world depression.

Germany after the Treaty of Versailles had to grapple with three major problems: internal reconstruction (apparently involving the recovery of foreign trade lost by the War blockade), reparations, and the overcoming of her political isolation.

Internal reconstruction and recovery of foreign trade were brought about by inflation. During the inflation Germany rebuilt her mercantile marine and her heavy industries, curtailed by the cession of the Lorraine iron ores and blast furnaces; she also greatly developed her power resources. Assisted by the steady depreciation of the mark, Germany rapidly recovered her foreign markets. Reparations were pushed into the background until the occupation of the Ruhr forced Germany into acceptance of the Dawes Plan in 1924. Political isolation was ended with the 1922 Treaty of Rapallo between Germany and Soviet

TABLE 2

## CHINA'S TRADE WITH GERMANY, 1920-1923

(In million Haikwan taels\* and percentages of total Chinese trade)

| <i>Year</i> | <i>Imports from Germany</i> |                 | <i>Exports to Germany</i> |                 |
|-------------|-----------------------------|-----------------|---------------------------|-----------------|
|             | <i>Taels</i>                | <i>Per Cent</i> | <i>Taels</i>              | <i>Per Cent</i> |
| 1920.....   | 5.4                         | 0.7             | 1.8                       | 0.3             |
| 1921.....   | 13.3                        | 1.4             | 6.8                       | 1.1             |
| 1922.....   | 24.7                        | 2.5             | 9.8                       | 1.4             |
| 1923.....   | 32.5                        | 3.4             | 11.9                      | 1.5             |

\* The Haikwan tael was a monetary unit used for Chinese Customs valuations. It was roughly equivalent to 1.55 standard Chinese silver dollars. In reading the above statistics allowance must be made for the rapid changes in the price of silver and thus in the exchange value of Chinese silver currency units in 1920. Allowance must also be made for considerable transit trade with Germany through Hongkong and certain European ports.

TABLE 3

## JAPAN'S TRADE WITH GERMANY, 1920-1923

(In million yen and percentages of total Japanese trade)

| <i>Year</i> | <i>Imports from Germany</i> |                 | <i>Exports to Germany</i> |                 |
|-------------|-----------------------------|-----------------|---------------------------|-----------------|
|             | <i>Yen</i>                  | <i>Per Cent</i> | <i>Yen</i>                | <i>Per Cent</i> |
| 1920.....   | 12.0                        | 0.5             | 1.1                       | —               |
| 1921.....   | 47.7                        | 2.9             | 2.4                       | 0.2             |
| 1922.....   | 110.6                       | 5.9             | 3.7                       | 0.2             |
| 1923.....   | 120.2                       | 6.1             | 3.4                       | 0.2             |

Russia. Faced with the Rapallo Treaty, British diplomacy began its trend toward "revisionism" as applied to the Peace Treaties.

During the period of inflation Germany's trade with both Japan and China rapidly increased. [According to the Chinese and Japanese trade returns—German statistics of the period are distorted by inflationary valuation figures—Germany's trade developed as shown in Tables 2 and 3.]

After the earthquake of 1923 Germany's trade with Japan was greatly swelled by exports serving Japanese reconstruction. Thus, Germany indirectly profited from the Japanese reconstruction loans floated in New York and London.

After 1923-4, i.e., the end of "passive resistance," German foreign policy was directed to securing closer ties with the Western Powers. There was rapid reconciliation between Germany, on the one hand, and Britain, France and the United States of America on the other hand. The Dawes Plan having been ratified, a steadily growing flow of foreign, especially American and British, capital helped Germany to adjust her economic life to international economic conditions and to profit, through her rapidly growing foreign trade, from the wave of international prosperity, which characterized the third decade of the twentieth century.

German imports and exports until 1931, the year that marked a turning-point in German economic and political history, developed as follows:

TABLE 4  
GERMANY'S TOTAL AND ASIATIC TRADE, 1913-1931  
(In million Reichsmarks)

| <i>Year</i> | <i>Total Imports</i> | <i>Imports from Asia</i> | <i>Total Exports</i> | <i>Exports to Asia</i> |
|-------------|----------------------|--------------------------|----------------------|------------------------|
| 1913.....   | 10,770               | 1,050                    | 10,097               | 550                    |
| 1923.....   | 6,150                | 563                      | 6,102                | 461                    |
| 1924.....   | 9,083                | 844                      | 6,552                | 511                    |
| 1925.....   | 12,362               | 1,491                    | 9,290                | 730                    |
| 1926.....   | 10,002               | 1,147                    | 10,415               | 929                    |
| 1927.....   | 14,228               | 1,411                    | 10,801               | 826                    |
| 1928.....   | 14,051               | 1,660                    | 12,030               | 923                    |
| 1929.....   | 13,447               | 1,605                    | 13,483               | 1,042                  |
| 1930.....   | 10,393               | 1,217                    | 12,036               | 804                    |
| 1931.....   | 6,727                | 834                      | 9,599                | 640                    |

The growing importance of Germany's trade with China and Japan during this period may be seen from the following figures:

TABLE 5

## GERMANY'S TRADE WITH CHINA AND JAPAN, 1913-1931

(In million Reichsmarks and percentages of total German trade)

| <i>Year</i> | <i>Imports from</i> |              |                 | <i>Exports to</i> |              |                 |
|-------------|---------------------|--------------|-----------------|-------------------|--------------|-----------------|
|             | <i>China</i>        | <i>Japan</i> | <i>Per Cent</i> | <i>China</i>      | <i>Japan</i> | <i>Per Cent</i> |
| 1913.....   | 131                 | 47           | 1.6             | 130               | 123          | 2.5             |
| 1923.....   | 97                  | 13           | 1.8             | 102               | 163          | 4.3             |
| 1924.....   | 127                 | 18           | 1.6             | 113               | 144          | 3.9             |
| 1925.....   | 229                 | 29           | 2.1             | 118               | 182          | 3.2             |
| 1926.....   | 196                 | 18           | 2.1             | 152               | 241          | 3.8             |
| 1927.....   | 265                 | 28           | 2.1             | 121               | 181          | 2.8             |
| 1928.....   | 330                 | 40           | 2.6             | 170               | 213          | 3.2             |
| 1929.....   | 371                 | 43           | 3.1             | 185               | 245          | 3.2             |
| 1930.....   | 298                 | 41           | 3.3             | 150               | 193          | 2.8             |
| 1931.....   | 216                 | 30           | 3.7             | 141               | 144          | 3.0             |

When German recovery began in 1924, the policy of the victorious Western Powers reached the climax of success. Germany was pacified, willing to take part in peaceful international co-operation and seemingly dependent on a huge volume of foreign trade necessary for the maintenance of a decent standard of living for her people. Japanese ambitions were cowed and unlikely to be revived for some time, with Japan suffering from the aftermath of the earthquake and dependent on foreign reconstruction loans. China was torn by civil strife among self-seeking and mercenary warlords most of whom were willing tools of Western diplomatic intrigue. German-Russian relations had temporarily cooled off as a result of the signal failure of communist attempts at revolution during the hectic days of 1923<sup>1</sup> when "passive resistance" in the occupied territory of Germany was breaking down and high-pressure inflation precipitated the fall of the paper mark to infinitesimal values. Besides, the death of Lenin had opened an era of internal dissension in the U.S.S.R.

Though Germany's old political influence in the Far East was gone, her trade with both China and Japan was rapidly growing. Inflation greatly helped to increase the number of German residents in China, many of whom were employed by foreign, especially by American firms. Germans were glad to escape from paper mark salaries at home into foreign employ. Accordingly, the German communities in the Far East were soon re-estab-

<sup>1</sup> Though there were no official expressions of protest against the activities of the Comintern during the Ruhr invasion, there was considerable German resentment at the communist uprisings in Hamburg and Baden in 1923.

lished, schools, churches and newspapers being subsidized from the secret funds of the German Government. The period was characterized by very cordial relations between the Germans and Chinese, though it is a matter of doubt as to how far this was due to a Chinese belief that Germans, like themselves, were victims of "imperialism" and "unequal treaties" or to the realization that Germany as a defeated imperialist power no longer constituted a threat to China.

Germany's trade in China during inflation and afterwards was largely financed by foreign, especially British, banks in China. Once more, the old-established German merchant firms dealt not only in German goods and in the export of Chinese goods to Germany, but also in American, British and other goods. With the strengthening of Germany's financial structure by foreign loans, German manufacturers also began to extend credit to the German houses in Shanghai.

Germany's trade with Japan rested on a different basis. Soon after the Peace Treaties, the Yokohama Specie Bank and many of the big Japanese concerns like Mitsui and Mitsubishi established branches in Germany to foster German-Japanese trade which was extremely profitable with the depreciation of the mark reducing the export prices of German goods. Accordingly, Japan became one of Germany's creditors. A surviving trace of this relationship was revealed when in 1931 Japan found herself with loans of eight million Reichsmarks frozen in Germany.

### CHAPTER III

## GERMAN INFLUENCE IN CHINA'S MILITARY REORGANIZATION

The post-War international *status quo*, resulting from the Peace Treaties, the Washington Conference, the Dawes Plan, the Japanese earthquake and the wavering of the U.S.S.R. between alternative courses of policy, was first shattered in China when, with Russian help, Sun Yat-sen's northern expedition began. German sympathies generally were with China's nationalistic aspirations; furthermore, traditional Anglophobia led to gleeful outbursts in the German press concerning Great Britain's entanglements in the Far East. German business men in China, on the other hand, were naturally opposed to any revolutionary changes in China which might disturb the foreign merchants' trade. Moreover, there was little sympathy in German official circles with a revolutionary Asiatic Russo-Chinese-Mongol bloc which seemed to loom menacingly on the horizon while Borodin and Bluecher (Galen) advised the Kuomintang how to conquer China and to fight imperialism.

General Chiang Kai-shek soon assumed in German eyes the role of savior of his country from the revolutionary menace. His anti-communist campaign which ten years later was to end at, or just before, the Sian kidnaping, was acclaimed in Germany. It was evident that Germany's friendly relations with the U.S.S.R. could not easily be reconciled with her Far Eastern trade interests.

When Chiang Kai-shek ousted his Russian advisers, it was not surprising that he turned to German military experts. With nationalistic aspirations running high, it was clearly impossible to substitute military advisers of one of the "imperialistic" nations for the Russians. German military prestige, moreover, had always stood high in the Far East since 1870-1. Furthermore, it seems clear on the basis of reliable reports given to the writer that certain German industrial groups suggested to Chiang Kai-shek that he call on a Colonel Walter Bauer (formerly Chief of

the Bureau of Operations under General Ludendorff in the World War) to assist in the building up of China's national army. The proposal was apparently made in the expectation of deriving profits from Sino-German co-operation, and possibly with the idea of ultimate political advantages. It would seem that with this move, an era of secret industrial diplomacy was initiated, aimed at securing for Germany preferential advantages in the Chinese market and supported by the same economic interests which were bent on seizing supreme influence in the domestic policies of Germany. Bauer arrived at Canton in November 1927; he returned to Germany in the spring of 1928, soon to be followed by a Chinese mission to Germany. The German Government of the day did not favor the Bauer scheme for organizing a German military mission to China, and Bauer who, as a friend of Ludendorff and Hitler, was not on friendly terms with the government, issued the following "denial" of activities ascribed to him:

"(1) I am not at all in the service of the Chinese Government, neither as a soldier nor otherwise, nor do I have any contractual relationship with the Chinese Government. (2) I am working in China in the interests of German business and German science, to help in the economic reconstruction of the country and to promote Sino-German friendship: not in order to make money nor to play at politics, but to do my duty. (3) I have no authority to hire experts for China, nor do I have any decisive influence in decisions made in that respect. It is, however, true that my advice concerning several personalities has been requested. (4) To the best of my knowledge, there is no German military officer in Nanking, Shanghai or Canton, nor does anyone hold a contract concluded with the Chinese Government, according to which he would be employed in a military capacity. Whether anybody has been hired behind my back I could not deny with certainty, though I do not think so."

Careful reading of this "denial" is apt to lead to the conclusion that Bauer was employed in China by somebody; that he was giving authoritative, though not formally decisive, advice on the selection of Germans who were hired to serve in China; that no German military officer had as yet arrived in any of the three cities mentioned, though possibly elsewhere; that contracts were either not signed with the Chinese Government, but with someone else, or they were oral contracts supported by the authority of Bauer or other—Chinese or German—persons, and that a German mission to China was likely to leave in the near future.

About a year later, toward the end of 1929, Wang Ching-wei, at that time a leftist opponent of Chiang Kai-shek, and not so friendly to German interests as he was to be five years later, charged that the German officers of Chiang Kai-shek's headquarters had been put at his disposal by the German Government; that, in violation of the Versailles Treaty, great quantities of arms, ammunition, tanks, bombs and other war materials were consistently exported from Germany into China; that this was interference by Germany in China's internal affairs, justifying reprisals against German citizens.

These accusations elicited the following official denial:

"(1) It is untrue that the German Government has sent military officers to China. The German Government did not even recommend any. They have been selected in Germany by Chiang Kai-shek or his deputies in Germany. (2) The German Government, as a matter of principle, does not favor Germans participating in military action abroad. (3) Germans going abroad to face the risk of warfare, are doing so at their own risk. (4) It is untrue that the German Government has any influence on the dispatch of war materials to China. It is well known that war materials have been dispatched from other countries, partly on German ships. The statute prohibiting arms shipments to China having been abolished, the German Government, like other governments, is unable to stop the shipment of war materials to China. But such war materials are not of German origin. If, however, statements to the contrary are emerging again and again in the Far Eastern press, one may be led to conclude that the newspapers publish them, in order to avert attention from their own country."

But Wang Ching-wei's statements were repeated in 1930 by Marshal Yen Hsi-shan whose accusations elicited another statement from the German Government:

"The leader of the North China coalition fighting against the Chinese National Government, Marshal Yen Hsi-shan, has asked that certain diplomatic representatives of Germany's former enemies in Peiping, their governments being signatories of the Versailles Treaty, should probe into Germany's observance of the Versailles Treaty and force her to comply with her obligations as stated therein, especially in view of the activities of former German military officers in the army of the National Government, and of the German sales of arms and poison gas to the National Government. The export of arms for purposes of warfare, ammunition and poison gas from Germany has been prohibited by statute, and such prohibition is strictly enforced. The German military advisers of the Chinese army are employed against the wishes of the German Government. The German Government disapproves of their employment, has repeatedly warned the officers and has seen to it that the Chinese Government could not possibly doubt that the employment of German citizens for military purposes is deemed undesirable by the German Government."

Meanwhile, Bauer had succumbed in 1929 to illness contracted in China.<sup>1</sup> He was followed by Lieutenant-Colonel H. Kriebel, one of the first members of the German National Socialist Labor Party which was destined to seize political power in Germany's so-called Third Reich. Kriebel soon resigned, to be followed in turn by Lieutenant-General Wetzell who stayed in China for three years and really organized the ensuing continuous activities of the German military mission in China, which was composed of a few dozen ex-officers, commissioned and non-commissioned, of the German Army. Wetzell left China in 1934, General von Falkenhausen serving as his successor until the beginning of July 1938. General von Seeckt, the organizer of the German Reichswehr, spent some months with the military advisers in China during 1934 and again for a short period in 1935, and is regarded by some as having really laid the foundation for the organization of the modern Chinese Army by drafting the basic plan on which Falkenhausen worked. It is obviously difficult, however, owing to the necessity of relying on personal impressions and casual information, to confirm this view or to describe exactly the contribution made by the German advisers—as, for instance, how far their work was limited to their undoubtedly effective training of crack divisions and how far by basic reorganization they made possible China's increased general powers of military resistance in the conflict with Japan. Not for some considerable time yet will it be possible finally to assess the full value of their work.

Nevertheless it may be said that the advisers conceived of their task more as the introduction of *Western* standards into the Chinese Army than as building up *Chinese* standards of efficiency. Because of obvious differences in the circumstances, it is difficult to compare their work with that of Bluecher who, by contrast, seems to have had considerable success with the latter policy. The German advisers provided Chiang Kai-shek with crack troops superior to those of any other Chinese warlord. These troops, however, proved unable for several years to break the fighting power of the opposing Chinese communist armies which were organized and fought on unorthodox revolutionary

<sup>1</sup> Some have expressed doubts as to whether Bauer had a major influence in organizing the group of German advisers. Naturally his exact role cannot be described with certainty but it would seem clear that he was the initiator of the plan. This view certainly is accepted in popular German literature.



lines, though the latter were seldom able to resist in open battle and were finally forced to retreat. During the Sino-Japanese conflict, however, Chiang's German-trained crack troops generally displayed a much greater staying power than other Chinese units. To compare them with the much smaller communist armies operating in North China is hardly possible as the conditions are so different. But it should be remembered that many effective offensive actions against Japanese units have been undertaken by the Eighth Route Army and other military units little affected by German training. The fact that most of these numerous engagements have been on a small scale should not obscure the fact that their total effect has been important in the larger strategy of the war, especially in checking the Japanese thrust into the northwest and, by guerrilla actions, compelling the Japanese to keep large forces in North China. On the other hand it would be unwise to judge the value of the German advisers' work by the Chinese tactics at Shanghai and Nanking, owing to the rumored differences of opinion between Chiang and Falkenhausen regarding the action to be taken at Shanghai—differences which are said to have been reconciled later during the large-scale operations north of the Yangtze.

## CHAPTER IV

### GERMAN COMMERCIAL RELATIONS IN THE FAR EAST, 1923-1931

It seems likely that the German military advisers not only served to enhance German prestige in China generally, but also contributed to the increase of German business with the Chinese Government. Naturally, German advisers showed a preference for German arms and equipment, and considerable sales of these to the Chinese Government were made, in part by the Krupp-Bofors factory in Sweden, and in part directly by German firms.

The friendly relations existing between Germany and both China and the U.S.S.R. were illustrated during the Sino-Russian conflict of 1929, when both parties asked Germany to take care of their interests in the other party's territory. Soviet complaints about the treatment of U.S.S.R. citizens in China were energetically rebuked by Germany as ill-founded, and some of the more astute German observers were inclined to see in the verbal exchange between two friendly governments a rift that might develop into definite estrangement.

The Chinese Government was naturally eager to secure foreign loans for the economic development of China. Such loans could scarcely be provided by any of the major Powers which had limited their freedom of action by participating in the new China Consortium formed during the Washington Conference. Accordingly, China turned to Germany as a potential leader. Although Germany herself, on balance, was a borrower in London and New York, she had begun in 1926 to extend loans to the U.S.S.R. for equipment and machinery, such loans to be repaid within one-and-a-half, three or five years, according to the type of goods ordered.

It was probably because of plans originating partly in Germany among the group responsible for the organization of the German military advisers, and partly in China, that in 1930 the German National Association of Manufacturers (*Reichsverband*

*der Deutschen Industrie*) sent a special economic mission to China. While the mission advocated closer Sino-German trade relations, it was deeply impressed by the unsettled state of China. In its report, German investment in China was recommended only in its least hopeful form, namely, through the establishment of Sino-German enterprises. There were no practical results following the mission, especially since the German Government was opposed to guaranteeing loans extended by German business to China. But out of this mission was evolved the *China Studien Gesellschaft* (Society for China Studies) as a representative organ of German big business.

Although total German investments in China were not small—possibly RM365 million (about U. S. \$90 million) in 1931—they did not increase. The number of German residents in China in 1925 exceeded that of 1913.

During the years of recovery and incipient depression, German trade with Japan and China took a new turn. Continuous investment both by Japan, through the South Manchurian Railway Company, and by Marshal Chang Tso-lin's government in Manchuria, as well as the cruel pressure of economic distress and warlordism in North China, led to the development of Manchuria and its settlement by Chinese peasants immigrating into Manchuria from North China. These peasants grew mainly two products—kaoliang for food and fuel, and soy beans for sale. Germany became the biggest customer for Manchurian soy beans, thus providing an outlet for this commodity which was the joint product of Chinese and Japanese endeavors to exploit Manchuria's natural riches. In Germany Dutch-controlled combines of oil mills and margarine factories (now belonging to the Anglo-Dutch Unilever concern) crushed the soy beans in their establishments on the Lower Elbe and the Lower Rhine, manufacturing the soy bean oil into margarine and selling soy bean cake as fodder. Germany's imports of soy beans and soy bean oil are shown in Table 6.

The percentage of soy bean oil in Germany's consumption of edible vegetable fats reached 14 in 1929, 15 in 1930 and 17 in 1931. This preference for the soy bean was partly the result of its comparative cheapness, partly because of the rapidly increasing margarine consumption in Germany: 1.6 kg. per head in 1913; 3.0 kg. in 1913 and 7.6 kg. in 1928.

TABLE 6  
GERMAN IMPORTS OF SOY BEANS AND BEAN OIL, 1913-1931

| <i>Year</i> | <i>Soy Beans</i>         |                       | <i>Soy Bean<br/>Oil</i> | <i>Per Cent of All German<br/>Imports from China</i> |
|-------------|--------------------------|-----------------------|-------------------------|------------------------------------------------------|
|             | <i>Thousand<br/>Tons</i> | <i>Million<br/>RM</i> | <i>Million<br/>RM</i>   |                                                      |
| 1913.....   | 106                      | 18                    | 0.6                     | 14.2                                                 |
| 1923.....   | 89                       | 20                    | 13.5                    | 34.5                                                 |
| 1924.....   | 137                      | 32.5                  | 11.0                    | 34.3                                                 |
| 1925.....   | 336                      | 84.6                  | 15.0                    | 43.5                                                 |
| 1926.....   | 370                      | 85.9                  | 11.6                    | 49.8                                                 |
| 1927.....   | 576                      | 130.2                 | 7.2                     | 51.9                                                 |
| 1928.....   | 848                      | 198.8                 | 0.5                     | 60.4                                                 |
| 1929.....   | 1,024                    | 239.1                 | 0.1                     | 64.5                                                 |
| 1930.....   | 889                      | 166.5                 | 4.9                     | 57.5                                                 |
| 1931.....   | 1,015                    | 131                   | 3.3                     | 62.2                                                 |

TABLE 7  
GERMAN TRADE BALANCES WITH CHINA AND JAPAN, 1913-1931  
(In million Reichsmarks)

| <i>Year</i> | <i>Soy Bean and<br/>Soy Bean Oil Imports</i> | <i>Germany's Import Surplus<br/>in Trade with China</i> | <i>Germany's Export Surplus<br/>in Trade with Japan</i> |
|-------------|----------------------------------------------|---------------------------------------------------------|---------------------------------------------------------|
| 1913.....   | 18.6                                         | 1                                                       | 76                                                      |
| 1923.....   | 33.5                                         | -5                                                      | 150                                                     |
| 1924.....   | 43.5                                         | 14                                                      | 126                                                     |
| 1925.....   | 99.6                                         | 111                                                     | 153                                                     |
| 1926.....   | 97.5                                         | 44                                                      | 223                                                     |
| 1927.....   | 137.4                                        | 144                                                     | 153                                                     |
| 1928.....   | 199.3                                        | 160                                                     | 173                                                     |
| 1929.....   | 239.2                                        | 186                                                     | 202                                                     |
| 1930.....   | 171.4                                        | 148                                                     | 152                                                     |
| 1931.....   | 134.3                                        | 75                                                      | 114                                                     |

Economically Germany's new link with the Far Eastern soy bean economy in Manchuria might be described as the result of the flow of American capital into both Germany and Japan, enabling Germany to build up increasing trade abroad and increasing wealth at home, and enabling Japan to develop her economic stake in Manchuria and to provide increasing transport facilities for the produce of the Chinese peasants flocking to new homes in the Northeastern Provinces. Germany's trade with China and Japan thus began to take on the shape of triangular trade. Germany's trade with China showed persistently an unfavorable balance, most of the surplus of German imports being due to the huge soy bean purchases.

Thus, the surplus of export proceeds secured by Germany in her trade with Japan, served to pay for the soy beans which

caused an import surplus in Germany's trade with China. With Japanese firms holding a large share in the handling of Manchurian soy beans, the interrelationship was so close that, at its beginning, German official statistics mistakenly listed soy beans as imports from Japan. On the other hand, this close interrelationship of German trade with both China and Japan did not imply that Chinese interests did not profit greatly from the soy bean trade. German soy bean purchases provided the Chinese peasant in Manchuria with a modest living, the Chinese landlord with rent, the Chinese soy bean merchant with profits, Chang Tso-lin's and Chang Hsueh-liang's government and their underlings with tax revenues. Remittances from Manchuria into the rest of China, which at times were quite considerable, resulted from that trade as well as the huge investments made by the Changs' government in Manchuria. Germans built the Mukden arsenal for Chang Tso-lin. Consciousness of the importance of the German stake in Manchuria led the magazine *Ostasiatische Rundschau* to explain in 1932 that, excepting Japan and China, no other power was interested in Manchuria to the same extent as Germany.

Amongst Germany's other imports from China, the most important were tungsten ores, antimony, eggs and egg products, casings, bristles, feathers, cotton, wool and a fairly wide range of miscellaneous products. Her exports to China consisted of dyes for the rapidly growing Chinese textile industries, machinery of all kinds for China's industrial development, iron and steel, arms, airplanes and many other manufactured goods, with textiles declining steadily.

German imports from Japan, on the other hand, were insignificant. The only reduction in German customs duties brought about by the German-Japanese commercial treaty of 1927 affected soy bean oil, the product of Japanese oil mills in Dairen. Her exports to Japan did not suffer fundamentally from her exports to China. Her trade in dyes for the Japanese textile industries, however, was never able to recover from the discriminatory action taken against German dyes by the Japanese Government in 1926. This action forced the German Dye Trust (I. G. Farbenindustrie A. G.) to enter into an agreement with the Japanese dye producers according to which the German concern refrained from importing dyes which might compete with the output of the Japanese dye industry. This agreement

formed an integral part of the German-Japanese commercial treaty of 1927. As a result of the Japanese action, the Chinese market for textile dyes soon offered larger opportunities to the German importers than the Japanese market.

Germany's political interests in the Far East were aptly illustrated by the establishment of the Eurasia Company, an aviation concern jointly organized by the Chinese Government holding a majority of its shares, and the Deutsche Lufthansa A. G., an aviation enterprise controlled by the Reich through subsidies and by other public authorities controlling the majority of shares. The original Eurasia Company was a regular trans-continental German-Russian-Chinese air service. But the estrangement between the U.S.S.R. and China and the unsettled conditions of Sinkiang Province (Chinese Turkestan) proved insurmountable obstacles, and Eurasia developed into an aviation company confined within the boundaries of China.

## CHAPTER V

### FROM THE MUKDEN INCIDENT TO THE SINO-JAPANESE WAR

The world depression fundamentally changed the economic and political situation in both Europe and the Far East. Japan availed herself of the opportunity to seize control of Manchuria and Jehol from China, thus gaining control of the important food supply source which Germany had found in the fields of Manchuria.

Indirectly Germany profited greatly from Japan's first steps on a new career of conquest. As soon as it became evident that Japan was to occupy Manchuria permanently and to station a large Japanese army there, the U.S.S.R. decided that this required an increase in Russian armaments. Since 1926 Germany had been granting the U.S.S.R. loans to enable her to purchase larger quantities of machinery and other industrial equipment. Now, with the first Five-Year Plan being changed to include a large-scale rearmament program, such Russian purchases from Germany increased rapidly. While, under the impact of the depression, Germany's foreign trade shrank everywhere else, her exports to the U.S.S.R. continued to increase. In 1932 Ger-

TABLE 8  
GERMANY'S EXPORTS TO U. S. S. R., 1923-1937

| <i>Year</i> | <i>Million RM</i> | <i>Per Cent of Total Exports</i> |
|-------------|-------------------|----------------------------------|
| 1923.....   | 73                | 1.2                              |
| 1924.....   | 89                | 1.4                              |
| 1925.....   | 251               | 2.7                              |
| 1926.....   | 265               | 2.6                              |
| 1927.....   | 330               | 3.1                              |
| 1928.....   | 403               | 3.3                              |
| 1929.....   | 354               | 2.6                              |
| 1930.....   | 431               | 3.6                              |
| 1931.....   | 762               | 7.9                              |
| 1932.....   | 626               | 10.9                             |
| 1933.....   | 282               | 5.8                              |
| 1934.....   | 63                | 1.5                              |
| 1935.....   | 39                | 0.9                              |
| 1936.....   | 126               | 2.6                              |
| 1937.....   | 117               | 2.0                              |
|             | <b>22</b>         |                                  |

many's share in Russian imports exceeded 40 per cent and the U.S.S.R.'s share in German exports exceeded 10 per cent of the total.

Important as the Russian orders were for Germany's manufacturing industries, they could not, of course, balance Germany's loss of trade elsewhere. The difficulties caused by the sequence of boom and depression proved too hard to bear, and her industrialists and financiers consented to the establishment of the Nazi regime.

Both Germany and Japan had been consistent borrowers in the financial centers of the world; both of them lost their sources of foreign credit in 1931, Germany through her banking crisis, Japan as a result of her Manchurian adventure.

Shortly after the Mukden Incident, Japan entered upon a spectacular period of currency depreciation and export expansion. While both her campaign in Manchuria and North China and her trade policy soon conflicted with British and American interests, German interests suffered to a lesser degree, although German exports to Japan naturally shrank and German manufacturing industries faced increased and successful Japanese competition in many markets.

In 1933 Japan left the League of Nations. At the same time Nazi Germany reshaped her foreign policy. Both the understanding with the Western Powers and the entente with the U.S.S.R. were broken off. In the summer of 1933, at the World Economic Conference, an unofficial German memorandum was published containing a German scheme for the forcible conquest of the Russian Ukraine.<sup>1</sup> In October 1933 Germany walked out of the Disarmament Conference and left the League of Nations.

Thus, both Germany and Japan were left in diplomatic isolation, and soon Germany once more had reason to feel oppressed by the "*cauchemar des coalitions*," with the U.S.S.R. entering an alliance with France and joining the League of Nations.

<sup>1</sup> It has been denied that this Hugenberg memorandum had any official approval, but whatever its authenticity, it was not without influence. It must be recalled that the dream of a German-controlled, "self-governing" Ukraine goes back to the Treaty of Brest-Litovsk and its aftermath, when an autonomous government actually was installed in Kiev. Besides, Hitler in *Mein Kampf* has proclaimed the destruction of the U.S.S.R. and the conquest of the Ukraine as among his foremost aims in foreign policy.



Common enmity against the U.S.S.R. sooner or later was bound to bring about friendship between Germany and Japan.

On the other hand, substitutes had to be found for the Soviet market, with the U.S.S.R. reducing her orders sharply and liquidating her indebtedness<sup>2</sup> to Germany which may have amounted to no less than U. S. \$400 million. The German heavy industries, which had profited most from the Russian purchases, found new outlets at home through German rearmament, but they also sought additional markets abroad.

Now, the same interests which had backed Colonel Bauer's establishment of the German military mission in China and had sent the German National Manufacturers' Association mission to China were close to the Government. The *China Studien Gesellschaft* was a competent organ to advise on Sino-German trade. China, with her pro-German sympathies, with her need for development through foreign capital and with the progressive consolidation of the National Government and its financial organization, was now considered to offer possibilities. Special credits were accordingly put at the disposal of merchants engaged in the China trade, though they were little used. Furthermore, the biggest Continental iron and steel merchant, the firm of Otto Wolff (Cologne), established an office in Shanghai in an attempt to secure Chinese Government railway orders.

The firm of Otto Wolff had played an important part in the arrangement of German sales to the U.S.S.R. In 1933 its partners had requested and been granted the assistance of a trustee appointed by the Reich Government which enjoyed the full rights of a partner. With its loans to the Chinese Government guaranteed by the Reich Government, its plan to look for new business in China was not of a merely private character. In addition, Otto Wolff, being a trading firm, could not proceed without keeping in close touch with the producers of iron and steel and with other manufacturers whose goods the firm might wish to offer in China. While Otto Wolff and his Shanghai office at first outwardly acted only for his own firm, a consortium was later established comprising his firm, certain iron and steel producers and the Deutsch-Asiatische Bank. The latter formally

<sup>2</sup> The process of liquidation was only slightly offset by the loan extension of RM200 million granted by the Nazi Government after the election of March 1933, possibly under the Soviet threat of default, and by occasional new credits arranged later.

led the consortium, though in practice Otto Wolff retained the initiative, and actual conclusion of the contracts depended of course upon the agreement of the Reich authorities.

In June 1934 the first contract was signed for the Chekiang-Kiangsi railway, to be followed later by contracts for the Pinghsiang-Nanchang, the Hunan-Kweichow (Chuchow-Kweiyang) and the Peiping-Hankow railways. In addition, through Otto Wolff and other firms, minor loans were arranged for railway rolling stock, for military equipment and for industrial enterprises. All these transactions were based on loans granted to or guaranteed by the Chinese Government and running for lengthy periods, the German lenders being protected against the risk of a Chinese default by guarantees of their home government.

Simultaneously, the German shortage of foreign exchange, the disparity between German and international price levels, and the German trend toward control of foreign commerce, led to the reappearance of special forms of international trade that had been popular in Europe during and immediately after the World War.

China was one of the foreign markets where German trade was fostered with all the means at the disposal of this new commercial policy. There were available two kinds of outright export subsidies. With Germany defaulting on the service of her long-term foreign indebtedness, interest claims of foreign bondholders against their German debtors were not transferred to the creditors, but locked up with the German Conversion Chest (*Konversionskasse*) managed by the Reichsbank. Such claims (*scrip*) were sold at a discount to German exporters on their application, the exporter being allowed to cut his price by a discount equivalent to the price paid by the foreign creditor for getting any interest at all. Later on direct subsidies were paid from a fund levied through the German chambers of commerce on their members. In addition, two forms of barter trade were promoted. There was first the so-called compensation trade between German importers and exporters carried on essentially by contractual relationships in an open market though subject to government regulation and supervision. A German importer who received for the goods imported by him into Germany a price higher than he could expect according to the official exchange parity of the Reichsmark, was authorized to sell his ac-

count to an exporter at a discount; thus the exporter paid the importer in foreign exchange which the importer could use to stay in business.

This type of business was gradually abolished and the "Aski-mark" barter substituted. In the "Aski-mark" foreign trade, the German importer receives for his commodities a Reichsmark price considerably higher than theoretical international exchange parity and is credited with the amount of an *Ausländer-sonderkonto für Inlandszahlungen* at a bank authorized by the German Government to deal in such transactions. By selling his "Aski-marks" to a German exporter at a discount, the latter is enabled to cut his price, the importer being repaid from the foreign exchange proceeds of the export transaction. In this trade, every single step of the transactions involved is subject to government approval. Normally the trade is carried on with the cooperation of a foreign bank often designated by the foreign government concerned. In China "Aski-mark" transactions used to be handled by the Bank of China, with the Dresdner Bank as its German correspondent.

The first link between German loans and barter trade was established in the contract for the construction of the Nanchang-Pinghsiang railway, signed in 1935. This included a clause for partial repayment of the loan through shipment of Chinese commodities to Germany. Toward the middle of 1936, General von Reichenau, a close adviser to Adolf Hitler, went to China to conclude a special commercial agreement, providing for loans to be extended to China by "Hapro," a concern controlled by the German Ministry of War, such loans to be repaid in Chinese produce. Little is publicly known about this agreement under which a ferro-wolfram works was built in Kiangsi province and many other projects contracted for.

The general trend toward the establishment of a German foreign trade monopoly was evidenced in the execution of the Reichenau agreement by which German firms submitting bids for Chinese industrial projects were sometimes compelled to let the "Hapro" take over the business, while they were rewarded for their labor by a meager commission. The latest contract signed by the Chinese Government with the "Hapro" seems to provide for the construction of an iron and steel works at Chuchow, on the Canton-Hankow railway and terminus of the Hangchow-Nanchang-Pinghsiang-Chuchow railway, most of

TABLE 9  
GERMAN TRADE WITH CHINA, 1932-1937

| Year      | <i>Imports from China</i> |                                | <i>Exports to China</i> |                                |
|-----------|---------------------------|--------------------------------|-------------------------|--------------------------------|
|           | <i>Million RM</i>         | <i>Per Cent of All Imports</i> | <i>Million RM</i>       | <i>Per Cent of All Exports</i> |
| 1932..... | 54 *                      | 1.2                            | 77 *                    | 1.3                            |
| 1933..... | 41 *                      | 1.0                            | 75 *                    | 1.5                            |
| 1934..... | 51 *                      | 1.1                            | 73 *                    | 1.8                            |
| 1935..... | 56.2                      | 1.4                            | 90.5                    | 2.1                            |
| 1936..... | 69.2                      | 1.7                            | 125.8                   | 2.6                            |
| 1937..... | 93.8                      | 1.7                            | 168.9                   | 2.9                            |

\* The official German trade statistics began to separate trade with Manchukuo from trade with China in 1937. But unofficially separate tabulations seem to be available, since the official German statistical semi-monthly publication gave figures for the combined Japan-Manchukuo trade of Germany for 1935 and 1936. These figures form the basis of the above tabulation for these two years. The figure given above for 1937 also includes Germany's trade with Hongkong, shown separately since 1937. The estimates for the years 1932-4 are merely estimates, based on the German statistics. The original figures, in million RM, including Manchukuo are as follows:

| Year      | <i>Imports</i> |                          | <i>Exports</i> |
|-----------|----------------|--------------------------|----------------|
|           | <i>Total</i>   | <i>Soy Bean Products</i> | <i>Total</i>   |
| 1932..... | 177.1          | 121.6                    | 82.4           |
| 1933..... | 153.2          | 111.1                    | 80.0           |
| 1934..... | 121.9          | 69.2                     | 77.7           |

To arrive at the above estimates, the official import figures were reduced by the amount of imported soy products plus roughly RM 1 million; the official export figures by an annual amount of roughly RM 5 million, i.e., the amount of actual German exports to Manchukuo in 1935.

which has been equipped with German steel materials. This contract was signed by Dr. H. H. Kung during his stay in Germany in the summer of 1937.

All these German loans were loans in kind. It appears that repayment of the Otto Wolff loans has to be made partly in cash (i.e., sterling), while the "Hapro" loans are to be repaid in kind, though no details are available to indicate how or in what currency the German equipment and the Chinese minerals and other products may be priced.

By such means Sino-German trade was fostered. The recovery from the low point of the depression may be seen in Table 9 which shows a sharp rise in Sino-German trade, especially in German exports to China, fostered as they were by the extension of German loans to China.

The new Sino-German methods of trade and the special needs of German rearmament began to produce a change in the com-

position of German imports from China. Tungsten gained a new importance for Germany and other countries, being a typical rearmament metal. It was largely German and Russian rearmament and the German and Russian demand for tungsten which led to a rapid rise in the price of the metal during 1934 and 1935. German tungsten imports developed, as shown in Table 10.

TABLE 10  
GERMAN IMPORTS OF TUNGSTEN FROM CHINA AND ELSEWHERE,  
1927-1937

| <i>Year</i> | <i>Quantity in Tons</i> |                   | <i>Value in Million RM</i> |                   |
|-------------|-------------------------|-------------------|----------------------------|-------------------|
|             | <i>Total</i>            | <i>From China</i> | <i>Total</i>               | <i>From China</i> |
| 1927.....   | 4,160                   | 3,095             | 3.9                        | 2.9               |
| 1928.....   | 4,398                   | 2,849             | 4.3                        | 2.8               |
| 1929.....   | 3,774                   | 1,998             | 6.6                        | 3.5               |
| 1930.....   | 4,013                   | 2,171             | 6.7                        | 3.5               |
| 1931.....   | 4,822                   | 2,885             | 4.7                        | 2.7               |
| 1932.....   | 1,714                   | 886               | 1.2                        | 0.6               |
| 1933.....   | 3,766                   | 1,907             | 2.3                        | 1.2               |
| 1934.....   | 4,385                   | 2,510             | 6.1                        | 3.6               |
| 1935.....   | 7,881                   | 4,784             | 11.6                       | 7.1               |
| 1936.....   | 8,726                   | 5,091             | 12.3                       | 7.1               |
| 1937.....   | 11,372                  | 8,037             | 25.1                       | 18.3              |

Of the available world supply of tungsten, Germany regularly took 40 to 50 per cent; but of the supply from China, she took 60 to 70 per cent. This appears to be partly the result of arrangements within the European ferro-tungsten cartel. Most of the cartel members, especially the important British ferro-tungsten makers, seem to control wholly or partly tungsten mines of their own, while the German ferro-tungsten makers are dependent on purchases. Accordingly, they appear to have been given preferential rights in making tungsten purchases in China. Through the Reichenau agreement, such semi-monopolistic buyers' rights in favor of Germany seem to have been greatly strengthened.

Less spectacular increases of German buying are to be noticed in German purchases of Chinese antimony and Chinese tin. German imports of Chinese ores and metals grew steadily more important in Germany's trade with China, as appears from Table 11.

Moreover, the new Sino-German barter trade occasionally disrupted the normal development of prices in Chinese commodity markets. Thus both the Tientsin wool and the Tsingtao

peanut markets passed repeatedly through periods during which quotations were raised above international parity through purchases for Germany.

TABLE 11

## GERMAN IMPORTS OF CHINESE ORES AND METALS, 1932-1937

| <i>Year</i> | <i>Total Imports from China<br/>Million RM</i> | <i>Metal Imports from China<br/>Million RM</i> | <i>Metal Imports as<br/>Per Cent of Total</i> |
|-------------|------------------------------------------------|------------------------------------------------|-----------------------------------------------|
| 1932.....   | 54.0                                           | 1.2                                            | 2.2                                           |
| 1933.....   | 41.0                                           | 3.1                                            | 7.6                                           |
| 1934.....   | 51.0                                           | 6.6                                            | 12.9                                          |
| 1935.....   | 56.2                                           | 8.6                                            | 15.3                                          |
| 1936.....   | 69.6                                           | 8.0                                            | 11.5                                          |
| 1937.....   | 93.8                                           | 21.1                                           | 22.5                                          |

The figures of Sino-German trade clearly reflect the growing importance of Germany as a lender to China. While part of Germany's export surplus in trade with China may reflect Manchurian remittances to the home country—such remittances being the proceeds from German purchases of soy beans—and another part may have been used for the repayment of foreign bank loans to German merchants and manufacturers active in the China trade, a steadily growing part appears to be the result of the increasing German loan investment in China. The figures for the German export surplus are as follows (in million RM):

|           |      |
|-----------|------|
| 1932..... | 23.0 |
| 1933..... | 34.0 |
| 1934..... | 22.0 |
| 1935..... | 34.3 |
| 1936..... | 56.2 |
| 1937..... | 75.1 |

The maximum of German loans to China—probably reached around the middle of 1937—may well have totaled RM 100 million (about U. S. \$40 million); but the available data do not permit of more than a rough estimate which may easily be in error by some 20 per cent either way.

Germany's role as a financier in China's development not only was quantitatively important but also played a major part in inducing other nations to enter the Chinese market as lenders. The more active interest taken by Britain, France, Czechoslovakia (both the Skoda and the Vitkovice iron and steel works), the United States of America (with the assistance of the Export-Import Bank) and others in resuming capital exports to China

was certainly due in some measure to the German initiative which invited competition.

At the same time, political ties were forged which seemingly linked China and Germany in close relationship. Following the example of Italy, Germany raised her legation in China to the rank of an Embassy in May 1935, and later transferred it from the Peiping legation quarter to Nanking. Similar action was taken at the same time by the other major Powers. Speeches by both German and Chinese representatives frequently emphasized Sino-German friendship, and the similarity of national emancipation and nationalistic aspirations under the leadership of Adolf Hitler and Chiang Kai-shek respectively formed a favorite topic of such speeches. The brother of the then Chinese Minister of Railways, formerly general manager of the Bank of China, went so far as to organize a Chinese national socialist party. The right wing of the Kuomintang led by Wang Ching-wei and H. H. Kung was especially outspoken in its friendship with the German Government and German business. During 1934, for example, Wang Ching-wei was instrumental in ousting German refugee experts on government and finance, who had been hired by T. V. Soong during his 1933 trip to Europe, from the service of the Chinese Government at the instance of Germany's diplomatic representations. Wang's journalistic mouth-piece, Tang Leang-li, formerly a close personal friend of German social-democrats, easily transferred his friendship to German Nazis.

On June 9, 1937, one month before the beginning of the Sino-Japanese war, H. H. Kung was given a state banquet in Berlin by Dr. Schacht. Dr. Kung, who took a cure at the German spa of Wiesbaden, was at that time signing a contract for the construction of an iron and steel works at Chuchow under the terms of the Reichenau agreement. The speeches by Schacht and Kung are good specimens of Sino-German friendship as professed at the time by both sides. Dr. Schacht said:

"... During your short stay in Germany, I am sure you, my honored Chinese guests, have noticed that the German people are pleased to be your hosts, and that the whole German nation welcomes you with friendly feelings. The friendly feelings linking Germany and China are not accidental. Both Germany and China, during the last decades, have been compelled to overcome obstacles and hardships, in order to gain freedom within and without, national union and international prestige. Fate defeated Ger-

many in the World War. It took all the immense energy of the German people and the ingenious leadership of our Leader and Chancellor Adolf Hitler to secure for Germany the rank which she may now claim in the concert of nations. During our own development, we have followed sympathetically and attentively the progress which, since the overthrow of the last Imperial dynasty, China has made under her great leaders Sun Yat-sen and Chiang Kai-shek. We noted with satisfaction that China, led by these two men, was forged into a strong empire, free externally and internally, and respected in the counsels of all nations. We also are well aware of the great credit due to you, Minister Kung, for the share which you had in the building of a new China. Admiringly, we observed your able work, especially at the time when, from foolishness and blindness, the *coup d'état* of Sianfu was carried out which, due to the heroism and faithfulness of the Chinese people, ultimately led to increased strength of China's National Government and its Chief Executive Chiang Kai-shek. Furthermore we are full of admiration for the crowning achievement of your work in the economic and financial reconstruction of your country, your great currency reform through which China's *yuan* has become one of the world's most solid currencies.

"Just as the political relations between Germany and China are based on friendship, so we can notice that our economic relations have been very pleasant and free of impediments. I am sure both of us agree that Germany and China can cooperate to their mutual advantage. China has realized that, in order to further her great reform and reconstruction schemes, she must foster the development of her communications, her agriculture, and to some extent, must industrialize her economic life. Germany, being one of the world's great manufacturing nations, could help China along these lines by her advice and by her material resources. Please be assured that I shall do whatever I can to contribute to continuous Sino-German economic cooperation. . . ."

Dr. Kung answered:

"I have been especially delighted to go to Germany, since here I should be honored to see again old friends of mine; besides, I know how friendly are the feelings of the German people toward the Chinese nation. . . . Just as Germany, by the will of her people, bows to the leadership of one man, thus in China, our leader Chiang Kai-shek and the other leaders of the Chinese nation have accepted as binding upon them the political testament of our late Chinese statesman Sun Yat-sen. They are resolved to carry out the program of this leader. China considers Germany to be her closest friend, not only because of the cultural and intellectual bonds between Germany and China, but also because of the close economic relations between China and Germany. . . ."

On the very same day, a dinner was given in Hsinking, Manchukuo's capital, in honor of Dr. K. Knoll, Germany's trade envoy in Manchukuo. The speeches of Chang Ching-hui, Man-



chukuo's Prime Minister, and Dr. K. Knoll are worth quoting. Chang Ching-hui said:

" . . . Though during the first experimental year, difficulties of procedure have arisen in carrying out the Manchou-German trade agreement of April 1936, the sincere and hearty cooperation of our countries and the assistance rendered by Japan, have led to the realization of its most important aims, namely to increase the export of soy beans and products thereof, to stabilize soy bean prices and thus to add to the welfare of 30 million people. But besides the material importance of this agreement, it has led to the development of a friendly spirit between Manchoukuo and Germany and concretely defined our position in international affairs. That to this extent the trade agreement also has a political meaning, could not be denied. Therefore, our country has deemed it necessary to extend the agreement. The German side was willing to continue the agreement, since it contributed to the relief of their foreign exchange difficulties, secured a steady supply of the important soy bean products and added to the export of manufactured goods to Manchoukuo. Thus, we have agreed to extend the agreement for another three years, from June 1, 1937, to May 31 of the Seventh Year of Kang Teh (1940). . . ."

Dr. K. Knoll replied to the Prime Minister's speech as follows:

" . . . Germany and Manchoukuo, as well as our mutual friend Japan, will have to face great difficulties in the future while carrying out their task to secure to their people what living space they need in order to exist. All three nations will have to use all their energies to provide for their manufacturing industries the most essential raw materials without dependence on third parties. We cannot follow a policy of *laissez faire*; we have to adapt our economic life to a fixed plan, in order to make good by the mental power of organization for our lack of natural resources. In such peaceful endeavors, we can assist each other. In such labor, mutual understanding and cooperation will increase, and thus will also increase the security of our nations against inimical action by other governments which consider such peaceful and constructive efforts as dangerous to their own interests. I feel sure that the friendship between Manchoukuo, Japan and Germany is an element of world peace, and according to my ability I shall try to foster their friendship. . . ."

At that time, in June 1937, the contradiction between the sentiments expressed at those two occasions was scarcely noticed, important though it might have seemed even then. Nor does it seem apparent that either the German representatives in Berlin and Hsinking or Dr. Kung himself were fully aware of the far-reaching importance of the events at Sian. As a result of this *coup d'état*, China's National Government—not without opposition from Dr. Kung and others—agreed to peace, or at least to a truce, with China's Red Army. Without great changes in

personnel, the National Government began to assume the complexion of a United Front Government. This pacification of China definitely implied a stiffer foreign policy which was bound to result sooner or later in conflict with Germany's friend Japan. Thus, the incompatibility of Germany's policies in the Far East, professing as they did friendship for both China and Japan, was not realized before the Sino-Japanese war broke out. Nor did the pro-German group of Chinese politicians visualize the full extent of the implications of German-Japanese friendship.

Economically the background of German-Manchukuo-Japanese relations and of the trade agreement of April 1936, the extension of which was the occasion for Chang Ching-hui's and Knoll's speeches, was once more the soy bean. The Japanese occupation of the Northeastern Provinces and the establishment of Manchukuo would disrupt the former triangular trade relationship between Germany, China and Japan, unless some way could be found to make Manchukuo the heir of China in that triangle.

Germany's Nazi Government, soon after its accession to power, had set for itself the task of increasing the share of domestically produced edible fats in the total German fat consumption, even at the expense of reducing the total of such consumption. Under a statute of 1933, lard and margarine were heavily taxed. Indirectly, of course, this legislation was bound to impair Manchuria's soy bean business. In 1934 a general import prohibition was issued barring soy beans from the German market unless imported by special permit. To add to Manchuria's difficulties, Great Britain in the spring of 1935 removed soy beans from the free import list, with the result that soy bean prices slumped heavily. Manchukuo's exports of soy beans (yellow beans) were as follows:

TABLE 12  
EXPORTS OF SOY BEANS FROM MANCHUKUO, 1932-1937

| <i>Year</i> | <i>Quantity<br/>Million Piculs</i> | <i>Value Million<br/>Manchukuo Yuan</i> | <i>Value of Beans as Per Cent<br/>of All Exports</i> |
|-------------|------------------------------------|-----------------------------------------|------------------------------------------------------|
| 1932.....   | 41.3                               | 217.4                                   | 36.2                                                 |
| 1933.....   | 38.4                               | 165.6                                   | 39.0                                                 |
| 1934.....   | 40.4                               | 157.2                                   | 37.4                                                 |
| 1935.....   | 28.4                               | 126.3                                   | 32.3                                                 |
| 1936.....   | 31.5                               | 210.3                                   | 39.8                                                 |
| 1937.....   | 32.2                               | 222.9                                   | 39.6                                                 |

Accordingly, Japan tried to arrive at an agreement with Germany concerning Manchurian soy beans. The problem of such an agreement might well be defined as the reconstruction of the old triangular trade between Germany and the Japan-Manchukuo economic bloc. The scope of the agreement as finally concluded in April 1936, was ably described in the speech of Manchukuo's Prime Minister Chang Ching-hui, quoted above. The agreement was negotiated toward the end of 1935 by a German trade mission headed by Consul-General W. Kiep, signed in April 1936 and put into force on June 1, 1936. Its favorable effect on soy bean prices may be seen in the following figures showing the rising average export price of soy beans per picul (in Manchukuo *yuan*):

|           |       |           |       |
|-----------|-------|-----------|-------|
| 1932..... | 52.64 | 1935..... | 44.47 |
| 1933..... | 43.12 | 1936..... | 66.76 |
| 1934..... | 38.91 | 1937..... | 69.22 |

On the other hand, from the statements made by both Chang Ching-hui and Dr. Knoll, it may readily be concluded that difficulties arose in carrying out the agreement. This is borne out by the German figures relating to the import of soy beans and products thereof which show that in 1936 German soy bean imports did not increase, as though Germany had been unwilling to pay the higher prices resulting from the publication of the agreement. Furthermore, German exports to Manchukuo did not develop so favorably as had been hoped.

TABLE 13  
GERMAN IMPORTS OF SOY BEANS AND PRODUCTS

| <i>Year</i> | <i>Soy Beans</i><br>1,000 Tons | <i>Soy Bean Oil</i><br>1,000 Tons | <i>Soy Bean Meal</i><br>1,000 Tons | <i>Total Value</i><br>Million RM |
|-------------|--------------------------------|-----------------------------------|------------------------------------|----------------------------------|
| 1932.....   | 1,139                          | 3.7                               | 20                                 | 121.7                            |
| 1933.....   | 1,148                          | 3.7                               | 21                                 | 111.2                            |
| 1934.....   | 914                            | 0.5                               | 0                                  | 69.2                             |
| 1935.....   | 494                            | 11.6                              | 0                                  | 45.1                             |
| 1936.....   | 457                            | 1.2                               | 0                                  | 42.8                             |
| 1937.....   | 545                            | 3.5                               | 0                                  | 60.8                             |

The agreement provided that 25 per cent of the value of German imports of soy beans was to be paid into a special compensation marks ("Aski-marks") account to be used for Manchurian purchases of German goods, while the other 75 per cent was to be paid from the foreign exchange proceeds accruing to Germany from her export surplus in German-Japanese trade.

How close Germany considered the Japan-Manchukuo economic relationship to be is best evidenced by the procedure of the German Statistical Office, which in its popular publications lumps together German trade with the Japan-Manchukuo bloc, treating the bloc as an economic unit in its computations of German foreign trade. Thus, German trade with Japan-Manchukuo was reported as follows (in million RM):

|           | <i>Imports</i> | <i>Exports</i> |
|-----------|----------------|----------------|
| 1935..... | 67.2           | 88.1           |
| 1936..... | 67.6           | 81.7           |
| 1937..... | 90.3           | 129.0          |

The trade agreement between Germany and Japan-Manchukuo of April 1936 was followed by the German-Japanese Anti-Comintern Pact of November 1936, published shortly before the Sian Incident.

Naturally, there were Chinese who felt less secure in the contemplation of German-Japanese economic and political rapprochement than did the pro-German clique in the Chinese Government. Accordingly, statements were issued by Germany that the German-Manchurian trade agreement was merely an agreement for barter trade along the same lines as those currently applied between China herself and Germany. That these statements now, after the speeches of Chang Ching-hui and K. Knoll, cannot be considered as sincere did not prevent them from being accepted by many influential Chinese as satisfactory explanations. Similarly, the Anti-Comintern Pact was described to the Chinese as a document of little political importance, although the intimate relationship between the Pact and the so-called Three-Point Hirota Program was rather obvious, inasmuch as the Hirota program provided for "Sino-Japanese co-operation against communism in China." The Pact, however, was followed by German loans granted as a result of the Reichenau mission which served to soothe Chinese doubts of the sincerity of German friendship.

Thus it seems that in both Germany and China serious misconceptions prevailed as to the stand taken by both countries. China believed Germany to be a sincere friend, deeply involved in China's destiny because of the comparatively large German loans extended to the Chinese Government. Germany, on the other hand, was still at that time regarding China as a potential

party to the German-Japanese Anti-Comintern Pact at the very moment that China's responsible leaders made peace with their communist adversaries and began to prepare for a policy of military resistance against further encroachments by Germany's other Far Eastern friend, Japan.

## CHAPTER VI

### GERMANY AND THE SINO-JAPANESE WAR

When the North China Incident of July 1937 developed into a major Sino-Japanese war, Germany found herself in the uncomfortable position of being friendly with both warring parties. While, in the beginning, the German press was apparently instructed to be friendly toward Japan, it soon returned to neutrality at the insistence of the German residents in China who then numbered not less than 4,500.

But German action was much more outspoken than German words. While the battle for Shanghai was still raging, the firm of Otto Wolff and the Central Bank of Manchukuo signed a provisional credit agreement on September 4, 1937. The credit agreement was surrounded with great secrecy on the German side, though no such secrecy was observed by the borrowers in Japan and Manchukuo. The *Japan-Manchoukuo Year Book, 1938*, published in December 1937, reproduced a Domei dispatch concerning the Otto Wolff agreement, as follows:

(Hsingking, November 15, 1937.) "Representatives of the German and Manchoukuo Governments today exchanged official documents ensuring the smooth functioning of the trade agreement on the establishment of first credits which was concluded between the Otto Wolff financial clique and the Central Bank of Manchoukuo here on September 4, it was announced by the Foreign Office. The pact becomes effective immediately. The first credit amounts to only Yen 35 million, and the second and third credits will be provided only if the first proves successful. Officials of the Foreign Ministry said that the Government will exert every effort to utilize and improve the Manchoukuo-German trade. The friendly relations between Manchoukuo and Germany have been promoted especially since the conclusion of the commercial treaty and the exchange of trade envoys between the two countries last year, they said, adding that establishment of the credit will undoubtedly promote further friendship.

"With the drafting of the Five-Year industrial scheme completed it is essential for the new State to import a large quantity of machinery and other articles from abroad. The credits just concluded, therefore, will help greatly in this respect. Since 90 per cent of its payments to Germany is to be adjusted by the shipping of special Manchoukuo produce to that country, Manchoukuo will benefit greatly by the newly concluded credit ar-

rangement. As for Germany, officials said, it can place its confidence in the promising future of Manchoukuo's industries. The gist of the agreement on the establishment of the first credit instalment follows:

"1. The Otto Wolff financial organization is entitled to comply with orders amounting to £2 million from various firms in both Manchoukuo and the Kwantung Leased Territory recommended by the Government of Manchoukuo and the Central Bank of Manchoukuo. The rate of interest is 5.5 per cent.

"2. The Central Bank of Manchoukuo is to guarantee the payment for such orders to be made within a year since the date of enforcing the agreement.

"3. Ten per cent of the total orders may be paid in sterling and the remainder by shipping Manchoukuo's special products.

"4. The payment is to be made semi-annually. The date of payment is fixed as June 30 of the Eleventh Year of Kang Teh (1944)."

According to this summary, the £2 million loan by Otto Wolff is granted for a term of up to five years; the amount to be lent by the German concern in the form of goods. Payment of interest and amortization is to be made semi-annually, 10 per cent being paid in cash, 90 per cent being paid in kind. Furthermore, at least two more instalments are contemplated for the future, so that the whole transaction ultimately may reach the impressive total of £6 million.

From the relationship between these German loans to Manchukuo and Manchukuo's Five-Year Plan, it is evident that Germany now assists Manchukuo in its development as a unit within the war economy scheme of the Japan-Manchukuo bloc, and that Germany steps into the breach resulting from Japan's preoccupation with her war against China. Germany, in short, indirectly assists Japan in financing her war against China. Having first helped Russia, during her first Five-Year Plan, to arm against Japan, Germany now helps Japan-Manchukuo to arm against Russia.

Viewed as part of the triangular trade and payments agreement between Germany, Manchukuo and Japan, the Otto Wolff loan constitutes direct financial assistance to Japan. Equipment needed in Manchuria for Japan's military purposes is lent by Germany to Manchukuo, enabling her government to dispense with a bond issue in the Japanese market which otherwise would have been necessary. In addition, the fact that 90 per cent is to be repaid in kind by Manchuria, relieves Japan, which up till now has been the only country where Manchukuo might

secure cash sufficient for the repayment of loans. In view of such considerations, the interest at  $5\frac{1}{2}$  per cent certainly constitutes the highest rate paid by Japan for any foreign loan for many years.

German trade statistics clearly reveal the changed relationship which, since the outbreak of war, has existed between Germany and the Japan-Manchukuo bloc. The export surplus in Germany's trade with Japan and Manchukuo since 1935 was as follows (in million RM):

|                       |      |
|-----------------------|------|
| 1935.....             | 20.9 |
| 1936.....             | 14.1 |
| 1937 First half.....  | 10.5 |
| July-September.....   | 15.3 |
| October-December..... | 12.8 |
| 1938 First half.....  | 9.7  |
| July-September.....   | 8.2  |

On the other hand, Germany's trade with China changed its trend as well; Germany ceased to lend capital to China, and instead began to liquidate her claims against China. The following figures (in million RM) show the export surplus in Germany's trade with China since 1935:

|                       |                        |
|-----------------------|------------------------|
| 1935.....             | 34.3                   |
| 1936.....             | 56.2                   |
| 1937 First half.....  | 46.5                   |
| July-September.....   | 17.9                   |
| October-December..... | 10.8                   |
| 1938 First half.....  | -10.7 (Import surplus) |
| July-September.....   | - 5.3 (Import surplus) |

Thus, since the outbreak of war Germany has begun to reduce her commitments in China and simultaneously to build up a new investment in the Japan-Manchukuo economic bloc. Yet, to some extent, the above figures may not fully disclose the change in German investments, since it seems likely that at least part of the German export trade with China may really have consisted of shipments to Japanese interests in the Japanese-controlled areas of China.

At the same time, the relative importance of Germany's trade with China on the one hand and with Japan-Manchukuo on the other, has undergone a change. This change may best be illustrated by the figures referring to Germany's total trade with both areas.



TABLE 14

## GERMANY'S TOTAL TRADE WITH CHINA AND JAPAN-MANCHUKUO

(In million Reichsmarks)

| <i>Year</i>           | <i>China</i>       |                | <i>Japan-Manchukuo</i> |                |
|-----------------------|--------------------|----------------|------------------------|----------------|
|                       | <i>Total Trade</i> | <i>Exports</i> | <i>Total Trade</i>     | <i>Exports</i> |
| 1935.....             | 146.7              | 90.5           | 155.3                  | 88.1           |
| 1936.....             | 195.4              | 125.8          | 149.3                  | 81.7           |
| 1937 First half.....  | 129.7              | 88.1           | 104.3                  | 57.4           |
| July-September.....   | 68.3               | 43.1           | 57.6                   | 36.4           |
| October-December..... | 64.6               | 37.7           | 57.3                   | 35.1           |
| 1938 First half.....  | 102.3              | 45.8           | 120.5                  | 65.1           |
| July-September.....   | 39.7               | 17.2           | 47.8                   | 28.0           |

These figures disclose that Germany's trade with China has been reduced considerably, her exports now being less than half their former size. Germany's trade with the Japan-Manchukuo bloc, on the other hand, has slightly increased since the beginning of the war.

Thus Germany has quietly though efficiently participated in the Sino-Japanese war as an economic ally of Japan. With the thorough organization of German foreign trade by the German Government, the shift from one Far Eastern market to the other, the deliberate financing of Japan and the steady reduction of Germany's export business to China must be viewed as considered measures in favor of Japan, taken against the well-understood interests of China who such a short time ago considered Germany as "her closest friend."

Although Germany thus threw the weight of her economic assistance to Japan by her loan agreement with Manchukuo (signed provisionally in September 1937), she began late in October 1937 to act also as a mediator in the war. Having secured from the governments of both Japan and China expressions of their desire for peace, Germany used its good offices to transmit each government's desire to the other. The time of this attempt at mediation is significant: it was apparently undertaken at the very time the Chinese forces evacuated Kiangwan and Chapei (at Shanghai), withdrawing to positions south of the Soochow Creek which could not be held long. The battle of Shanghai was lost, so that psychologically the Japanese were little inclined to moderation. After the fall of Shanghai, but apparently before the fall of Nanking, the German Government notified the Imperial Japanese Government of China's desire for peace negotiations and tendered its good offices for initiating direct nego-

tiations between Japan and China for a settlement. The conditions, which through the German ambassadors in Tokyo and China were then submitted to the Chinese Government, were drawn up in the expectation that, after the fall of Nanking, Chinese resistance would be impossible and, accordingly, were found unacceptable by the Chinese. On January 18 an official Japanese declaration stated that the negotiations were ended, expressed Japan's gratitude for the good offices tendered by the German Government and gave expression of the Japanese decision not to deal diplomatically with a Chinese Government dominated by Chiang Kai-shek.

Where the initiative lay in these negotiations is difficult to decide. Yet it seems that the German Ambassador in China was in close touch with Wang Ching-wei who, shortly before the fall of Nanking, made a public speech favoring an early peace. Wang Ching-wei is said to have been sharply rebuked by Chiang Kai-shek at the time, so it would seem that the German effort at mediation was not favored by all the groups of the Kuomintang, and it does not seem unlikely that the initiative for peace lay rather with the German Embassy in China than with either of the belligerents. Retrospectively it may be said that this peace attempt was especially ill-timed, coincident as it was with serious Chinese reverses and Japanese successes.

However, even while these negotiations went on, Germany definitely agreed to sanction the Otto Wolff Manchukuo loan agreement, giving it official backing only two days after the last Chinese soldiers had been withdrawn from the Shanghai area. When Germany approached Japan early in December, the Japanese Government knew, accordingly, that Germany expected a Japanese victory, that she did not mind incurring the ill-will of the Chinese, and was thus far from being an honest broker between the warring nations as she claimed to be.

Germany's service to Japan was not left unrewarded. Both Manchukuo's and Japan's import controls were handled in a way favorable to German exporting interests. We have seen that Germany's trade with the Japan-Manchukuo bloc began to exceed Sino-German trade. In addition, the *Ostasiatische Rundschau* claims that German shippers were forewarned of the introduction of more stringent Japanese import control measures and, therefore, were able greatly to increase their timely shipments in August 1937, when their value, according to the Ger-

TABLE 15  
JAPAN'S IMPORTS FROM GERMANY AND MANCHURIA, 1932-1938  
(In million yen)

| <i>Year</i>        | <i>Japan's<br/>Total<br/>Imports</i> | <i>Imports<br/>from<br/>Manchuria</i> | <i>Imports<br/>from<br/>Abroad</i> | <i>Imports from Germany<br/>As Per Cent of Japan's<br/>Imports from Abroad</i> |
|--------------------|--------------------------------------|---------------------------------------|------------------------------------|--------------------------------------------------------------------------------|
| 1932.....          | 1,431.5                              | 128.3                                 | 1,303.2                            | 71.7                                                                           |
| 1933.....          | 1,917.2                              | 169.1                                 | 1,748.1                            | 95.8                                                                           |
| 1934.....          | 2,282.5                              | 191.4                                 | 2,091.1                            | 109.6                                                                          |
| 1935.....          | 2,472.2                              | 216.5                                 | 2,255.7                            | 120.8                                                                          |
| 1936.....          | 2,763.7                              | 239.4                                 | 2,524.3                            | 115.5                                                                          |
| 1937 1st half..... | 2,145.9                              | 164.1                                 | 1,981.8                            | 89.6                                                                           |
| 3rd quarter ...    | 925.3                                | 54.1                                  | 871.2                              | 40.4                                                                           |
| 4th quarter....    | 712.0                                | 76.0                                  | 636.0                              | 46.4                                                                           |
| 1938 1st half..... | 1,394.5                              | 232.0                                 | 1,162.5                            | 101.7                                                                          |
| 3rd quarter ...    | 789.9                                | 71.4                                  | 718.5                              | 41.0                                                                           |

man statistics, was 50 per cent higher than in July or September of the same year. Japanese trade statistics also indicate preferential treatment of German goods in Japan. Germany's share in Japanese imports is shown in Table 15.

Since the beginning of 1937, Japan, under her exchange control regulations, has generally tried to reduce her imports. In the first half of 1938 her imports from countries other than Manchuria and Germany were only 56 per cent of the amount reached in the first half of 1937. Yet her imports from Germany in the first half of 1938 exceeded those of the same period of 1937 by nearly 14 per cent. During the third quarter of 1938 Germany continued to be a preferred source of supplies. If the above figures suggest that such preference was not on the same scale as during the first half of 1938, it should be remembered that since the beginning of the European crisis which culminated in the pact of Munich, German exports generally have been declining.

The economic and financial relations between Germany and the Japan-Manchukuo bloc as they developed in the second half of 1937 foreshadowed accurately the political developments of 1938. While it would be an attractive speculation to ascribe the official recognition of the new relationship between Germany and Japan to the important changes in personnel which occurred in Germany in February 1938, there is little reason to think that these changes in themselves, were instrumental in bringing about the German-Japanese intimacy. In his speech delivered on February 20, 1938, after the above changes, Chan-

cellor Hitler announced to the world Germany's recognition of Japan's conquest of Manchuria, an announcement to be followed by the more correct Treaty of Friendship concluded between Germany and Manchukuo in May 1938. In the same speech the Chancellor frankly expressed the hope that Japan would be able to serve in China as a more reliable and stronger bulwark against bolshevism than the Chinese National Government. In addition, he hinted that Germany had abandoned whatever colonial claims she might have in Eastern Asia, by the statement that "today, we really have no desire at all to be invited to return to Eastern Asia."

It was probably more than a mere coincidence that, also in May 1938, the German Government brusquely and successfully demanded the release of Chiang Kai-shek's German military advisers from their contracts. Having gone to China of their own free will against the wishes of their government, these advisers now were forced against their wishes to bow to the will of their government and to leave China.<sup>1</sup> The head, General von Falkenhausen, stated in Singapore that he was convinced of China's ultimate victory. While there have been no authentic statements disclosing on what grounds General von Falkenhausen based this conviction, the German periodical, *Zeitschrift für Geopolitik* (1938, pp. 705 *et seq.*), has recently published an article by a German correspondent (W. Schenke) discussing the history of the Sino-Japanese war under the title "Space as an Instrument of War." This article is dated from Hankow, July 1938, while the German military advisers left Hankow in the first days of July. Accordingly, it does not seem to be unreasonable to assume that the reasoning of Mr. Schenke is at least partially influenced by the opinions held by the German advisers. Following are extracts translated from the article:

"It was generally assumed that the material Japanese equipment was so superior to Chinese military resistance that people were inclined wholly to eliminate from their thinking that space was an important weight tipping the Chinese side of the scales of war to their advantage. They visualized China as though she were a country reaching from Peking to the Yellow River and from Shanghai to Nanking. . . .

<sup>1</sup> Despite the official denial of the German Government, some observers maintain that the German Army or Party authorities may have tacitly approved the presence of the German advisers in China—apparently a few, either of Jewish origin or having Jewish wives, remained in China.

"It is impossible to accept the view that any Japanese war against China must be hopeless. . . .

"Today, it may be considered as an established fact that at the outbreak of war, the Japanese aimed at the occupation of China's five northern provinces. . . . For this campaign of conquest, Japan made use of 15 divisions which were supposed to carry through all the China campaign within a short time (each Japanese division contains a war-time strength of about 20,000 men). . . . But Shanghai interfered. As in 1932, the methods of attrition by useless siege warfare were employed. . . . This Shanghai warfare though it involved the Chinese crack divisions, was very advantageous to China since it upset the original Japanese strategic plan. . . .

"The general military considerations are as follows. Whoever attacks a nation stretching over a wide space, has to achieve victory quickly. Victory cannot be had by pushing the enemy back until the territory which the aggressor wishes to hold is occupied. With such a procedure, the enemy will gain time and opportunity to reorganize his army in the vast regions of the country which have not been occupied, and to mobilize all their resources to continue and prolong the war. War against a vast country can be won only through the quickest possible destruction of its armies. . . .

"From the beginning, the Japanese indulged in the miscalculation involved in employing comparatively small forces, even at the risk of delaying the final decision, rather than the whole of their military might. Today, as a result, twice the strength of the fifteen divisions which at the outset were thought to suffice for the liquidation of the China Incident, are deployed in China. One after another, additional divisions were called upon as reinforcements, one after another, additional divisions melted away . . . and so it goes on and on. . . . Thus, despite the huge losses suffered during the Shanghai-Nanking campaign, and despite the loss of Hsüchowfu, China's fighting power is not only not destroyed, but on the contrary, though it may seem incredible, greater today than at the beginning of the war. . . .

"The Japanese authorities . . . were convinced that after the fall of Nanking the Chiang Kai-shek government would collapse. This political hypothesis was the reason why the Japanese had no strategic plans beyond Nanking. Yet, with the fall of Nanking, they had the last great chance to adopt a strategy of destruction. Anyone who experienced the confusion and panic among the Chinese after the retreat from Nanking knows how easy a job it would have been for the Japanese forces to push through to Hankow at once, if only a few fresh divisions had been employed. . . . Yet . . . nothing happened. . . .

"That the Japanese did not pursue them had the same tonic effect upon the Chinese as the battle of the Marne upon the French: it seemed an incomprehensible miracle. . . . Now that the Japanese did not give them the destructive blow which they fearfully expected, they realized the great advantages of their natural situation in dealing with an enemy who was not ready to deploy all his might for a plan of quick destruction. It was then that the Chinese armies and the civilian hinterland were permeated with a spirit of order and decision. . . .

"In the battles which began in the middle of January and which cul-

minated in the capture of Hsüchowfu by the Japanese, the Chinese were able to utilize space as an instrument of war; so three offensive operations against Hsüchowfu were checkmated, the fourth was turned into a rout, and when the fifth led to the capture of Hsüchowfu, the Japanese were unable to accomplish their strategic aims. . . .

"The fifth offensive was mapped out not only with the idea of capturing Hsüchowfu, but of bringing about a final decision. . . . But . . . to fight this decisive battle, the Japanese would have needed twice the force which they actually deployed. . . . No decision can be expected either from the fall of Hankow. For little by little the war is entering so deeply into the interior that no decision is possible at all. . . .

"The loss of Hankow which now seems inevitable will be a hard blow to the Chinese. They will not find another center where . . . administration and business, political and military leadership can be concentrated as ideally as here. Hankow was the center of communications between north and south. In west China, which will be left to Chiang Kai-shek after the fall of Hankow, two distinct and separate territories will emerge: the north-west with Kansu, Shansi<sup>2</sup> and Ninghsia, the south-west with Yunnan, Kwangsi, Kweichow, Kwangtung and Hunan. These two regions will be divided by Szechwan as a barrier to communications, difficult of access from the south, and still more so from the north.

"Yet to return to the starting-point, after the fall of Hankow, the Chinese army though pushed back, will still be able to exist in these parts of the country having avoided destruction.

"Even if the Japanese now wish to initiate a strategy of destruction, the conclusion is inevitable that it is too late. Beyond the line from Peiping to Hankow, sufficiently strong armies could not operate for lack of communications, etc. Therefore, the man-power necessary would far exceed that employed up to now; yet success would seem very dubious indeed. Through space China can survive, and, accordingly, peace would be the best solution."

If the above assumption concerning this article's sources has any validity, it would indicate deep differences between the advisers' group and official Germany concerning Japan's military ability, and the chances of the Chinese National Government of surviving the trials of warfare and military reverses.

Shortly after the advisers had left, Dr. Trautmann, German Ambassador to China and an old friend of that country, was called home to report. His extended "home leave" is still being continued. On the other hand, Mr. Chen Chieh, the new Chinese Ambassador to Germany, has had to wait for months without being received by the German Chancellor in order to present his credentials. Lately it has been stated that this delay was the result of disagreement about the speech to be made by him

<sup>2</sup> Presumably the writer means either Shensi or Shensi and part of Shansi. (Author.)

and about references to Japanese aggression which were unpalatable to the German authorities.

In September 1938 Germany and Manchukuo signed a new commercial treaty providing for increased exchange of goods between the two countries. The agreement, which supersedes that of 1937, provides that Germany would purchase the following Manchurian products to the value of 100 million yuan: soy beans, bristles, soy bean oil, perilla oil, corn and peanuts. Three-quarters is to be paid by Germany in foreign exchange. With c.i.f. prices as the basis of the agreement, a high percentage of these payments would probably be made to German ships. This seems to explain why an additional provision states that any excess of net German yen exchange proceeds beyond 63,750,000 yen should also be used for German purchases in Manchuria. One-third of the amount in yen available for such additional purchases and a further 25 million yuan are to be credited to a Manchurian Reichsmark account available for Manchurian purchases in Germany, according to a list of products including chemicals (explosives), leather, iron and steel products, aluminum, scientific instruments, machinery, electrical machinery and equipment, vehicles and ships, X-ray films, lamps. In addition, the agreement provides that Germany and Manchukuo are to admit the importation of goods not covered by the lists restricting trade under the barter and clearing scheme, to the amount of 10 million yuan during the first year of the new treaty (June 1, 1938 to May 31, 1939). Furthermore, the agreement provides that, in order to facilitate Manchurian purchases in Germany beyond the fixed totals, a German banking group is to grant a loan to the German branch of the Yokohama Specie Bank, the total amount of the loan being limited to RM 45 million (about 64 million yuan), the loan to mature on May 31, 1939, negotiations to take place then for its further extension. It seems as though this loan were supplementary to the Otto Wolff credits mentioned above. The *Ostasiatische Rundschau* in commenting upon this agreement states that part of the loan was used at once, while the *Oriental Economist* stressed German investment in Manchukuo as the essential feature of the new trade agreement. As a matter of fact, German exports to Manchukuo in the first four months covered by the new agreement amounted to RM 22.4 million, i.e., more than 30 million

yuan at f.o.b. prices. In November 1938 the first envoy of Manchukuo arrived in Germany to present his credentials.

Economic co-operation between Germany and Japan also seems to have extended into the Japanese-occupied territory of China. Japanese sources claim that a barter arrangement has been entered into between the North China Provisional Government and the firm of Carlowitz and Co., the greatest German merchant firm of the Far East which represents both the Friedrich Krupp A. G. and the glass-manufacturing enterprise of Zeiss. Some reports have it that the privilege to use the wharves of Tsingtao, denied by the Japanese authorities to the ships of the Western nations, has been extended to German ships. German diplomatic officials generally accept invitations to official functions of the North China and Central China provisional regimes. Recently the representative of the South Manchuria Railway in Germany stated in Hamburg that Japan would grant her European allies, Germany and Italy, preferential rights in China.

Further evidence of the closeness of the German-Japanese ties of friendship was provided when during the European crisis of September 1938 the spokesman of the Japanese Foreign Office openly declared his sympathetic attitude toward the German claims, hinting that in the case of a European war Japan would come to the assistance of Germany. This attitude was in strange contrast to German reticence during the Changkufeng Incident on the Korean border where Japanese and Soviet troops clashed in July and August 1938. In addition, Japan also professed her sympathy with Italian claims against France in the Mediterranean during December 1938. This attitude was reciprocated by Italy, insofar as Italian claims for representation in the administration of the Suez Canal were advanced not only on her own behalf, but also on behalf of Germany and Japan.

Shortly before this announcement of Japan's policies in Europe, so-called cultural pacts were concluded between both Italy and Germany on the one hand and Japan on the other. These pacts provide also for an adaptation of the teaching of history to the new international friendships established by the Anti-Comintern Pact, an adaptation especially necessary in view of traditional Japanese diplomatic history which is far from friendly to Germany.



## CHAPTER VII

### GERMAN TRADE RELATIONS WITH SOUTHEASTERN ASIA

German trade with southeastern Asia has always been closely related to Germany's commercial links with the motherlands of the two great colonial empires in that region, the British and the Dutch. After the stabilization of the mark in 1923 both Great Britain and the Netherlands became creditors of Germany. As trade with each of them generally yielded a favorable balance to Germany, both the funds lent to Germany and the proceeds from this export surplus were partly used to pay for imports of raw materials from British and Dutch colonial possessions. The trade statistics do not, however, give a true picture, since many German imports from southeastern Asia are re-exported from Amsterdam and London. Accordingly, the following German statistics must not be considered as more than indicative of the size and trend of trade with southeastern Asia.

TABLE 16  
TOTAL OF GERMAN TRADE WITH BRITISH MALAYA,  
FRENCH INDO-CHINA, NETHERLANDS INDIES, PHIL-  
IPPINES AND SIAM, 1926-1931  
(In million RM)

| <i>Year</i> | <i>Imports</i> | <i>Exports</i> | <i>Import Surplus</i> |
|-------------|----------------|----------------|-----------------------|
| 1926.....   | 363            | 181            | 182                   |
| 1927.....   | 461            | 182            | 279                   |
| 1928.....   | 442            | 209            | 233                   |
| 1929.....   | 422            | 259            | 163                   |
| 1930.....   | 310            | 180            | 130                   |
| 1931.....   | 193            | 115            | 78                    |

In 1931 Germany introduced exchange control and in 1934 domestic boom conditions, resulting from public works (including rearmament) and currency inflation, led to rapidly rising prices for foreign raw materials in Germany and caused payment difficulties in 1934 and 1935. Accumulating German trade debts induced Great Britain, France and the Netherlands to

force clearing schemes upon Germany with the threefold purpose of securing payments on the service of the German funded debt as well as on accumulated German commercial indebtedness, and of creating channels through which at least a semblance of normal trade could be maintained. Under these schemes German export surpluses to the mother countries continued to offset German import surpluses from their colonies. In addition, schemes of barter trade were applied to the Dutch and British colonies. Part of the steadily dwindling amounts of free exchange accruing to Germany from her shrinking sales of services and goods abroad for free exchange, and from small, regulated percentages of her trade under clearing agreements with countries maintaining free exchange quotations—among them Great Britain, the Netherlands and France—was used for the purchase of raw materials produced in southeastern Asia. It would also appear that Dutch exporters of tobacco had extended rather large loans to Germany in order to finance their tobacco sales.

While German trade with southeastern Asia's colonial territories shows an unfavorable balance of considerable magnitude, German trade with the Philippines and Siam has been continuously favorable to Germany, and this does not seem to have been the result of German lending as it was in pre-war China.

German statistics of trade with southeastern Asia according to countries of origin and destination do not seem to be entirely reliable. In particular the distinction between imports originating in the Netherlands Indies and in British Malaya seems doubtful, as is pointed out later. In some respects, this point deserves closer attention than can be given here, since there is a distinct tendency in Germany to base arguments of

TABLE 17  
GERMAN TRADE WITH SOUTHEASTERN ASIA, 1932-1938  
(In million RM)

| <i>Year</i>                 | <i>Imports</i> | <i>Exports</i> | <i>Import Surplus</i> |
|-----------------------------|----------------|----------------|-----------------------|
| 1932.....                   | 147            | 67             | 80                    |
| 1933.....                   | 135            | 60             | 75                    |
| 1934.....                   | 161            | 54             | 107                   |
| 1935.....                   | 153            | 58             | 95                    |
| 1936.....                   | 182            | 74             | 108                   |
| 1937.....                   | 238            | 98             | 140                   |
| 1937 January-September..... | 177            | 70             | 107                   |
| 1938 January-September..... | 147            | 65             | 82                    |

commercial policy on evidence supplied by the German trade statistics.

Among the German imports from southeastern Asia, two raw materials, rubber and tin, are outstanding, both subject to comprehensive schemes of international regulation under joint Anglo-Dutch leadership.

German rubber imports from southeastern Asia, according to German statistics which do not pretend to be fully accurate, were as follows:

TABLE 18  
GERMAN IMPORTS OF RUBBER, 1932-1937

| <i>Year</i> | <i>Million<br/>RM</i> | <i>Per Cent of Total<br/>Rubber Imports</i> | <i>Per Cent of Imports<br/>from S.E. Asia</i> |
|-------------|-----------------------|---------------------------------------------|-----------------------------------------------|
| 1932.....   | 14.9                  | 74.6                                        | 10.1                                          |
| 1933.....   | 18.6                  | 76.7                                        | 13.8                                          |
| 1934.....   | 32.8                  | 80.1                                        | 20.3                                          |
| 1935.....   | 35.9                  | 81.0                                        | 23.4                                          |
| 1936.....   | 51.2                  | 78.9                                        | 28.1                                          |
| 1937.....   | 91.4                  | 80.1                                        | 38.4                                          |

German imports other than rubber from southeastern Asia were fairly stable in value and the increase in aggregate imports from that region results largely from increased rubber consumption. German imports from southeastern Asia exclusive of rubber were as follows (in million RM):

|           |     |           |     |
|-----------|-----|-----------|-----|
| 1932..... | 132 | 1935..... | 117 |
| 1933..... | 116 | 1936..... | 131 |
| 1934..... | 128 | 1937..... | 147 |

Germany's share in world rubber consumption has lately been increasing rapidly. According to the statistics of the International Rubber Regulation Committee, total world and German absorption of rubber was as shown in Table 19.

It would seem that up to 1939 the new German production of synthetic rubber (*buna*) has done little to reduce the consumption of natural rubber. According to German reports, large-scale production of *buna* had apparently begun only early in 1939 when it was said that the available production capacity would suffice to take care of the automotive rubber demand. With this demand responsible for about half the German rubber consumption, it would seem reasonable to expect a shrinkage in German rubber consumption by about half, or a reduction of the world demand for rubber by no less than about 5

TABLE 19  
GERMAN AND WORLD CONSUMPTION OF RUBBER, 1928-1938

| <i>Year</i>            | <i>World Consumption<br/>(tons)</i> | <i>German Consumption<br/>(tons)</i> | <i>Percentage of<br/>World Consumption</i> |
|------------------------|-------------------------------------|--------------------------------------|--------------------------------------------|
| 1928.....              | 676,700                             | 37,900                               | 5.6                                        |
| 1929.....              | 805,300                             | 49,100                               | 6.1                                        |
| 1930.....              | 712,400                             | 45,800                               | 6.4                                        |
| 1931.....              | 682,900                             | 39,200                               | 5.7                                        |
| 1932.....              | 689,100                             | 45,000                               | 6.5                                        |
| 1933.....              | 818,000                             | 54,100                               | 6.6                                        |
| 1934.....              | 938,700                             | 59,300                               | 6.3                                        |
| 1935.....              | 938,800                             | 62,900                               | 6.7                                        |
| 1936.....              | 1,016,600                           | 71,800                               | 7.0                                        |
| 1937.....              | 1,087,400                           | 98,200                               | 9.0                                        |
| 1937 January-September | 855,200                             | 71,666                               | 8.4                                        |
| 1938 " "               | 647,500                             | 69,118                               | 10.7                                       |

per cent. On the other hand, Germany in her rubber purchases definitely follows the policy of taking as much rubber as possible from countries which have not joined the international rubber restriction scheme. Outside production of rubber is still rather insignificant, totaling less than 3 per cent of world production. Yet in the first nine months of 1937 and 1938 the share of such outside production in the total German supply was much larger. Out of total German rubber imports of 72,930 tons (1937) and 70,403 tons (1938), outside supplies accounted for 10.8 per cent and 12.4 per cent, Brazil being especially prominent. German rubber supplies from non-agreement countries were as follows (in tons):

| <i>Country of Origin</i> | <i>January 1937</i> | <i>September 1938</i> |
|--------------------------|---------------------|-----------------------|
| Mandate of Cameroon..... | 583                 | 394                   |
| Belgian Congo.....       | 667                 | 942                   |
| French West Africa.....  | 1,056               | 562                   |
| Brazil.....              | 4,201               | 5,561                 |
| Ecuador.....             | 924                 | 651                   |
| Mexico.....              | 409                 | 616                   |

Thus during these years Germany purchased 37.8 per cent and 44.3 per cent respectively of the total world supplies from non-agreement countries. The bulk of these supplies originated in Latin-America. Germany's share of total South American supplies, which were 11,699 tons and 10,183 tons respectively, rose from 43.8 per cent in the first nine months of 1937 to 61 per cent in 1938.

Rubber is a strategic raw material and the experience of the World War—when synthetic rubber, though produced by

methods different from those now employed in Germany, was first supplied for army needs—proved that freight-carrying submarines could successfully run a blockade of the German North Sea ports and carry commodities to and from the Atlantic coast of South America. This development of outside rubber supplies for the German market is thus not surprising, especially since such purchases may now be paid for more frequently, through special barter arrangements even involving short-term loans to Germany, than may purchases in southeastern Asia which have mostly to be settled in cash or through the clearing mechanism.

Among Germany's other imports from southeastern Asia tin plays a major part. Large quantities smelted from Asiatic ores are imported from Britain and the Netherlands.

TABLE 20  
GERMAN TIN IMPORTS

| <i>Year</i> | <i>From Asia</i>                |                       | <i>Tin Imports from S.E. Asia</i>    |                                             |                                                           |
|-------------|---------------------------------|-----------------------|--------------------------------------|---------------------------------------------|-----------------------------------------------------------|
|             | <i>Total<br/>Million<br/>RM</i> | <i>Million<br/>RM</i> | <i>Per<br/>Cent<br/>of<br/>Total</i> | <i>As Percentage<br/>of All<br/>Imports</i> | <i>As Percentage<br/>of All Imports<br/>Except Rubber</i> |
| 1932.....   | 22.4                            | 12.0                  | 53.9                                 | 8.2                                         | 9.1                                                       |
| 1933.....   | 34.8                            | 20.0                  | 57.6                                 | 14.8                                        | 17.3                                                      |
| 1934.....   | 37.3                            | 20.9                  | 56.0                                 | 13.0                                        | 16.3                                                      |
| 1935.....   | 30.9                            | 17.2                  | 55.5                                 | 11.2                                        | 14.7                                                      |
| 1936.....   | 22.0                            | 13.7                  | 62.2                                 | 7.5                                         | 10.4                                                      |
| 1937.....   | 30.0                            | 19.8                  | 65.9                                 | 8.3                                         | 13.5                                                      |

German consumption of tin produced in southeastern Asia has been greatly affected by the efforts of the German Government to develop the production of reclaimed tin and generally to restrict the consumption of tin by substituting for tin and tin-plate Ersatz materials produced from the light metals and their alloys. This tendency may be clearly seen in the following figures (in thousand tons):

| <i>Year</i> | <i>Imports</i> | <i>Consumption<br/>(Metallgesellschaft)</i> |
|-------------|----------------|---------------------------------------------|
| 1929.....   | 16.0           | 16.4                                        |
| 1931.....   | 10.7           | 13.0                                        |
| 1932.....   | 9.0            | 13.7                                        |
| 1933.....   | 10.2           | 17.1                                        |
| 1934.....   | 10.0           | 17.1                                        |
| 1935.....   | 10.4           | 16.7                                        |
| 1936.....   | 8.5            | 15.4                                        |
| 1937.....   | 11.7           |                                             |

No figure is available for the output of German smelters in 1937; it has therefore been impossible to estimate German tin consumption. But since in that year imports of both tin and tin ore, the latter mainly from Bolivia, increased, it seems likely that tin consumption has increased during the present year.

By far the larger part of German business with southeastern Asia has been carried on with the Netherlands Indies, whose trade with Germany has been as follows (in million RM):

| <i>Year</i> | <i>Imports from<br/>Netherlands Indies</i> | <i>Exports to<br/>Netherlands Indies</i> |
|-------------|--------------------------------------------|------------------------------------------|
| 1932.....   | 122.3                                      | 43.5                                     |
| 1933.....   | 111.7                                      | 38.6                                     |
| 1934.....   | 131.8                                      | 34.8                                     |
| 1935.....   | 119.5                                      | 35.2                                     |
| 1936.....   | 112.9                                      | 38.6                                     |
| 1937.....   | 122.2                                      | 56.3                                     |

While still maintaining a leading position, the relative position of the Netherlands Indies in Germany's trade has steadily declined. From supplying more than 80 per cent of Germany's total demand for the products of southeastern Asia, the share of the Netherlands Indies has declined to little more than half. Less significant has been the decline in their relative importance as Germany's customer, for their share of German exports has dropped from about two-thirds to little more than 55 per cent. This decline is less striking with regard to products other than tin and rubber, as is indicated by the following figures (in million RM):

| <i>Year</i> | <i>German Imports from<br/>S.E. Asia Other<br/>Than Tin and Rubber</i> | <i>German Imports from<br/>Netherlands Indies Other<br/>Than Tin and Rubber</i> |
|-------------|------------------------------------------------------------------------|---------------------------------------------------------------------------------|
| 1932.....   | 114.7                                                                  | 105.5                                                                           |
| 1933.....   | 91.2                                                                   | 85.9                                                                            |
| 1934.....   | 99.5                                                                   | 97.9                                                                            |
| 1935.....   | 99.1                                                                   | 88.3                                                                            |
| 1936.....   | 103.0                                                                  | 84.2                                                                            |
| 1937.....   | 103.9                                                                  | 90.3                                                                            |

By far the most important item in these German purchases from the Netherlands Indies is tobacco, imports of which were as follows (in million RM):

|           |      |           |      |
|-----------|------|-----------|------|
| 1932..... | 33.4 | 1935..... | 39.0 |
| 1933..... | 35.1 | 1936..... | 33.9 |
| 1934..... | 40.2 | 1937..... | 30.4 |

Sumatra tobacco has always been a source of German supply,

especially for the manufacture of cigars. In 1929 more than a third of the total German consumption of foreign tobacco consisted of tobacco originating in the Dutch East Indies, but since then the proportion has been decreasing.

According to German statistics, tobacco from the Netherlands Indies amounted to the following percentage of the total German consumption of foreign tobacco:

| <i>Fiscal Year</i> | <i>Per Cent</i> | <i>Fiscal Year</i> | <i>Per Cent</i> |
|--------------------|-----------------|--------------------|-----------------|
| 1929-30.....       | 33.7            | 1934-5.....        | 29.9            |
| 1930-1.....        | 31.4            | 1935-6.....        | 27.1            |
| 1931-2.....        | 29.3            | 1936-7.....        | 25.2            |
| 1932-3.....        | 26.2            | 1937-8.....        | 22.4            |
| 1933-4.....        | 28.9            |                    |                 |

This decrease has continued throughout 1938. During the fiscal year 1937-8, the Netherlands Indies lost to Greece their place as the most important supplier of German tobacco imports. In the first eleven months of 1938, with German tobacco imports decreasing considerably for the first time since 1932, tobacco imports from the Netherlands Indies were less than 20 per cent of the total. This serious decline occurred despite strong attempts to maintain the export of tobacco from the Netherlands Indies to Germany. Such exports were assisted by definite quotas assigned to them under the German-Dutch clearing scheme, by additional deals arranged with the help of "Aski-marks" (barter trade) and even by credits granted to the German purchasers, the latter amounting to as much as 12 million guilders, i.e., about RM 16,000,000 at par or more than U. S. \$6,000,000.

While German imports from the Netherlands Indies other than rubber, tin and tobacco have decreased from 1932 to 1937, imports of two products which are of special and semi-military importance, oil and bauxite, have been rising. German oil imports from the Netherlands Indies (all in the form of gasoline) rose from little more than RM 4 million in 1932 to more than RM 12 million in 1937, while total gasoline imports increased by less than one-sixth. Bauxite imports into Germany have increased greatly since 1932, as German aluminum production has steadily grown. By the end of 1935 the Billiton tin-mining corporation controlled by the Netherlands Indies Government, which owns five-eighths of its capital stock, began to mine bauxite on the island of Bintam. Production in 1935 amounted

to about 10,000 tons, in 1936 to about 134,000 tons, in 1937 to about 199,000 tons. German imports of bauxite from the Netherlands Indies amounted to 127,635 tons in 1936, and to 138,813 tons in 1937. The rest of the Bintam output was marketed in Japan. Production for 1938 has been estimated at about 230,000 tons, the bulk of which is still going to Germany. In value these imports amounted to about RM 3,300,000 in 1936, and to about RM 3,600,000 in 1937.

Similarly, some other products of military and semi-military importance have been bought in increasing quantities by Germany. Though total German sisal imports have risen steadily, the share of the Netherlands Indies in the German sisal market has decreased from more than one-third to less than one-sixth; yet their value has increased from about RM 2,900,000 in 1932 to nearly RM 3,500,000 in 1937.

In addition, Germany has increased her purchases of cinchona bark, the basic raw material of quinine and of many other pharmaceutical products, the value in million RM being as follows:

|           |     |           |     |
|-----------|-----|-----------|-----|
| 1932..... | 2.4 | 1935..... | 5.1 |
| 1933..... | 3.1 | 1936..... | 4.8 |
| 1934..... | 2.9 | 1937..... | 4.5 |

The great importance of quinine having become apparent in the World War, it seems likely that part of the increased German purchases has served to increase Germany's stocks of that basic material which is virtually a Dutch monopoly and can be stored easily.

In contrast to these imports, other German imports from the Netherlands Indies have been sharply reduced: the total value of imports not referred to above amounted to more than RM 62 million in 1932 and to only RM 36 million in 1937. However, in view of the increase shown in imports from British Malaya, it may be doubted whether the German statistics are trustworthy. By far the most important item of these other imports in both the years mentioned was copra, imports of which in 1932 were worth RM 23.5 million and in 1937 about RM 14 million. As in other instances, the Netherlands Indian share in German copra imports seems to have decreased markedly, from more than 80 per cent of the total German import in 1932 to little more than 30 per cent in 1937.

Copra and vegetable oils of different kinds have suffered



from the German import restrictions, though they still constitute important items of trade. Moreover, the Netherlands Indies are still the most important sources of the German supply of all kinds of spices, though Germany has tried to cut down such imports. A formerly important item of trade, kapok, has suffered a severe decline. Similarly, Germany has sharply reduced the import of tea from the Netherlands Indies, though her total tea imports show little change in quantity. To some extent it seems that Chinese tea has replaced tea from the Indies. On the other hand, Germany's purchases of Java coffee have tended to increase in relation to her increasing coffee imports. Among Germany's other imports, it may be mentioned that in 1936 she began to import gold ore from the Netherlands Indies. As her gold ore imports generally show a tendency to rise, it seems likely that Germany is trying to acquire such ores in order to add to her scanty gold reserve by this means, possibly even at the cost of paying prices higher than would be warranted by the theoretical gold parity of the Reichsmark.

On the whole, German imports from the Netherlands Indies display a tendency to shift toward such products as are essential in the new German economic structure as it has evolved during the last six years. It is possible, however, that the extent of this shift may have been exaggerated by a re-arrangement of the statistics, i.e., goods whose origin was formerly ascribed to the Netherlands Indies are now attributed to alternative countries, especially British Malaya.

German exports to the Netherlands Indies up to 1936 have scarcely kept step with the development of her imports from that area, though in 1937 they showed a rather sharp increase which was well maintained in 1938. With the improvement of economic conditions in the Netherlands Indies following the depreciation of the guilder in 1936, such a rise in German exports to the Netherlands Indies consists of goods like machinery and iron and steel products, the markets of which react more sharply to changes in the business cycle than do those other goods. To what extent the improvement in German sales is due to this cause, and to what extent it may be ascribed to special German and Dutch efforts, is difficult to decide.

A fairly large share of German exports to the Netherlands Indies is in certain types of consumption goods which have

traditionally been provided by Germany, a trade greatly assisted by the close economic, social and cultural relations which always used to prevail between Holland and Germany. It is a now often-stressed fact that quite a few Germans held high office in the Dutch colonial administration in the nineteenth century, and Germans are still the largest foreign group among the Europeans living in the Netherlands Indies. For some types of perfumery and other personal consumption goods the Indies are among the best customers of Germany.

Germany also seems to have profited from the expansion of the textile industry in the Netherlands Indies, for both her exports of textile machinery and of textile dyes have greatly increased of late. To that extent Germany has benefited from the restrictions on Japanese competition in the textile markets of the Netherlands Indies. The same holds true of the German sales of bicycle parts to the Netherlands Indies which have steadily increased in accordance with the efforts of the colonial administration to develop native bicycle assembly factories protected against the competition of cheaper Japanese bicycles. Considerable increases are also to be noticed in German exports of pipes and armatures needed for pipe-lines. At least some of this business is probably due to the barter of such material in return for the rising imports of oil from the Netherlands Indies.

According to German statistics there has been a distinct tendency to reduce Germany's unfavorable balance of trade with the Netherlands Indies after its sharp rise in 1934 when Germany contracted large commercial debts with the Netherlands and their colonies and finally repaid them only in January 1937. Unofficially it has been stated that it was Germany's aim to establish in her trade with the Netherlands Indies a proportion between imports and exports at the rate of 2:1 as against the proportion of 3:1 in 1932. While this aim has not been fully achieved, it does not seem unlikely that the progress made toward that proportion in 1937 and 1938 may well continue in 1939 if rubber imports are, as seems likely, to be considerably reduced. In addition, improved markets for rubber, tin and sugar are likely to add to the prosperity of the Netherlands Indies in 1939 and thereby to cause an increase in their purchases generally.

Next in importance to the Netherlands Indies in the whole area of southeastern Asia, both as a source of supply and as a market, is British Malaya.

TABLE 21  
TRADE WITH BRITISH MALAYA, 1932-1937  
(In million RM)

| <i>Year</i> | <i>Imports</i> | <i>Exports</i> | <i>Balance of Imports</i> |
|-------------|----------------|----------------|---------------------------|
| 1932.....   | 13.1           | 6.9            | 6.2                       |
| 1933.....   | 15.6           | 7.2            | 8.4                       |
| 1934.....   | 22.5           | 7.7            | 14.8                      |
| 1935.....   | 26.5           | 9.2            | 17.3                      |
| 1936.....   | 51.9           | 17.7           | 34.2                      |
| 1937.....   | 97.0           | 18.7           | 78.3                      |

It will be seen that the German statistics show a rather rapid development of trade with these British colonies and protectorates. This is mostly due to the rise in the imports of rubber and tin.

TABLE 22  
GERMAN IMPORTS FROM BRITISH MALAYA  
(In million RM)

| <i>Year</i> | <i>Rubber</i> | <i>Tin</i> | <i>Total of Rubber and Tin</i> | <i>Other Imports</i> | <i>Rubber and Tin as Per Cent of Total</i> |
|-------------|---------------|------------|--------------------------------|----------------------|--------------------------------------------|
| 1932.....   | 5.3           | 4.8        | 10.1                           | 3.0                  | 77.5                                       |
| 1933.....   | 8.4           | 4.4        | 12.8                           | 2.8                  | 82.0                                       |
| 1934.....   | 14.5          | 4.8        | 19.3                           | 3.2                  | 85.7                                       |
| 1935.....   | 17.6          | 2.2        | 19.8                           | 6.7                  | 74.7                                       |
| 1936.....   | 31.9          | 1.7        | 33.6                           | 18.3                 | 64.7                                       |
| 1937.....   | 66.7          | 4.5        | 71.2                           | 25.8                 | 73.4                                       |

What is most striking in these figures is the disproportionately large share of rubber imports ascribed to British Malaya. While in 1932 British Malaya, according to German statistics, supplied about as much rubber as the Netherlands Indies, in 1937, according to the same source, British Malaya supplied more than four times as much rubber as the Dutch colonial empire. In view of the difficulties inherent in determining a definite country of origin for a raw material like rubber, it seems doubtful whether the German statistics can be fully trusted.

Similar doubts apply to the very high imports of copra credited to British Malaya. Nearly all of the rise in German imports other than rubber and tin from British Malaya is due

to a rise in copra imports from that area. According to the German statistics they were as follows:

| <i>Year</i> | <i>German Copra Imports<br/>from British Malaya<br/>(million RM)</i> | <i>Copra (as Percentage<br/>of Imports Other Than<br/>Rubber and Tin)</i> |
|-------------|----------------------------------------------------------------------|---------------------------------------------------------------------------|
| 1932.....   | 1.2                                                                  | 40.0                                                                      |
| 1933.....   | 1.0                                                                  | 35.7                                                                      |
| 1934.....   | 1.2                                                                  | 30.9                                                                      |
| 1935.....   | 2.8                                                                  | 41.6                                                                      |
| 1936.....   | 13.1                                                                 | 71.3                                                                      |
| 1937.....   | 20.0                                                                 | 77.4                                                                      |

Similar shifts in imports from the Netherlands Indies to British Malaya are to be observed among certain types of spices, palm kernels, natural resins and other minor products. Total German imports from British Malaya other than tin, rubber and copra seem to have increased from RM 1.8 million in 1932 to RM 5.8 million in 1937, much of this increase possibly being due to a change in statistics rather than in the actual movement of goods. This statistical shift from the Netherlands Indies to British Malaya as a supplier may be due simply to a change in statistical methods which has not sufficiently taken account of the importance of Singapore as a port of transshipment for the produce of the Netherlands Indies. It may also be due to a deliberate attempt to increase German imports from the British Empire, on paper, in order to obtain a bargaining point in trade discussions. But it seems important to bear in mind that it is probably impossible to achieve any clear distinction between Germany's imports from the Netherlands Indies and from British Malaya.

Germany's exports to British Malaya, much smaller than those to the Netherlands Indies, have steadily increased, the rise being spread over a wide range of products. The most important single item showing a great rise is stationary Diesel engines. Great advances have also been made in the marketing of photographic cameras and equipment.

German import and export relations with the other three important countries of southeastern Asia are of comparatively little importance, as will readily be seen from the following figures:

Germany's trade with Indo-China is carried on under the terms of the Franco-German clearing scheme, Germany's export surplus to France paying for her unfavorable balance of trade

TABLE 23  
GERMAN TRADE WITH PHILIPPINES, SIAM AND INDO-CHINA,  
1932-1937

| <i>Year</i> | <i>Imports from</i> |             |                   | <i>Exports to</i>  |             |                   |
|-------------|---------------------|-------------|-------------------|--------------------|-------------|-------------------|
|             | <i>Philippines</i>  | <i>Siam</i> | <i>Indo-China</i> | <i>Philippines</i> | <i>Siam</i> | <i>Indo-China</i> |
| 1932.....   | 5.7                 | 3.2         | 2.3               | 11.3               | 4.1         | 0.8               |
| 1933.....   | 3.7                 | 3.3         | 1.2               | 9.9                | 3.6         | 0.6               |
| 1934.....   | 2.4                 | 3.2         | 1.4               | 6.9                | 4.0         | 0.8               |
| 1935.....   | 1.9                 | 1.7         | 3.0               | 6.8                | 5.8         | 0.7               |
| 1936.....   | 10.5                | 2.2         | 4.1               | 10.2               | 6.5         | 1.0               |
| 1937.....   | 5.3                 | 2.9         | 10.2              | 12.3               | 9.6         | 1.3               |

with Indo-China. Exports to the colony are insignificant. The rather sharp rise of imports from Indo-China is mostly due to German rubber purchases which in 1932 were insignificant, in 1934 amounted to one-fourth of her total imports from Indo-China, in 1935 to two-thirds, in 1936 to more than three-fifths, and in 1937 to more than three-fourths. The remaining trade is very small, the only items of importance being rice and rubber, as may be seen from the following figures of German imports from French Indo-China (in thousand RM):

| <i>Year</i> | <i>Rice</i> | <i>Rubber</i> |
|-------------|-------------|---------------|
| 1932.....   | 1,163       | 39            |
| 1933.....   | 888         | 53            |
| 1934.....   | 646         | 350           |
| 1935.....   | 527         | 2,020         |
| 1936.....   | 1,555       | 2,534         |
| 1937.....   | 2,132       | 7,643         |

German trade with the Philippines and Siam is characterized by a balance of trade in favor of Germany. Accordingly, neither of these countries has found it necessary to impose any payment restrictions on its trade with Germany. Imports from the Philippines are mostly copra and hemp (abaca). Exports are distributed over a wide range of consumption and production goods. An important development has been the sharp increase in the sale of German newspaper.

German imports from Siam consist mostly of rice, timber (teakwood for warship construction), rubber and natural resins. Lately cotton has gained increasing importance, with a sharp rise in German cotton imports from Siam in 1938. Though these imports are insignificant in the total of Germany's cotton supply, they are probably highly welcomed by the Siamese Government which is likely to find in them encouragement for its cotton-growing experiments which form part of Siam's national

development program. Germany's rising exports to Siam seem partly bound up with the arrangement of credits, as, for example, the sale of a small paper mill to Siam, delivery of which swelled the trade figures in 1937. In addition, it seems as though Germany had begun a general sales campaign in Siam: all kinds of iron and steel, machinery, fertilizer and newsprint have lately been sold in increasing quantities. Sharply increasing shipments of small arms may indicate that part of such sales has been due to German assistance in Siamese rearmament.

## CHAPTER VIII

### GERMAN SHIPPING IN THE FAR EAST

Since pre-War times Germany's share in the world mercantile marine has been reduced from about one-eighth of the total tonnage in 1914 to about one-sixteenth at present. But as Germany's coastal shipping is rather small, her share in overseas shipping is somewhat larger than these figures would indicate. Nevertheless, it seems likely that Germany's share in the world's overseas shipping is now smaller than her share in world trade. This assumption is confirmed by statistics showing her share in the traffic of the two great interoceanic canals, her share of the tonnage passing through the Panama Canal amounting to about 5 per cent of the total and her share in Suez Canal traffic to about 9 per cent.

Like other shipping, the German merchant marine suffered from the depression and was reduced by about 10 per cent of its total tonnage through scrapping and sale. To some extent this loss was increased by the financial crisis of the two great German shipping lines, the North German Lloyd and the Hamburg-America Company, which had borrowed heavily abroad in order to increase their fleets and have been subject to repeated reorganizations greatly facilitated by subsidies from the Reich Government. The preservation of these two lines and their subsidiaries maintained the basic structure of German shipping which is characterized by what German writers describe as over-emphasis on regular lines as distinct from tramp shipping. The latter is still insignificant, a fact deplored in authoritative writing on German shipping. Another unfavorable characteristic is the small German tanker tonnage. While tanker tonnage is growing steadily more important in world overseas shipping, its share in the total German tonnage does not seem to exceed 3 or 4 per cent.

During the years of recovery since 1933 German shipping faced especially difficult conditions for the recovery of the tonnage lost in the depression. Ships could scarcely be bought

abroad on account of the German foreign exchange shortage. On the contrary, German shipyards were encouraged to accept foreign orders, their foreign customers being enabled to pay for their purchases with blocked marks at half their nominal parity, while German customers of the yards received a government subsidy of only 30 per cent of their purchase price. Accordingly, German shipowners were burdened with a capital overhead cost higher than that of their foreign competitors. The result has been that since 1935 regularly more than half of the ships under construction at German shipyards were for foreign customers. In addition, the reconstruction of the German Navy has still further restricted the facilities for the replenishment of the German merchant fleet. Actually today the current additions to German shipping tonnage are scarcely sufficient to make good its annual loss through obsolescence. While ten years ago German shipping was comparatively modern owing to its high proportion of recently built ships, this advantage has now been lost. During the period of the Weimar Republic and up to the depression, Germany's share in the world's commercial shipping was steadily rising, but this has now ceased and given way to a gradual decline.

As early as 1921 German shipping lines once more entered the East Asiatic Shipping Conference, with the sole exception of the Rickmers Line (total tonnage about 75,000 tons) which remained outside the Conference until 1937 when special arrangements were made, as a result of which the line is now generally complying with the Conference rates. Germany's share in Far Eastern shipping, however, has naturally not come up to pre-War levels, its place having largely been taken by Dutch and Scandinavian (especially Danish and Norwegian) vessels. Shipping services to the Far East are being maintained by both the large German lines (Lloyd and Hamburg-America). The North German Lloyd, however, is privileged in passenger service as long as that service can be maintained by no more than three large liners; if its passenger service should increase beyond the capacity of these three ships put into service in 1935, the Hamburg-America is entitled to claim a share in the passenger service.

In view of this general condition of German shipping, it is not surprising to find that German shipping in the Far East has seriously declined since pre-War times. While, according to the



Chinese Customs statistics, the total tonnage of ships entering and leaving Chinese ports had been steadily increasing until 1931, German shipping in Chinese ports has never reached the tonnage of 1913 when 6.3 million tons of German shipping were entered and cleared. The maximum reached in post-War times (in 1929) was only about 4.3 million tons. Germany's percentage of shipping in Chinese ports thus declined from 6.8 in 1913, to 2.8 in 1929. A similar development can be seen in Japanese ports. While in 1913, 1.7 million tons of German shipping, or 6.8 per cent of the total, were entering Japanese ports, the maximum in post-War times was reached in 1935, when German shipping entering Japanese ports totalled 1.9 million tons, or 2.6 per cent of the total.

While these parallel developments seem to be similar, it is important to observe the change in the relative importance of China and Japan as German shipping markets. It is necessary to double the figures of Japanese entrances in order to make them roughly comparable to Chinese figures of entrances and clearances. It will then appear that in 1913 only about half as much German tonnage entered and cleared Japanese as Chinese ports, while in 1935 German tonnage in Japanese ports was nearly one-and-a-half times as great as in Chinese ports. This difference is enhanced by the German shipping business in Manchukuo where German shipping is still concentrated at Dairen. German shipping entered and cleared at Dairen has steadily increased lately from about 560,000 tons in 1932 and 1933 to 700,000 or 800,000 tons in later years, with a decrease in 1938. Both in China and Japan, however, as well as in Dairen, German shipping took a lesser share of the total shipping business than of total trade.

Germany's share in China's coastal and river shipping was fairly insignificant until 1938. In this year the Shanghai Customs figures show a sudden increase in Germany's share in interport shipping: the number of German vessels cleared from Shanghai for other Chinese ports increased from 18 with a tonnage of 91,000 tons in 1937, to 101 with 232,000 tons. The striking feature in this development is not only the sharp increase in the total figures but also the sharp decrease in the average size of the ships participating in this business, from more than 5,000 tons each in 1937 to little more than 2,000 tons each in 1938. Actually, this development was the result of a German merchant

firm's transactions with the Chinese Government and the Japanese army of occupation. This firm had sold ships to the Chinese and was holding a mortgage until they had been paid for. The ships were seized by the Japanese and after lengthy negotiations were returned to the German creditor who is now employing them in Chinese waters. Through this deal German shipping now occupies an important place in the much-reduced volume of Chinese interport shipping (excluding of course the semi-military Japanese transports). While in 1935 German interport shipping was less than 5 per cent of British interport shipping, its volume in 1938 had reached more than 15 per cent. There are only two other European nations which can boast of a similar development in their share of Chinese interport shipping: Italian interport shipping which was wholly insignificant until 1936, rose rapidly in 1937 and 1938 when it was nearly as important as German interport shipping, and Portuguese interport shipping which seems to result from the sale of Chinese ships to Portuguese owners. In 1935, the ship tonnage of these three nations cleared from Shanghai for other Chinese ports was about equal to 5 per cent of British tonnage thus employed, but in 1938 it totaled no less than one-third of total British tonnage.

## CHAPTER IX

### FORMER GERMAN COLONIES IN THE PACIFIC

The German claim for colonies is based partly on economic and partly on legal considerations. The economic reasoning is fairly well known. It assumes that if the territories now held by different powers under League of Nations Mandates were handed back to Germany, the annual supply of food and raw materials offered by these areas could be substituted for roughly RM 200 million worth of commodities which now have to be paid for in foreign exchange. Since Germany's economic difficulties are generally interpreted as "transfer" difficulties resulting from foreign exchange shortage, such a saving of foreign exchange would, in the opinion of German spokesmen, be vitally important to Germany.

The legal reasoning is more involved. The first argument is that the seizure of the pre-War German colonies was incompatible with the assurances contained in President Wilson's Fourteen Points. Since Germany is assumed by German authors to have consented to the Armistice because she had been thus reassured, the contention is that any violation of the Fourteen Points was consented to under duress, and that such consent is accordingly invalid. The second argument is that the seizure of the colonies was based upon an argument derived from "atrocities stories" collected in a British Blue Book on the treatment of natives in Southwest Africa; since, according to the German version, the South African government later on admitted that the atrocity stories were trumped up, the contention is that the reasoning underlying the seizure of the colonies was admittedly based on a misstatement of facts, and, therefore, the decision based upon such reasoning is invalid.

Having thus established a claim, the next problem widely discussed in Germany is where the claim should be lodged. Here arises the problem of who is the sovereign of the League Mandates. The original theory in Germany seems to have been that sovereignty over the mandates resides in the League of Nations.

but lately another version strongly influenced by the doctrines of a prominent German legal authority, Professor Carl Schmitt, has been advanced. According to this, sovereignty over the Mandates would rest with the Principal Powers to which, in Article 119 of the Versailles Treaty, the colonies were ceded originally. As a claim addressed by a have-not nation to a have-not League of Nations, the German claim for colonies was fairly harmless. The new theory recommends that the colonial problem be discussed directly between Germany and the Principal Allied Powers, i.e., Great Britain, France, Italy and Japan.

From the economic standpoint the claim for German colonies would not concern specific colonial territories. From the legal standpoint, it follows, of course, that the German claim as now generally raised refers especially to the former German colonies. As has been stated in the text, Chancellor Hitler announced on February 20, 1938, that Germany had really no desire at all to be invited to return to Eastern Asia. It seems indeed extremely unlikely that Germany would demand to have Tsingtao and her Shantung sphere of interest restored to her.

Much more involved is the situation with regard to the Japanese Mandate comprising more than 600 islands with important phosphate deposits in the Pacific north of the Equator. There has been no evidence that in form Germany has ever renounced her claim to the recovery of these islands, although in German literature it is recognized that their case differs from that of most of the other former German possessions in that Japan has paid compensation to the German South Seas Phosphate Company which formerly exploited the phosphate deposits on Angaur Island. On the other hand, one German author at least has claimed, on the basis of the traditional theory of sovereignty over the mandates, that if restoration of the Japanese Mandate were to prove impossible, the League of Nations would be liable for compensation for such "embezzled" (*veruntreut*) property. Once that theory were officially accepted, it would of course be fairly easy to demand compensation for Tsingtao also.

As to other mandates held in the Pacific by the British, New Zealand and Australian Governments, no specific German demands or comments can be cited. The wealth of the phosphate deposits of Nauru have, of course, always been well known to the Germans, and are regarded enviously. Comment on Samoa usually points gleefully to the difficulties the New Zealand ad-

ministration has had to face in dealing with Samoan self-government. Comment on northeastern New Guinea (combined with the Bismarck Archipelago under Australian mandate) is mostly restricted to pointing out that Australia either has done nothing or very little to develop these territories, or has merely followed in German footsteps and thereby achieved reasonable progress without original efforts of her own.

Both the strategic and the economic importance of New Guinea are obvious. The strategic importance of New Guinea is a result of its geographic position between the Japanese South Seas Mandate and Australia. New Guinea, or any extensive part of it such as the northeast which used to be Kaiser-Wilhelmsland and now forms the most important part of the Mandated Territory, would certainly develop in the hands of an ally of Japan into a potential threat to Australia since it would be fairly easy to develop it into a first-class military and naval base.

The economic resources of New Guinea, on the other hand, are not at all fully developed. Contrary to the German contentions, Australia has done much to open up New Guinea. A steady rise in the population figures indicates continued progress in the exploration of formerly unknown territory. While under German rule the numbered population totaled less than 200,000, it has now reached half a million, with many known villages not yet fully counted. This opening up of New Guinea has been closely linked up with gold prospecting. Under German rule certain suspicions were entertained that there might be gold in New Guinea. But gold was really discovered only in 1926, through the pioneer work of Levien, an Australian Jew. Levien apparently was responsible for the first successful attempt to use airplanes in the commercial transportation of heavy goods, namely gold-mining machinery. With the use of airplanes in commercial aviation, and with increased gold prospecting which is greatly aided by airplanes, the discovery of unknown population groups is proceeding apace, and wherever the gold prospectors go, they are followed by Australian police patrol officers.

In addition, since the discovery of oil in the Dutch (western) part of New Guinea, a search for oil has begun in both the Australian territory of Papua and the Mandate. Since Australia lacks any other oil resources, deposits in the parts of New Guinea under her control might be of vital importance. From the German point of view, on the other hand, precisely the same reasons

contribute to strengthen Germany's insistence on her claim to rightful ownership.

The whole problem is of course complicated by the German-Japanese alliance. If Japan would consent to some form of German-Japanese co-operation in the Japanese Mandated Territory, this territory might easily be developed into a base suitable for an attack on New Guinea, or at least for a threat to back up German demands. Gold is seriously deficient in both the German and Japanese financial structures, and a partnership in laying claim to New Guinea might not seem altogether impossible today.



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