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BRITISH FINANCIAL DIPLOMACY IN CHINA: THE LEITH-ROSS MISSION, 1935-1937*

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In February 1937, Sir John Pratt, the British Foreign Office's expert on China described Sir Frederick Leith-Ross as "the acknowledged authority now on China" and the agent of the "new policy". Pratt characterised this policy as a forward movement into China and added, with a touch of sarcasm, that the Government was letting it be known that it would protect British trade "against all enemies, be they Japanese, American or Chinese."¹

In early years of the century, successive British Governments had been forced to make defensive diplomatic arrangements covering the Far East. Some major departures in British diplomacy, introduced after careful deliberation in the face of a changing balance of forces in Europe as well as in the face of the rise of militant nationalism in Asia, included the Anglo-Japanese Alliance of 1902-1921, the Washington Treaties of 1921-1922 and the December Memorandum of 1926 on Chinese nationalism. These measures have been characterised as signalling a retreat from China, adopted by Britain either because her leaders felt themselves 'buffeted by Asian forces beyond their control' or prevented by 'strong currents of liberal-socialist opinion' in England from making any bargain with the dissatisfied or aggressive powers such as Japan and Germany, or because Britain had 'long outgrown that stage of capitalist imperialism.'² The evidence now becoming available from the British archives indicates, however, that in spite of a pattern of strategic retrenchment in earlier decades, the desire to maintain a prominent position in China in the 1930's led British administrations to devise vigorous political and economic policies to preserve their stake in that area of the world.

These policies, expressed in disarming terms of demands for 'equality of treatment' and the 'open door in China,' were propagated by British entrepreneurs, politicians and diplomats who were no more willing to contemplate eventual British retreat from established positions in East Asia than they were from India or Africa. The British Foreign Secretary, Sir John Simon, declared in 1935, that "His Majesty's Government were in China and meant to stay there."³ His successor

*Note: A longer version of this article appears in the journal *Public Affairs*, Vol. 46, No. 4.

decried the “foolish and malicious people” who thought that the zenith of the British Empire had passed,⁴ and the China Station of the Admiralty continued to build shallow-draft gunboats for use on Yangtze River trade routes as it had been doing for the past seventy years. As Sir E. Chatfield, Chief of Naval staff remarked,

We have got most of the world already or the best parts of it, and we only want to keep what we have got and prevent others from taking it away from us.⁵

A low-key announcement to Parliament and the press on June 10, 1935, that Sir Frederick Leith-Ross was going to China, served to camouflage the importance of his mission. Leith-Ross, however, was a man of considerable standing in Britain. He had been Chief Economic Adviser to the Prime Minister and Chancellor of the Exchequer on Financial relations with foreign countries since 1924. His rank in the civil service was equal to that of the Permanent Heads of the great Departments of State. He had conducted negotiations with the United States and Germany in 1933-34 and in 1935 he was concurrently vice-chairman of the Economic Committee of the League of Nations. It was for these reasons, when his mission to China was approved by the Cabinet, that Sir Robert Vansittart, Permanent Undersecretary at the Foreign Office, commented, “we are indeed sending a big gun.”⁶

From the Leith-Ross Papers, it is now possible to assess in greater detail, Sir John Pratt’s claim that the British Government engaged in a dangerous and adventuresome forward policy in China. What was the essence of British policy and how successful was it? How far did it depart from the settled China policy of the Foreign Office? What responsibility did Leith-Ross personally have for Britain’s failure to gain an understanding with Japan? Did British policy help to precipitate more aggressive Japanese action and stimulate Chinese nationalism to resist Japan?

Leith-Ross began his talks in the Far East with an ingenious scheme, personally approved by Neville Chamberlain and Sir Samuel Hoare (who became Foreign Secretary in June 1935), for Japan to buy Manchuria from China with £10 million to be provided by a loan raised in the City of London and guaranteed, if necessary, by parliament.⁷ This would presumably pacify the Chinese and pay for the rehabilitation of China: the resulting political detente would achieve the general recognition of the Japanese-sponsored State of Manchukuo. This would rescue Japan from the isolation into which she had been thrown by her withdrawal from the League of Nations but would still ensure her requirements for raw materials and for an outlet for her excess population in Manchuria. In return for British recognition of

Manchukuo, Anglo-Japanese relations would be re-cemented by a Japanese pledge to abstain from intervening in the political and administrative affairs of China south of the Great Wall.

Although the Japanese Government, including Emperor Hirohito, listened politely, Leith-Ross found that he could "get nothing out of them."⁸ Unfortunately for his plan, the Japanese already had Manchuria without paying for it.

Blocked in the direction of Manchuria, Leith-Ross turned to the reorganisation of Chinese currency, where, disclaimers to the contrary, he played a prominent role in the Nanking Government's decision to abandon silver and go onto a managed paper currency. Leith-Ross hoped that by improving economic stability in China, he could win Japanese favour and at the same time bolster British interests and prestige in the Far East. But when the Japanese leaders learned that Leith-Ross's key proposal was still for lending £10 million to China, and that the proceeds were to be spent under British supervision, they were unenthusiastic. They argued that new foreign loans would prove mischievous, would be of no benefit to China and would serve merely to enrich personally and strengthen politically the anti-Japanese "Sung dynasty," the Soong-Chiang families, who were in reality the existing Government of China.⁹ The Japanese Foreign Ministry, which was then itself in the final stages of working out the famous 'Hirota Three Principles' for the domination of China south of the Great Wall by diplomatic rather than by overt military means, pretended to Leith-Ross they were concerned that China should learn to rehabilitate herself and to free herself from any foreign control.

But if Britain held back from her plan to rehabilitate China, because of Japanese displeasure, Leith-Ross feared that British merchants would take it as a "clear hint to them to quit" and sooner or later, Japan would push China "into the hands of Russia." It would not be much consolation, he reflected, to watch British trade being destroyed "either by the Japs or by the Bolshies." Despite the risk that Japan might bite another chunk out of China, he favoured going ahead with the loan plan.¹⁰

The permanent officials at the Foreign Office became alarmed at the idea of a confrontation with Japan. In December 1935, after Anthony Eden had replaced Hoare as Foreign Secretary, the former sent several letters couched in firm language to Chamberlain urging Leith-Ross's immediate recall because his activities "might stir up once more the nationalist passions [in Japan] that led to the aggression in North China and culminated in the recent murders in Tokyo."¹¹

Neville Chamberlain and Sir Warren Fisher, however, were much influenced by the knowledge that the British community in the Far East were greatly heartened by Leith-Ross's presence. The Treasury officials were afraid that any sudden end to the Mission would be seen as a defeat at the hands of Japan and would involve "a damaging loss of prestige everywhere in Asia."¹² They wanted neither a confrontation with Japan nor a termination of the Mission. They decided that Leith-Ross should stay on in the Far East to take a political fence-mending trip to Japan.

When Leith-Ross arrived in Japan without any fresh proposals,¹³ he was told by the Japanese Foreign Ministry that Japanese industrialists were in no mood for trade decisions. The British proposals of 1934 for reductions in Japanese exports, they said, were quite unacceptable and no agreement could ever be made on that basis. By the summer of 1936, Leith-Ross had concluded that, apart from surface friendliness, Britain and Japan had such divergent interests in China as to preclude any Anglo-Japanese co-operation.

Leith-Ross foresaw that ultimately China was the decisive factor in the Far East and that she and not Japan would eventually "oust us from our privileges there."¹⁴ Consequently, rather than wait until these privileges were taken away, he considered that Great Britain should gradually renounce her extraterritorial rights in return for adequate safeguards. Such a step might be a hard pill for the British community in Shanghai to swallow, but that community, in Leith-Ross's view, was itself partly to blame for the plight into which British business in China had recently fallen. British merchants, who had won a reputation for integrity and straight-forward dealing, continued to rely on their Chinese compradores; in the past they had "made money easily without special efforts"¹⁵ by using this kind of intermediary but Chinese opinion was becoming increasingly hostile to compradores, sometimes popularly called "running dogs of imperialism." The British businessmen, unlike his German competitor who went out among the Chinese without extraterritorial protection and made friends, was reluctant to emerge from his aloofness and was "tinged with a suspicion of conscious rectitude" which estranged his Chinese counterpart.¹⁶ One entrepreneur had told Leith-Ross that he had never received a Chinese in his house and never would because it was unsound policy to cultivate Chinese connections.

Leith-Ross perceived that if the British Government was going to invest time and treasure in rehabilitating the China market for British trade there would have to be major alterations in the attitudes and affairs of the old China firms. As a first step toward tearing down the

out-moded extraterritorial system, for example, he tried to secure the co-operation of British enterprises in voluntarily applying the Chinese Income Tax law to their employees and clients. This was a vain effort. He also made "suave but ruthless" attacks on the Hongkong & Shanghai Bank, which had become enormously wealthy by operating its business as a "godsend" to the speculators but as a detriment to the legitimate interests of Sino-British trade.¹⁷ In the interests of efficiency he advocated the fusion of competing British houses in China in order to counter the ordered strength of the Mitsubishi, the South Manchurian Railway Co., or Siemens, who possessed their own banks, fleets and insurance organisations. And, of even more importance, he supported the proposals of some of the younger British businessmen in China, such as W.J. Keswick of Jardine, Matheson & Co., for the establishment of more joint Sino-British combines (with continued British diplomatic support as long as the British element remained predominant) for the development of railways, industry and shipping. In the long run, Leith-Ross was convinced that it was only this association of British and Chinese capital which would create vested interests among decisive Chinese groups, and which would thus help to defeat perfervid nationalism, should it arise again to expel British capitalism from China.

The measures which Leith-Ross advocated for the gradual abolition of extraterritorial privileges, the reform of the attitudes and the reorganisation of British-China houses, were long-term projects. In part these measures were designed to meet conditions beyond Britain's control, such as the industrialisation of Japan and China and the general shrinkage of world trade owing to protective tariffs and the depression. But from his vantage point in China, Leith-Ross saw that the continuous, in fact almost daily, erosion of British trade was also caused by political factors — Japanese in the north and German in the south — which he felt might be stemmed by countervailing British pressure in concert with important men like Chiang Kai-shek and T. V. Soong in the Nanking Government. Basing themselves on this premise, the Treasury and the Bank of England devised two dynamic policies, a currency loan and an international railway consolidation loan, to gain some immediate results. London's great financial strength and surplus capital hopefully could enter the political arena in China as a weapon to secure the threatened British position. As the possibility of securing a naval agreement with Japan and the United States faded in 1935, the attempt to implement these two policies, rather than Anglo-Japanese rapprochement, became the core of all serious British effort both within China and in the wider ambit of Far Eastern international affairs.

A political loan, in the form of support to the Chinese currency reform, to which reference has already been made, was Leith-Ross's favoured device because, theoretically at least, it was open to any other powers to join. It was also the strongest lever to gain concessions from the Nanking Government, and, properly secured, it would be an attractive issue on the bond market. The conditions for a £10 million loan, which were drawn up for Leith-Ross by Montague Norman, Governor of the Bank of England, as "a platform of common knowledge and agreement" of London bankers, suggest the continuing relevance of the term "capitalist imperialism" to describe the latter's economic and political ambitions. In summary form, the terms were as follows: (a) a loan chargeable to the Chinese Maritime Customs, with prior claim over Chinese domestic bondholders; (b) a British subject to continue as chief administrator of the Maritime Customs; (c) foreign control over the spending of the loan for approved purposes; (d) appointment of a British Adviser to the Chinese Central Bank to achieve (c) although the word "control . . . should almost certainly be avoided;" (e) the Chinese Government to pursue a policy of balanced budgets "to restore confidence;" (f) a satisfactory exchange stabilisation standard, preferably sterling; (g) a settlement of the outstanding default of respectable foreign loans; and (h) negotiation on commercial discrimination and grievances of British firms in China¹⁸

After a series of meetings in Shanghai during September and October 1935, Leith-Ross reported home that the Chinese Ministers had worked out a currency programme, based on a sterling standard, which was not very different from that which had been sketched out in London. In spite of his doubts about the personal honesty of the Chinese Ministers (which might increase the overhead expenses of the loan) Leith-Ross recommended that the Chancellor of the Exchequer authorise the Hongkong & Shanghai Bank to issue a loan even if the other Powers refused to participate because "we could not allow others to veto a scheme which we thought reasonable."¹⁹

The Foreign Office, however, was opposed to Leith-Ross's recommendation. In their view, without Japanese participation such a move was "obviously bound to excite great Japanese hostility — a challenge to Japan, in fact — while we have our hands full in the Mediterranean."²⁰ And in addition, in a manner "unpleasantly reminiscent of the tactics of the super-crook"²¹ the Chinese Ministers had begun to hedge on conditions which Leith-Ross had attached to a loan. As the assurances to Leith-Ross were whittled away by the Chinese Ministers, apparently for the most cogent reasons, the Far Eastern Department of the Foreign Office was confirmed in its view that the leaders of China,

no matter how corrupt, would not or could not accept foreign tutelage in the same way as they could have and did (i.e. The Reorganization Loan of 1913) before the rise of mass nationalism. Furthermore, since the publication of the December Memorandum of 1926, when Austen Chamberlain was Foreign Secretary, it was contrary to the considered policy of His Majesty's Government to attempt to place the Chinese in tutelage. The Foreign Office, for the time being, had its way.

The idea of a political loan to the Nanking Government arose again, however, in the spring of 1937, when Finance Minister H.H. Kung headed the large Chinese delegation to the coronation ceremonies of King George VI. The arguments were still much the same. To use the words of Sir Charles Addis, of the Hongkong & Shanghai Bank, a second large Reorganisation Loan would be of great value to British trade and prestige in China and would help Dr. Kung to consolidate the internal market. The main points of a program for a Currency Loan of £20 million, twice the size proposed two years earlier, were agreed to by interested British and Chinese parties on May 21st, 1937, and handed on the same afternoon to Dr. P.W. Kuo, head of the Chinese Bureau of Foreign Trade, and member of Dr. Kung's coronation delegation. The seven British conditions for a loan were virtually the same as those put forward in 1935. This time, however, the British Government asked for written confirmation by Dr. Kung of his acceptance of the points in the British memorandum, it being "of course understood that this document will not be published."²²

Despite the strong opposition to the Currency Loan on both commercial and political grounds by the Foreign Office, the Leith-Ross and Treasury view prevailed, and on June 21, 1937, Sir Alexander Cadogan, Deputy Permanent Under-Secretary of State, handed to the Ambassadors of the United States, France and Japan a memorandum on the proposed loan. This memorandum, which was confirmed by the British Government in August 1937, stated that His Majesty's Government favoured the loan if certain conditions were fulfilled. While negotiations were still in the early stages, the British Government stated that the Chinese, who were likely to accept these conditions, were in communication with the Hongkong & Shanghai Bank to settle the terms.²³ Unfortunately for British financiers, the outbreak of war between China and Japan in the summer of 1937 led to a drastic fall in Chinese bond prices on the London market with the result that the Currency Loan was never consummated.

The subject of railway loans to China was only slightly less politically sensitive than currency loans, but was even more complex in its ramifications. British manufacturing, engineering and shipping

companies pressed strongly for the flotation of new loans. But before any new lending could be considered, there was the backlog of millions of pounds of defaults on existing railway loans which had to be settled. Other difficulties were the legacy of geographical spheres of influence which still affected the attitudes of some of the Powers; the Nanking Government's desire to put foreign investment to military rather than to strictly economic uses, and the out-of-date rules of the 1920 Banking Consortium which tied the hands of the major foreign lending banks and governments but which were unacceptable to the Chinese Government.

Leith-Ross considered that the Chinese authorities, who were anxious to redeem their credit standing for fresh borrowing, had made fair offers during negotiations on defaulted loans. In spite of the uncompromising attitudes of the bondholders, settlements were reached by the spring of 1937 and there was a striking rise in capital values on the London Stock Exchange. Leith-Ross further noted that the Chinese were making remarkable progress in railway construction with their limited capital resources. On the basis of the trend of their foreign borrowing, he worried that if British interests did not act with enterprise and imagination, the market would soon be pre-empted by others, especially the Germans.²⁴ With this situation in mind, Leith-Ross proposed to the Cabinet that Britain should "contribute to the financial and economic rehabilitation of China, on which our trade depends"²⁵ by initiating an international railway loan of £10-15 million to be raised through a modified version of the China banking consortium. The Chancellor of the Exchequer approved²⁶ and Sir Charles Addis, Chariman of the China Consortium, was authorized to get in touch with Japanese authorities to prepare the way for Leith-Ross's program.

In the meantime, the Chinese Government put the whole question of the Consortium at issue by inviting special British assistance in a vast plan of new railway construction. The projected railways would run in a great arc from Chungking southwards through Kweichow and Kwangsi to Canton and then northwards toward Shanghai, and would begin with the immediate construction of a two hundred mile stretch from Canton to Meihsien, a town near the Fukien border. The Chinese authorities indicated that they had strong objections to any dealings with the Japanese south of the Yangtse River, and if Britain insisted on sharing with the Consortium, then China would have to turn to German or French groups. The Chinese Minister of Railways admitted quite frankly that Chiang Kai-shek's desire for urgency was to forestall objections by the Japanese and to face Japan with a *fait*

accompli. Chiang wanted to be able to answer Japanese protests by saying "We have entered into definite agreements with the British and we cannot now alter them."²⁷

Although any kind of encouragement of Chinese resistance to Japanese aggression was contrary to British policy, the British Ambassador advised London that "political obstacles should not deter us from economic expansion in South China."²⁸ And after necessary consultations with the financiers of the City of London and the inclusion of qualifications of a reassuring but dubious value, the Treasury drafted Eden's signal to Ambassador Hugessen to go ahead in the following terms:²⁹

We are inclined to agree with your view that political obstacles are not such as should deter us from entertaining proposals . . . provided they are kept on a strictly economic basis. We realise, of course, that the Chinese in making any railway projects are moved by political as well as by economic considerations. Nevertheless, provided the lines proposed can be shown . . . to be sound business propositions . . . we see no reason why Minister of Railways should not be encouraged . . . We await with interest . . . further reports . . .

Confronted by Japanese displeasure over foreign aid to China, which had been made plain ever since the famous 'Hands off China' declaration by the Japanese Foreign Ministry spokesman, E. Amau, in April 1934, and enticed by Chinese invitations, the British Government had now taken a fateful decision to give active diplomatic backing to the Matheson-Hongkong & Shanghai Bank group for the renewal of British capital investment in Chinese railroads. This decision was a logical development to follow the successful Kung-Leith-Ross currency reform of the previous year, but it exposed all too clearly the precarious nature of Whitehall's Far Eastern diplomacy. Britain was simultaneously entertaining definite proposals for action from a weak and disorganised China, together with vague discussions for co-operation in principle with a powerful Japan. From surface indications, Britain seemed to be in the happy position of having more than one suitor in the Far East. The optimism of important high government officials matched that of City financiers. In the words of Sir Alexander Cadogan, the Ambassador in Nanking had rightly assumed that should co-operation with Japan prove impossible, Britain would be "fully justified in pursuing our own independent course" and this "is in our minds as well as co-operation." It remained to be seen in which direction events would shape themselves.³⁰

Apart from indirect French and Japanese complaints of a British intrusion into their geographical spheres of influence, the immediate obstacle was the China Consortium which could not easily

be ignored because the United States Government was involved and that quarter was "pregnant with adverse reactions."³¹ On Treasury advice, Sir Charles Addis tried to get the other Powers to waive their rights to participation in the Canton-Meih sien Loan. He was unsuccessful. Following this, Sir Alexander Cadogan saw the U.S. Chargé d'Affaires, Ray Atherton, and handed him on behalf of the British Government a "Memorandum Respecting the China Consortium," in which arguments for dissolution of the Consortium were skillfully expounded.³²

In due course the American Government indicated that it was favourably disposed to the dissolution of the Consortium as then constituted; but it was clear to interested parties in Britain that the process of amicable dissolution was going to be a long drawn out one. Meanwhile, therefore, the British Government gave a confidential verbal undertaking to the Matheson-Hongkong & Shanghai Bank group that

it is the policy of His Majesty's Government so to arrange with the Consortium countries that a Sterling Issue in London for the Canton-Meih sien Railway will be possible with a period of two years.³³

In this way, the Bank could safely make cash advances to the Chinese and retain the railway business in British hands.

The next successful move on the British side was to call the Consortium Council together for a formal meeting in London in May 1937, the first such meeting since 1925. With Sir Charles Addis in the chair, the American representative, Thomas Lamont, moved and the Council agreed, to raise no objection to the British Group entering into independent negotiations for the Canton-Meih sien Railway on the understanding that in the future any group would be free to bring their case before the Council for similar consideration.³⁴

Having got the door open, however, the Matheson-Hongkong & Shanghai Bank group became emboldened and enlarged their scheme five-fold. Less than three weeks after the meeting of the Consortium Council, Addis wrote his foreign colleagues that the Canton-Meih sien project for £2.7 million had now been carried a step further, and if his colleagues had no objection, it would include an extension to Kweichow and Wuchow and from Pukow to Siangyang, to be issued in instalments as a Consolidated Railway Loan of £15 million. On learning of this amazing development, Leith-Ross told Addis that the Treasury was "surprised that the proposal had grown overnight" and noted that Addis's letter had "considerably fluttered the American and particularly the Japanese doves."³⁵ The Foreign Office found the

atmosphere of rivalry and suspicion, reminiscent of pre-World War I days, "very disquieting" and was disturbed by the "spasmodic antics" of Leith-Ross and Sir Charles Addis. Britain, the Foreign Office felt, was getting into "rather deep water," and in the case of the Japanese, "it looks very much as if we were trying to browbeat them into running before they have really made up their minds to walk."³⁶ The Hongkong & Shanghai Bank eventually signed railway contracts worth £6.7 million with the Chinese Government in August 1937, but the bond issues suffered the same fate as the projected Currency Loan and the contracts were never carried through.

It is impossible to estimate the precise influence of Britain's decision to support China's currency reserves and aid the building of strategic railroads upon the renewal of Sino-Japanese hostilities in July 1937. British action certainly did not cause the war to break out. The war was the product of the fundamental clash between the forces of Japanese imperialist expansion and Chinese nationalism. But there is no doubt that the Nanking Government was encouraged, by Britain's decision, in its determination to resist further Japanese encroachments. T.V. Soong had obligingly agreed with British Treasury representative, E. Hall-Patch, that technically the proposed loan was not for covering budget deficits, which were increasing rapidly owing to heavy military expenditures. But Soong had added pointedly that while the loan "would not ostensibly be used for budgetary purposes," it would help the budget situation.³⁷ From this remark it was clear that the Chinese leadership interpreted the promised British loan as an initial payment to support the Chinese effort to drive Japan out.

The Japanese also saw that the Chinese could convert the British loan proceeds to uses other than those which might be stipulated. They believed that by deciding to act alone, Britain was "actuated by political motives."³⁸ Early in 1937, Japanese Embassy officials in Peking asked the British Ambassador point blank if it was "the object of Great Britain to drive out Japanese trade from China."³⁹ And in London the Japanese Ambassador complained that China carried on propaganda showing off her intimacy with Great Britain.⁴⁰ The Japanese Government, of course, had already decided, in Hirota's words, to "stabilise" East Asia. It would gain its wishes in China either by co-operation or by conquest. But the proposed British loan agreement with China may have spurred the Japanese military into action in the belief that any further delay would only make the operation more costly. This, at any rate, was the interpretation given by Frank Ashton-Gwatkin, head of the Economic Department of the Foreign Office, who remarked that the economic situation "must have been an

important factor in deciding the Japanese to act when and as they did" in the summer of 1937, because they realised the situation "was slipping out of their grasp."⁴¹

Seen in the perspective of a wider time span, the undeclared Sino-Japanese war which broke out in July 1937 and the Anglo-Japanese rivalry which preceded it were but further episodes in the century-old struggle of the advanced countries to influence the politics and profit from the economy of China. The competitive struggle of the advanced countries in the years immediately preceding 1937 was, to be sure, not confined to China. But in the aftermath of the depression which struck the worldwide capitalist market system in 1929, rivalry in China was sharp because China was still open territory — outside the gates of any formal empire.

The British combined a new flexibility with old approaches. They recognised perforce, that in a country which had belatedly entered the age of mass nationalism, the "gunboat policy" was largely self-defeating. Gunboats were retained but the new approach was to search for special relations with the small *élite* groups of Chinese nationalism — the Soong, Kung and Chiang families — who controlled the bureaucracy and could silence nationalistic movements which were popular and anti-imperialist. Vigorous efforts were therefore made to create an identity of British and Chinese interests by recommending British technical experts for employment in Nanking and by encouraging British firms to negotiate partnerships with such bodies as T.V. Soong's China Development Finance Corporation. Rather than see opportunities go by default, Whitehall was prepared to encourage London financiers to run considerable risks in order to foster British investment and trade. The United States and Germany followed a similar policy of cultivating close relations with the leading groups in the Nanking regime, but less actively.

Japan, on the other hand, relied on the cruder methods of imperialism. Unsuccessful in competing with the British for political influence in Nanking, the Japanese Government sanctioned armed intervention to intimidate the central government. From 1931 on, attempts were made to create reliable local governments which could ensure "law and order" for Japanese investments as well as control of raw materials in North China and access to the Chinese markets for the products of Japanese industry. Determined Japanese pressure was, in fact, the major immediate obstacle blocking the success of Britain's aim to create a united, well-ordered and prosperous market in China.

In retrospect it is clear that the only way Britain might have been able to get anything out of the Japanese at the time of the Leith-Ross

Mission would have been a demonstration by the British treasury of their willingness to make a *bona fide* bargain on issues of concern to Japan outside the sphere of influence where Japan was already supreme. It has been argued that the British Government was prevented by strong currents of liberal-socialist opinion from any compromise or bargains with the dissatisfied or aggressive powers.⁴² In dealings with Japan this was not the case. The Cabinet records show that Neville Chamberlain was willing to go to Parliament with his plan. It was Japan and China who blocked his bargain over Manchukuo. Bribing some Chinese leaders to recognise the Japanese seizure of the four North-eastern provinces of China while Britain controlled the expenditure of the bribe was no bargain for Japan, especially when the Japanese Kwantung Army was already astride the Great Wall. The making of a bargain elsewhere in the world, which Japan might have accepted, was turned down by vested financial and trading interests and Empire-minded politicians.

The unwillingness of the Treasury and Board of Trade to consider accepting the cost of a bargain outside the confines of China was a notable lapse from customary British realism. This failure occurred in spite of clear and repeated statements by the Japanese that the price of their co-operation in China was greater freedom for Japanese goods in the British Empire. The Japanese, perhaps not unreasonably, resented a British Cabinet decision limiting Japanese exports to India and West Africa in April 1934, as well as the exclusion of Japanese immigration to and restriction of trade with, the sparsely settled Dominions. They also resented the way high British officials then came to the Far East to raise questions about the "open door" in Manchuria and to propose "co-operation" in China on British terms. The Japanese, who alternated between the soft-line "duck" and the hard-line "woodpecker" policies, made no secret of their fears that by encouraging the "anti-Japanese faction" within the Chinese Government, Great Britain was trying to drive Japanese trade from the mainland.⁴³ The British Foreign Office itself had a decidedly more realistic assessment of the dangers in the Far East than most other departments of the government but its difficulty lay in the lack of any imaginative or active policy to cope with a complex situation.

The active British policy in China did not achieve the ultimate success to which its authors aspired but neither was it a plan which remained on paper; its initial success had a definite bearing on the intensified friction between China and Japan. The key decision was Chamberlain's move to find some way to renew the flow of British capital into the Chinese market in 1936, following the successful currency reform of 1935. After that reform, there had been widespread

industrial recovery in central China, with remarkable improvement over the corresponding period of the previous year: power consumption rose by 69 percent, cement production by 42 percent, railway earnings by 20-40 percent, exports by 45 percent and imports by 32 percent.⁴⁴ Japanese smuggling into North China had been curtailed and the sense of confidence which pervaded financial circles in London was reflected in the twenty-year high for quotations of Chinese bonds. The practice, if not the principle, of British tutelage of China was re-asserted and a high official of the Bank of England, Mr. Cyril Rogers, was adviser *de facto* to the new Central Bank of China which controlled all currency and foreign exchange transactions.

These were just some of the highlights of British policy. It is obvious that a policy of such dimensions was a challenge to the Japanese who had announced their own exclusive program for China. Since a challenge to Japan was contrary to the political desire of the Foreign Office as well as the strategic requirements of the Service Chiefs and the political and ideological sympathies of Neville Chamberlain, who wished to befriend Japan and saw her as a bulwark of order and civilisation in Asia, the question remains: why was it adopted and followed with increasing vigor?

Senior members of the Far Eastern Department of the Foreign Office, such as Sir John Pratt, attributed an adventurous China policy to the lack of sound political judgment in the Treasury. There was some element of truth in this claim, which serves to illustrate the accidental role of personalities in the bureaucratic structure as a factor in policy formation. For his part, Sir Warren Fisher returned the compliment when he told Chamberlain that "our amateurs at the F.O. are a source of danger."⁴⁵ But on the whole, Sir Frederick Leith-Ross, who was the instrument of the forward policy, was not lacking in a sense of political realities. He had been sent to China with instructions to combine a political understanding with Japan with the rehabilitation of the economy of China. He did not have detailed knowledge of Far Eastern politics, but he soon singled out the central fact that British and Japanese interests in China were, at this stage, irreconcilable. And without the fear of disapproval which would have inhibited a weaker personality, he clearly warned his masters in the Treasury of the unpleasant reality that if Britain wished to persist, the only language which Japanese leaders understood was that of big guns. From their failure to heed the advice of their political experts, the inference may be, and it has been drawn, that key British leaders during these years were incompetent or irresponsible.

Another, and possibly more plausible, explanation for their actions is that British leaders were acting in response to stronger pressures and forces within British society which were pushing for a more lively foreign economic policy from the government. This conclusion supports the recent suggestion of Waldo Heinrichs that internal, domestic pressures in the "have" as well as in the "have not" countries provide some part of the explanation for the world tensions of the thirties which led to world war.⁴⁶ In the case of British China policy, such internal pressure found expression through the China Lobby — the Chambers of Commerce, the common platform which the bankers gave to Leith-Ross, the China Association and its *ad hoc* groups such as the 'China Committee' and the 'McGowan Committee' of the Board of Trade, the British Resident's Association of Shanghai, and in Parliament, the China-Sub-Committee of the Foreign Affairs Committee of the Conservative Party. A man like Sir Victor Wellesley, who spent several decades working within the Foreign Office bureaucracy, and who was Deputy Permanent Under-Secretary until 1936, was in a favourable position to sense some of the pressure emanating from these social forces. Writing his memoirs in 1944, Wellesley observed that in Britain, as in all other great industrial states where individual activities had become collectivised, "big business, finance and vested interests often dominate, not only legislatures but also domestic and foreign policy." He also warned that the interests of industry and finance, which "by no means always coincide with those of the nation," were sometimes so powerful that the policy of the government was dominated by private rather than national interests.⁴⁷

Warnings such as Wellesley's, which in some respects echoed the earlier critiques of capitalist imperialism by J.A. Hobson and Lenin, have prompted studies of the role of organised pressure groups and lobbies in British politics. These studies show that the lobby is "a great fact," as S.E. Finer wrote in *Anonymous Empire*, "pervading the whole of British political life."⁴⁸ But because other institutions, procedures and beliefs which provide for full consultation, public disclosure and the pinpointing of moral responsibility, also pervade British political life, Professor Finer considered that the lobby is not generally a corrupting influence in public life and does not engender erratic or grossly inconsistent policies. The main effects of the lobby are that it "cloys, clogs, enmeshes, slows down the conduct and decisiveness" of the administration, and secondly, it gives party governments a distinctive bias; they lean towards one set of interest groups or another depending on whether Labour or the Conservatives are in power.⁴⁹ However, Professor Finer found it necessary to warn against complacency, especially when the national consensus is on the wane:

at such times the centrifugal tendencies of the lobbies are increasingly victorious.

The depression days of the 1930's were a time when social cleavages and centrifugal tendencies were paramount in British society. And yet, because of the marginal nature of Britain's China trade, which made up less than 2 percent of Britain's total trade and under 6 percent of her foreign investments, it might not be so easily admitted that a China Lobby could influence high politics. However influential group of businessmen had begun to pressure the Government to take a greater interest in the China Market. Headed by representatives of five of the biggest companies, Sir Harry McGowan (Imperial Chemical Industries Ltd.), W.J. Keswick (Jardine, Matheson & Co.) G. Warren Swire (John Swire & Sons), Lt.-Gen. MacDonogh (Shell-B.P. Oil) and Archibald Rose (British-American Tobacco Co. Ltd.), the "China Lobby" was received by various Ministers individually and at the Cabinet level. These businessmen demanded that the Government give assurances of a stronger policy "both in Whitehall and on the spot," or else they would have to decide whether they would have to "get out"; they asked for recognition that unless Britain used all her available weapons — her prestige, financial resources, control of raw materials and markets — Japanese domination of China was "inevitable and the liquidation of British interests a mere matter of time."⁵⁰

Can it be doubted that marginal economic questions can carry special weight at times? Marginal economic questions became important when they affected such giant corporations as Shell-B.P., British-American Tobacco, Imperial Chemical Industries, Unilever and Sheffield steel interests, who were at the core of the China Lobby. The concentration of economic strength in the hands of these corporations, which continues until the present day,⁵¹ gave them inordinate power to influence public policy, especially at a time when the Conservative Party was in office.

The results of the Leith-Ross Mission and the trend of British policy in the Far East generally, led to the conclusion that the original concerns of Chamberlain and Fisher for strategic retrenchment and political prudence towards Japan were upset in favour of an increasing potential for the growth of British corporations in China. Again and again the China market was referred to as a place on which the future development of British trade and employment would depend. In this circumstance, the influence of British business and financial interests in the China trade became paramount. In this situation, to use Sir Victor Wellesley's phrase, it was not difficult for them to present

their "private interest" as a "national interest." It was the demand of these groups to keep the British flag flying in Asia, as well as the hoped-for benefit to the home economy, which seized the imagination of Neville Chamberlain and his closest colleagues. In view of Japanese displeasure, hopes were secretly placed in the growing strength of other forces in the Far East, particularly those of the Soviet Union, to keep Japan in check. But in any case Britain could not retreat. Those who walked the corridors of power in Britain were haunted by the thought that despite the solid success of Britain in the East during two centuries, if British companies were forced to pull out of China, as they threatened to do unless the British Government backed them up, the carry-over effect in India and the rest of the Empire would be incalculable. Britain's prestige had to be maintained, for it was on this national asset that possibilities for profitable trade and financial gain depended.

From the time of the Boxer uprising to the storming of the Hankow concession in 1927, the British in China were often on the run, but never felt themselves to be helpless objects buffeted about by unknown forces beyond their control. As they oscillated between friendship with Japan and economic advance in China, between the rejection and acceptance of Chinese nationalism, they kept repeating to themselves the old adages of Queen Victoria's reign, that in China there was room for us all, and they acted as if they still believed that the sun would never set on the British Empire.

NOTES

Note: This article will also be appearing in the journal *Pacific Affairs*, Abbreviations used in the notes are as follows — BT — Board of Trade, CAB — Cabinet, FO — Foreign Office, Political Correspondence, series 371, T — Treasury.

¹ Sir John Pratt, quoted in J.H. Cubbon to Sir F. Maze, 22.2.37., *Maze Papers*, Correspondence XIII. S.O.A.S., London.

² For discussion of these measures and comments, see H.I. Nish, *The Anglo-Japanese Alliance* (1965), Nicholas Clifford, *Retreat from China* (1967), W.R. Louis, *British Strategy in the Far East 1919-1939* (1971), W.N. Medlicott, *British Foreign Policy Since Versailles 1919-1963* (1968) and Francis Williams, *A Pattern of Rulers* (1965), chapter on Neville Chamberlain.

³ Sir John Simon, 28.5.35., Simon Papers, FO 800/293.

⁴ Guildhall speech, 9.11.35., *Templewood Papers* VIII, 2.

⁵ Sir E. Chatfield to Sir W. Fisher, 4.6.34., *Chatfield Papers*.

⁶ Sir R. Vansittart, Minute, 6.6.35., FO 19241/F3666.

⁷ N. Chamberlain, Minute, 30.7.35. on Sir F. Leith-Ross to Sir R. Hopkins and Chancellor of the Exchequer, FO 19243/F5081g; also T 188/34 and T 160/620.

⁸ Sir F. Leith-Ross to Sir W. Fisher, 4.10.35. T 188/28.

⁹ China Annual Report, 1935, Peking Legation, FO 20275/F3111; also *Japan Advertiser* (Tokyo), 25.9.35.

¹⁰ Sir F. Leith-Ross to Sir H. Hamilton (Treasury) 13.12.35. and Leith-Ross to Sir W. Fisher, 13.12.35., *T 188/28*.

¹¹ A. Eden to N. Chamberlain, 7.4.36., *FO 20216/F1702*. (outfile).

¹² O. Harvey, Minute, 21.2.36. and A. Eden to Sir A. Cadogan (drafted by Treasury) *FO 20216/F1210-13*.

¹³ In an inter-departmental discussion in London, the Board of Trade rejected any proposal to lift colonial quotas on Japanese goods since it would meet with the strong opposition of Lancashire manufacturers, "for whose benefit they were imposed," especially since the Colonies provided "the one bright spot in the cotton industry's export markets." A. Overton (Board of Trade) to C.W. Orde, (F.O.) 3.5.36., *BT 11/516*.

¹⁴ Sir F. Leith-Ross to Sir W. Fisher, 22.2.37. *T 188/53*.

¹⁵ *CAB 24*, CP 251 (36); also in *FO 20218/F4498*, 23.7.36.

¹⁶ "British Policy in the Far East," (Memorandum) 19.3.37., *T 188/53*.

¹⁷ Sir F. Phillips (Treasury), Minute, 21.7.36., *T 188/27*.

¹⁸ Montague Norman (Bank of England) to Sir F. Leith-Ross, 17.7.35., *T188/34*; also *FO 19245/F6479*, and Leith-Ross to Fisher, 4, 14.10.35, *T 160/620*.

¹⁹ Sir F. Leith-Ross to Sir W. Fisher, 4, 14.10.35., *FO19245/F6481*.

²⁰ Sir R. Vansittart, Minute, 29.10.35., *FO 19245/F6729*.

²¹ C.W. Orde (F.O.), Minute, 28.10.35. *Ibid.* F 6739g.

²² S.D. Waley (Treasury) to T.K. Tseng (Chinese Coronation Delegation), 21.7.37., *T 188/57*.

²³ A. Eden to Sir H.K. Hugessen, (outfile) 24.6.37., *FO 20946/F3488*; also Sir L. Oliphant to U.S., French and Japanese Ambassadors, 11.8.37., *T 188/48* and *FO 20946/F4832*.

²⁴ Sir F. Leith-Ross to Sir C. Addis, 8.4.36., *T 188/49*.

²⁵ *CAB 24/264*, CP 251 (36), 29.9.36.

²⁶ Sir F. Leith-Ross, Minute, 13.10.36., *T 188/27*. Leith-Ross to Addis, 9.10.36., *T 188/47*.

²⁷ Chang Kai-ngau (Minister of Railways) to Louis Beale (Commercial Counsellor) Encl. in Hugessen (Nanking) to A. Eden, 30.11.36. *FO 20232/F7346*.

²⁸ Sir H.K. Hugessen (Nanking) to A. Eden, 6.10.36. Tel. 758, *T 188/47*.

²⁹ A. Eden to Sir H.K. Hugessen, 26.10.36., *T 188/47*.

³⁰ Sir A. Cadogan to Leith-Ross, 5.11.36. *T 188/49*.

³¹ J. Chaplin, Minute, 22.1.37. *FO 20972/F408*.

³² A. Eden to Hugessen (Nanking), 23.2.37., *T 188/48*. See also, D. Borg, *The United States and the Far Eastern Crisis of 1933-1938* (1964), 267ff.

³³ O.J. Barnes (Hongkong & Shanghai Bank) to Sir A. Cadogan, 12.2.37., *FO 20972/F914*.

³⁴ *FO 405/276*, Confidential Print, No. 46. 10.5.37.

³⁵ Sir F. Leith-Ross to Sir C. Addis, 31.5.37., *T 188/48*.

³⁶ Sir A. Cadogan, Minute, 30.5.37., J. Chaplin, Minute, 28.5.37., *FO 20945/F3066*.

³⁷ E. Hall-Patch (Tokyo) to Treasury, 19.7.37., *T 188/57*.

³⁸ *Ibid.*

³⁹ Sir H.K. Hugessen to A. Eden, 15.3.37., *FO 20948/F1551*.

⁴⁰ Ambassador S. Yoshida to Sir F. Leith-Ross, 16.7.37., *T 188/57*.

⁴¹ F. Ashton-Gwatkin, Minute, 9.9.37., FO 21002/F5483.

⁴² W.N. Medlicott, *British Foreign Policy Since Versailles 1919-1963*, (1968), Preface xvii.

⁴³ In explanation of this term, Japanese Ambassador to China, Ariyoshi, said that a duck was an aquatic bird greatly to be admired because it always displayed a serene and stately mood above water while busily paddling beneath the surface. See "Review of Chinese Affairs, June 1934," FO 18122.

⁴⁴ G.E. Hubbard, *Eastern Industrialisation and Its Effects on the West*, (1938), 243; data from *Far Eastern Survey*, (New York), 29.9.37.

⁴⁵ Sir Warren Fisher, Minute, 23.2.37. T 188/53.

⁴⁶ Waldo H. Heinrichs, Jr. "1931-1937" in E.R. May and J.C. Thompson, Jr., editors, *American-East Asian Relations: A Survey*, (Harvard, 1972), 245.

⁴⁷ Sir V. Wellesley, *Diplomacy in Fetters* (1944), 23.

⁴⁸ S.E. Finer, *Anonymous Empire* (1966 rev. ed.), 101.

⁴⁹ *Ibid.* 111.

⁵⁰ See "A Note on China Policy", 3.4.35 in T 172/1831.

⁵¹ The *Sunday Times* of October 10, 1971, places Shell-B.P., BAT and ICI in first, second and third place among the British firms whose annual turnover tops the "magic billion pound mark."