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In Reply Refer

UNITED STATES ASIATIC FLEET

To No.

U. S. S. AUGUSTA (Flagship)

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A16-3 (193)

Shanghai, China,
20 July, 1939.

From: The Commander in Chief, Asiatic Fleet.

To : The President, Naval War College.

Subject: Far Eastern Situation.

Reference: (a) CINCAF's letter A16-3(190) of 20 July, 1939,
to Secretary of the Navy, same subject.

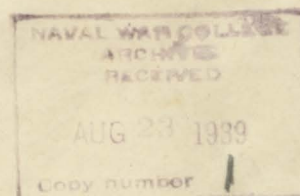
Enclosure: Reference (a). (Three copies)

1. The enclosure is forwarded herewith for your
information.

2. While classification is not assigned in order to
permit wider circulation within the naval service, attention
is invited to the nature of its contents, in view of which, it
is requested that necessary steps be taken to insure that it
does not fall into unauthorized hands.

H. E. Yarnell
H. E. YARNELL.

*Other copies filed in
"CP" and "SR (China)"*



DECLASSIFIED IAW DOD MEMO OF 3 MAY 1972, SUBJ:
DECLASSIFICATION OF WWII RECORDS

Shanghai, China
20 July, 1939

From: The Commander in Chief, Asiatic Fleet.
To : The Secretary of the Navy.

Subject: Far Eastern Situation.

Enclosure: (A) Copy CinCAF letr Al6-3 (7425) of 7 Nov. 1937.

1. Before relinquishing command of the Asiatic Station, it may be desirable to summarize the situation as it appears to me at the present time, for the information of the Navy Department and of my relief. This letter will repeat to a certain extent comments and recommendations which I have submitted in personal and official letters during the past two years.

2. JAPANESE POLICY IN THE FAR EAST.

Japanese policy during past years is fully covered in official reports and in many books by able writers. It is, of course, well known to the authorities in Washington.

The salient features of this policy may be summarized as follows:

(a) Japan has always been a nation that believed in the sword as a method of increasing her power.

(b) Although denounced as a forgery, the "Tanaka Memorial" undoubtedly represents the views of the militarists and expansionists, and the statements made and actions taken by Japan in recent years follow closely the procedure outlined and recommended in this Memorial.

(c) In 1931 the Japanese Army broke away from all restraint by the Foreign Office and Civil authorities in Tokyo, took over Manchuria, and since that time has become the dominating influence in the Government.

(d) While jealous of the Army and not in favor of its "continental policy", the Navy has supported it, in general, in its expansionist plans.

(e) In the Army, and to a lesser extent in the Navy, there is a "Young Officer Element", which in many cases dictates the action to be taken, even though this action is contrary to the views of the senior officers.

A recent example of this situation is furnished in Tientsin, where Lieutenant General Homma, in command of the area, admitted to a British officer that the blockade of the British Concession was in the hands of his staff and beyond his control.

Another example was the "Victory Parade" through the International Settlement in Shanghai, which was ordered by the staff of General Matsui, although he opposed it.

(f) This lack of control by Tokyo and even by the Commanding Generals over an irresponsible, chauvinistic section of the Army, renders it difficult to foresee or predict future trends or events, and accordingly makes the present situation for Americans and Europeans especially dangerous.

(g) At the beginning of the present "incident", in July, 1937, the plans of the Japanese Army provided for taking over only the five northern Chinese provinces. After becoming involved in the Yangtze valley, the whole affair unexpectedly assumed much larger proportions than intended, and as the campaign progressed, it became apparent to the Army leaders that all of China must be occupied or controlled in order eventually to pay the bill. Also, such control, the "New Order in East Asia", would result in a speeding up, by many years, of the dream of Japanese domination of the Far East. It has become a desperate gamble on the part of Japan, with the chances of success in her favor, provided there is no outside interference, and especially if there is a war in Europe.

3. CHINESE POLICY.

Since the assumption of power by the Kuomintang government in 1927, all efforts have been directed toward consolidating and strengthening its authority. Comprehensive plans were made for public works, including roads, railroads, commercial aviation, water works, rural aid and development, and many others. Many of these plans had not progressed beyond the paper stage, but it was apparent that there was at last in China, a government that was honestly striving to establish law, order, and stability.

The energies of the government were principally absorbed in domestic problems. In its foreign policy, the government announced its intention of eventually securing the abolition of the privileges of extraterritoriality, the unequal treaties, and the foreign concessions.

The currency and finances of the nation were placed on a stable basis through the ability of Mr. T. V. Soong and his foreign advisers.

German military advisers began the formation of a trained, well equipped army. American and Italian advisers assisted in developing the military air force.

Throughout China there was the beginning of a spirit of nationalism. This was aided by the body of young educated Chinese who occupied prominent positions in the central and local governments. The "New Life Movement" fostered by Madame Chiang Kai-shek was growing rapidly.

The outstanding character in bringing about a new order in China has been the Generalissimo, Chiang Kai-shek. He is today the national hero of China, and there is none other in sight who can take his place, unless it is his wife, who occupies in the minds of the people a place second only to that of the Generalissimo.

Enemies of the Generalissimo point out his ruthlessness, especially in the execution of many so-called Communists at Shanghai in 1927, and to his alleged personal connection with the sale of opium in past days. The fact remains that he is a patriot, devoted to the advancement of his nation, and is admired and respected by all unbiassed, neutral observers for his indomitable determination to fight to the end to save China from Japanese domination.

During the ten years preceding the present incident, there has been no pronounced anti-foreignism against any nation except perhaps Japan. There has been in China widespread distrust and fear of the expansionist policy of Japan, and this led to local incidents which furnished bases of controversy.

If China eventually succeeds in the present controversy and establishes a stable government, the privileges of extraterritoriality, unequal treaties, concessions, and foreign control of any kind will inevitably be abolished. This prospect is anathema to the "Old China Hand", but cannot be opposed by any disinterested party. Every nation does the same when sufficiently powerful.

In her foreign policy, China has no dreams of world domination. Her domestic problems will absorb her interest and efforts for many years.

A stable government in China is the greatest factor for peace in the Far East, and should receive the support of every nation desiring this end.

4. BRIEF OF EVENTS LEADING UP TO PRESENT INCIDENT.

The occupation of Manchuria in 1931 by Japan began a sequence of disputes, futile negotiations, appeals to the League of Nations on the part of China, a strong attitude by the United States which was not supported by Great Britain, etc., all of which increased the enmity between China and Japan.

After the occupation of Manchuria, Japan, represented by its Army, began plotting for the detachment of the five northern provinces from China. This plan was delayed, and becoming impatient, the Japanese Army brought about the Marco Polo Bridge incident of July 7, 1937.

It is evident that the Japanese Army became alarmed over the growing strength and stability of China, and decided to strike before Chinese resistance could become a serious obstacle. It has been said that the war came two years too late for Japan and two years too soon for China.

In their estimate of the situation, the Japanese General Staff showed incredible stupidity and ignorance in assuming that the Chinese would not fight, or if they did, that their resistance would not be serious. The Staff evidently never realized the growth of national feeling in China, or the fact that their own course of action would lead to a major war. They assumed that after a short, sharp campaign of two or three months, North China would be in their hands, and the next step in the great plan of Far Eastern domination would be an accomplished fact. War other than in this area was never intended.

Chiang Kai-shek was placed in a terrible dilemma. He could resist Japan and see China ruined, or make peace, and see his government and himself thrown out of power by the influential elements that were in favor of war. Either choice led to the loss of all the progress that had been made during recent years in starting the nation on the road to stability and comparative prosperity. Every effort consistent with national honor and integrity was made to avoid war, but all proposals for the settlement of the dispute were rejected by Japan, whose terms rendered war inevitable.

The Chinese Army was no match for the well organized, fully equipped, highly trained Japanese Army. Of the millions of men under arms, there were only a few well trained divisions, which represented the work of the German military advisers.

Rather than send these and other National troops to North China where supply was difficult, Chiang Kai-shek decided to utilize them in an attack on the Japanese forces at Shanghai. These forces consisted of about 4,000 marines ashore in Hongkew,

and warships in the river. Here the Japanese made a great blunder in not withdrawing their limited forces, and turning over the protection of their interests and their nationals to the neutral forces in the International Settlement. This had been done in Hankow and Canton, but evidently too great a loss of face was involved in Shanghai to permit this to be done. Had such action been taken, Japan need never have become involved in the Yangtze and the "incident" could have been restricted to North China as originally planned.

Fighting at Shanghai began on August 13, 1937. The Japanese forces were hard pressed by greatly superior Chinese forces, until the arrival, about 12 days later of 70,000 men under command of General Matsui. The battle around Shanghai continued until November 12th, when the Chinese fell back towards Nanking.

It is fairly certain that originally the Japanese plan contemplated only driving the Chinese army clear of the vicinity of Shanghai. The demoralization of the latter, however, inspired the decision to press on and capture Nanking which would surely end the war. Nanking was captured, great numbers of Chinese troops and civilians were killed, and the Nationalist government was driven to Hankow.

The war did not end, however, and the Generalissimo announced his intention to continue fighting until Chinese soil was free of Japanese troops.

The next Japanese campaign consisted of a movement south from Shantung, and north from Nanking to occupy Anhwei and southern Shantung, and destroy the Chinese armies in that area. After heavy fighting, the territory was occupied but the bulk of the Chinese troops escaped to the westward. The Yellow River dykes were broken by the Chinese, flooding a large section of Northern Anhwei and making an attack on Hankow from the northward, as was planned, impossible.

The Yangtze campaign was then begun in June, 1938, and Hankow occupied in October, the Chinese armies withdrawing to the westward and southward. In the meantime, Canton had been occupied with little resistance. Nanchang was taken in February, 1939, and in May operations were begun along the Han River northwest of Hankow. These operations have resulted in heavy losses to the Japanese with little gain.

Swatow was occupied in June, 1939, and Foochow and Wenchow in early July. With the exception of Ningpo, all the principal seaports are in the hands of the Japanese.

5. PRESENT SITUATION (July 20, 1939).

(a) JAPAN.

At the present time there are in China south of the Great Wall from 800,000 to 1,000,000 Japanese troops.

Their losses in killed and wounded during the two years of fighting are probably between 600,000 and 800,000.

The cost of the war to Japan through 1939 will be about 12 billion yen.

Their troops occupy all principal seaports, and all cities and towns along the Yangtze River to Hankow. They also occupy railroad lines from Shanghai to Wuhu, Nanking to Tientsin, North China lines, and the Peiping-Hankow line from Peiping to the Yellow River.

Their control, however, extends but a few miles outside of the occupied cities and towns, and adjacent to the railroads.

About one-fourth of their merchant marine, or about 1,000,000 tons, is engaged in transport duty.

Indiscriminate bombing of Chinese towns and villages and the conduct of Japanese soldiery have instilled a hatred in the minds of the mass of Chinese people which will be hard to overcome.

Great efforts are being made to secure Chinese of influence to head the Reformed and other puppet governments that have been set up, but in view of the activities of the Chinese anti-Japanese patriotic organizations, and for other reasons, their efforts have met with little success so far.

Comprehensive plans have been worked out on paper for the development of the public utilities and natural resources of China.

Control of the Customs has been secured with all receipts being paid into the Yokohama Specie Bank.

Much revenue is received from the importation and sale of opium and its derivatives.

Japanese efforts to circulate their two new currencies, the Federal Reserve Bank notes in North China and the Hua Hsing notes in the Shanghai region, at par with the Yen and Chinese National currency, respectively, have met with little success. The acceptance of Federal Reserve Bank notes has been

quite effectively enforced in areas under Japanese military control but this condition does not extend into the interior, Chinese National currency still being the principal medium of exchange. Both Japanese currencies are now quoted at a considerable discount, and competent observers consider the plan a failure.

Hordes of Japanese adventurers, many of whom belong to the criminal element, flocked to China in the wake of the Army, and the Japanese Government has gradually come to realize that they have not contributed anything to the winning-over of the people -- in fact, efforts are now being made to curb and control the activities of these so-called "carpet baggers."

The "New Order in East Asia" has been announced, this meaning complete control over China, and the elimination of all European and American influence.

A concerted campaign against the foreign concessions in Tientsin, Shanghai, and Kulangsu is under way, with the emphasis at present on Tientsin.

(b) CHINA.

The seat of government is at Chungking.

Chiang Kai-shek is firmly in power and commands the respect and support of the mass of the Chinese people.

He has announced repeatedly that he cannot consider terms of peace that do not provide for the integrity of Chinese territory, and the withdrawal of Japanese forces.

The Chinese Army consists mostly of infantry. Artillery, cavalry, tanks, and air force are practically non-existent.

The fighting ability of this army varies, depending on the leaders. In the recent fighting in the Han River area, the Chinese troops were evidently more than a match for the Japanese.

The present main reliance of the Chinese is on guerrilla warfare. This is quite efficient in northern China under the direction of the so-called "Red Army" leaders. It is inefficient in other areas due to poor leadership and lack of military supplies. In many areas, the guerrillas are merely bandits who live on the country and are a scourge to their own people.

Chinese finances at present are fairly stable due to support from the United States and Great Britain. Such support must be continued to prevent eventual collapse.

A small amount of military supplies is coming in over the Hanoi-Kunming railroad, and over the road from Burma. This latter road will probably be out of commission during the summer rainy season.

There are several Chinese arsenals which can make small arms and ammunition, and trench mortars. There is no information of the amount of raw materials on hand for such manufacture.

The morale of the government is reported to be excellent with every intention of continuing the war.

Japanese bombings and atrocities have probably done more to strengthen the hands of the Nationalist government than any other single cause.

6. PROBABLE FUTURE COURSE OF EVENTS.

From a military point of view, there is a certain degree of stalemate at the present time. Japan continues to send re-inforcements and replacements to China, but just what her objective will be is not clear.

Military operations southwest of Hankow, or the capture of Chungking will lead them into a difficult country with ever lengthening lines of communication, and an elusive Chinese army in front of them. The capture of Sian and Lanchow is greatly to be desired in order to shut off such supplies as may come in from Russia. In this area, however, the 8th Route Army are hard and experienced fighters, and the Japanese have been fully occupied in Shansi during the past year without being able to advance.

The course of action of the Japanese Army during the coming months will probably be:

- (a) An advance to Ichang - possibly Sian.
- (b) Consolidation of positions near present occupied cities.
- (c) Operations against guerrillas.

The Special Service Section of the Japanese Army will intensify its campaign against the Foreign Concessions. This campaign is at present the major one in Japanese minds. The taking over of these Concessions, giving them absolute control of trade and finance, and the capture of the silver stocks now in Concession banks would be equivalent to many victories on the battle field.

Possession of the Concessions means elimination, temporarily perhaps, of the white race from China, and this accomplishment would spur Japan to greater efforts to bring the "incident" to a successful end. Conversely, the effect on the Nationalist government would be disastrous.

For the above reasons the question of the Concessions looms largest in Japanese minds at the present time, as it does

also in those of the interested neutrals. The concerted campaign against British interests, and studied friendship for the United States and France is a rather simple-minded effort to prevent concerted action by these three powers.

The action that may be taken by the three powers in this matter is of grave importance. The Japanese are quite clever in knowing how far they can go in attacking foreign interests without provoking positive action. They are fully aware of the disinclination of the United States to become involved in another war, and they understand fully the impotency of France and Great Britain, due to the situation in Europe. As for the powers, a decision to do nothing, other than make paper protests, will probably lead to their expulsion. If any positive action is taken, such as sanctions, and increase of military and naval forces, it may lead to war. The Japanese Navy has never approved of the Army's adventure in China, and have chafed to assert themselves in other ways. The Hainan and Spratley Island affairs were naval operations along the lines of their favorite plan of expansion to the southward. The opportunity to drive the comparatively weak naval forces of the three powers out of the Far East would be most tempting. It is an interesting and critical situation that may involve decisions of the utmost importance in the near future.

A foreign war would give the Japanese Army an excuse for withdrawing from its predicament in Central and South China without loss of prestige. This feature should be given consideration by the neutral powers. Until the Japanese Army is discredited in the eyes of their own people through its failure to carry out the grandiose plans of the General Staff, it will always remain a powerful and sinister influence against the peace of the Far East.

In case of war, the situation of American, British, and French nationals in the Far East will be serious. Those in Japanese controlled areas will undoubtedly be interned in prison camps, and possibly held as hostages.

The eventual outcome of the war, however, would be the defeat of Japan, and her elimination as a disturber of the peace of the Far East for many years.

7. POLICIES OF INTERESTED POWERS.

(a) Policy of the United States.

The policy of the United States in the Far East has been stated as follows:

".....the taproot of American policy in Asia is most-favored nation treatment. An attitude of self-righteousness is

neither becoming nor justified. American policy is not philanthropic; it is not in its motive and history benevolent; but it is beneficent, for the United States is so situated that American issues in Asia are best promoted by the growth of strong, prosperous and enlightened Asiatic states. Indeed it is difficult for an American to believe that the repression or weakening of any part of Asia is a benefit to any power. The United States is committed to its policy by geographical, economic, and political factors, and in the same measure is also bound to a policy of co-operation with all powers which sincerely profess a similar purpose." (Tyler Dennett - "Americans in Eastern Asia" - p. 680).

During the present controversy, the rights of Americans in the Far East have been upheld vigorously by the State Department. Had our notes been addressed to a government which retained control over its armed forces, some recognition of our rights might have been obtained. It is difficult to see how our position and policies could have been stated more clearly or more positively. It should be recognized however that the Tokyo government is generally impotent to deal with or give decisions regarding affairs and incidents in China. In many cases it is entirely ignorant of what is going on. It has been stated on good authority that the Foreign Minister was not aware of the seizure of the Spratley Islands by the Japanese Navy until a few hours before a protest was made by the French Ambassador.

The Commander in Chief, Asiatic Fleet, has recommended that for every note written, there should be some increase in the United States armed forces in the Far East. When dealing with a nation whose policies are determined by a ruthless military clique which worships the sword and understands nothing but force, such a procedure may have merit.

For our own future safety, we cannot permit a nation imbued with such ideals to acquire the power resultant from domination over the people and resources of China, and eventually, the Far East.

A free, stable, democratic government in China is essential to the peace of Eastern Asia and our own welfare, and every effort should be made to support such a government, and our own rights in the Far East, even if it results as a last resort in armed intervention.

(b) Policy of Great Britain.

The history of the British Empire records numerous occasions in the acquisition and control of territory. Her record in China is on the whole one of armed force. In 1900 when the

break-up of China appeared imminent, Great Britain was prepared to demand the great area of the Yangtze valley as her "Sphere of Influence."

Her foreign policy in the Far East has been dictated by her imperial and economic interests to a marked degree. She has been willing to support the United States, when it was to her interest to do so, and to support other nations at the expense of the United States, regardless of the ethics of the case, when she felt it was a better economic procedure. The case of Manchuria in 1932 is the most pronounced example of her Far Eastern policy.

Her dealings with the Chinese have never been conciliatory or on a friendly basis, but have been dictated, until recent years, by the "Old China Hand" who felt he had a God-given right to the great profits he had been making for years and in the cases of some families for several generations.

During 1931 and 1932, and also during the early part of the present "incident", prominent British business men have been heard to say that in their opinion, their trade in China would be better off if the Japanese were successful. Until quite recently there has been a strong probability of some secret agreement between Japan and Great Britain at the expense of China.

At the present time, such illusions have been dissipated, and there is a general well founded alarm as to their position in the Far East. It may be the beginning of the break-up of the Empire.

There are many fine features about the British colonial system which should be recognized. Until recent years, British colonies were open to foreign trade under few or no restrictions. Law and order were maintained, and justice to the individual provided to a great degree. The vast population of India has been governed by a few thousand Englishmen, a situation which would be impossible in the case of Japan which knows only the heavy hand in her rule over colonies. Hong Kong has been a free port open to ships of all nations.

At the present time, Great Britain is beginning to realize that her interests in the Far East depend for their continuance on the fundamental principle of the integrity of China. Whether the Tory element at present in charge of British destinies will whole-heartedly support such a principle remains to be seen.

The United States can rely on the assumption that any action taken to support the present Nationalist government will receive the backing of Great Britain. To us this is a major factor in our dealings with Japan. We should never become involved, single-handed, in Far Eastern disputes. The "pulling of chestnuts" is a mutual affair in this area.

There is of course the greater problem confronting the world today of the separation of democracies and totalitarian states into two armed camps. Unity of action of the democracies in any part of the world tends greatly to strengthen their position as a whole.

(c) Policy of France.

France has played the game of land grabbing and concession hunting in the Far East on a par with the other European powers. She now sees these colonial possessions and concessions threatened without adequate power to protect them. The French are very tenacious of their possessions, and France may be relied upon to support whatever action the United States or Great Britain may propose in the Far East.

(d) Policy of The Netherlands.

The Netherlands is assuming a position of strict neutrality with regard to every nation in the Far East. This has been carried to such a point that the Naval Commander in Chief of their forces in the Indies was refused permission to visit Manila and Hong Kong, since such visits might be offensive to Japan. The naval and military forces in the Netherlands Indies are efficient, but entirely inadequate to defend the islands against Japan.

The authorities fully realize their predicament and will probably align themselves with the other powers against Japan at the first indication of danger.

(e) Policy of Russia.

Russia has announced that she will never go to war to obtain additional territory, but will defend every inch of her present boundaries. So far there is every indication that she is sincere in that statement.

The enmity that has existed between Japan and Russia for years, coupled with the perennial disputes over fisheries, and the desire of Japan to possess, at least, the Maritime Provinces, renders very probable, at some future date, a war between these two countries.

Japan will avoid war at the present time, due to her involvement in China, but her occupation and garrisoning of Inner Mongolia are preliminaries to what she considers the conflict that is bound to come.

The fighting ability of Russia's naval and military forces in the Far East is uncertain. The Navy consists mostly of

submarines, about 60 in number, which appear to be well trained. The Russian soldier is hardy and brave, and under good officers and an efficient staff, would give a good account of himself. The equipment of the Russian Army in the matter of artillery, tanks, and aircraft, is reported as excellent.

It is doubtful however, whether the officers are sufficiently trained in the handling of large forces. The numerous executions of leading officers, together with the Civil Commissar system of conducting military operations, are not conducive to success.

Japan has in Manchuria the highly efficient Kwantung Army of 350,000 men, together with great quantities of military stores. Reinforcements could be poured into this area rapidly.

The first phase of a Russo-Japanese war very probably would be in favor of Japan. The ultimate result, in view of the great potential strength of Russia in resources and manpower, will be doubtful. A principal factor would be the stability of the present Russian government.

As time goes on, Russia will probably increase her support of the Nationalist government, especially the forces in northwest China, and will avoid direct conflict with Japan as long as possible.

8. JAPANESE ARMY.

In its operations in China, the Japanese Army has shown itself to be a well-organized, well-equipped force.

In matters of supply and transportation it is excellent. The material for every kind of operation is available - artillery, both light and heavy, pontoons, landing boats of several types in great numbers, cavalry, aircraft, trucks, and ample ocean-going transportation.

When the Naval Landing Party at Shanghai was hard pressed by the Chinese in August, 1937, 70,000 troops were diverted from other areas, and landed in 12 days after the necessity arose.

Troops are transported in ordinary cargo vessels of 3,000 to 6,000 tons, each ship carrying from 1,000 to 1,500 men with their equipment. Large numbers of troops have been shifted quickly from one area to another on numerous occasions.

About 1,000,000 tons of shipping is at present engaged in the Army Transport Service.

During the summer of 1938, 7,000 craft of all sizes were reported as employed in the Yangtze operations and river service of supply.

The officers appear well trained in the duties of their grade. In matters other than military, they are generally stupid. Most of them are thoroughly imbued with the chauvinist doctrines of the Araki-Tanaka school, and have a contempt and hatred for all foreigners.

Their "Special Service Section" deals with political organization, espionage, propaganda, bribery, opium sales, assassinations, and other similar service. It is a unique and sinister body.

Charges of widespread graft among the Japanese -- particularly the Special Service Section, have been oft-repeated and it is not unlikely that considerable amounts have found their way into the pockets of the Special Service officers. Other types of graft which very probably have had an adverse effect on the campaign in China are prevalent. This was particularly true in the case of the organization which was set up for the purpose of distributing food, clothing, supplies, etc., free, or at nominal prices, to the Chinese in occupied areas in an effort to win them over. Vast sums were spent for these articles, but instead of being distributed as intended, the majority of them were found on sale in regular Japanese stores at high prices. Various forms of "squeeze" are practiced by Japanese officials throughout the occupied areas, and unless it is paid, many restrictions and prohibitions are encountered by foreigners and Chinese alike.

During the early days of the Japanese occupation of China the Japanese Army confiscated many factories and plants and proceeded to run them for the Army's account. With the establishment of the Asia Development Board, this practice was largely discontinued by the Army in favor of the Board. However, the Army still has a rigid control of the economic processes in the Shansi region, along the Tatung-Tungkwan railway. They consider this one of the most strategically important areas in the event of a war with Russia, and have set up factories, built power plants, and are, in general, engaged in the strict regimentation of the economic life of that region into channels of military usefulness and profit.

The "Young Officer Element", very probably a secret organization, is another unique section of the Japanese Army. It is, of course, unofficial. It is composed of hotheads and radicals, many of them on staff duty, who dictate policies and procedure, often against the opinions and desires of the Generals in command.

In matters other than actual military operations, the General Staff and Intelligence Sections of the Japanese Army are incredibly stupid.

This has been shown in two cases of major importance.

The first was the failure to recognize that the growth of national feeling in China would mean a major war if Japan persisted in her policy of alienating the five northern provinces of China.

The second blunder was the failure to appreciate that for the ultimate success of the campaign in China, the good will of the Chinese people must be obtained. Instead of making any effort to secure this good will, the army have looted, burned, slaughtered, raped, and carried out indiscriminate bombings of cities and villages all over China. All of this has been done with the approval and under the direction of the responsible officers of the Japanese Army and Navy. The result has been to instill a hatred in the hearts of the Chinese that will endure for generations.

The private soldier, coming mostly from the peasant class, is generally of sturdy physique and a good fighter, but is usually stupid. He can hardly be blamed for the atrocities committed against the Chinese populace, since in such matters he has been directed and encouraged by his officers.

His equipment and uniform is simple and extremely servicable. There is no waste of money on frills in the Japanese Army.

Most of the military operations undertaken in China by the Army have been successful. It should be remembered, however, that in such operations, they were fighting a poorly organized and equipped army of infantry, which had no artillery, tanks, aircraft, or trained high command or officer personnel. Given equal equipment, training, and leaders, it is believed that the Chinese would be better fighters due to their greater intelligence, and greater capacity of endurance.

The two years of war have been a great strain on the Japanese Army organization. Approximately 700,000 have been killed or wounded. The cost has been great in terms of money, war material and stores. There has been a loss of prestige and a general deterioration of morale and discipline of the troops in China. Several reports, believed to be true, of mutiny among the younger troops, especially in the Hankow region, with drastic counter measures, have recently been received.

9. JAPANESE NAVY.

The Japanese Navy is a highly trained organization, efficient in materiel and personnel.

Their ships are well designed and built, with particular emphasis on fighting characteristics.

Their armament and fire-control is believed to be equal, if not superior to that of the U.S. Navy. This statement is based on the fact that they have an army of agents and inspectors abroad buying samples of guns, mounts, and fire-control from Skoda, Bofors, Armstrong, Krupp, and Schneider, and from these they select the best and install it on their own ships.

Their fleet is exceptionally well balanced with the necessary units for all purposes, built and in commission.

Their aviation has made great strides during the past two years. Their cruisers are fitted with planes that could easily shoot down those of the AUGUSTA due to much greater maneuverability and fighting power. They have 3 new seaplane tenders built for the purpose as compared with our antiquated WRIGHT and LANGLEY.

Owing to their extremely low labor costs and the strict control by the military over the budget, the ability of Japan to build warships is far greater than a study of their economic structure would lead one to believe; therefore, it is possible that Japan, untrammelled as she is by any legislative restrictions, can out-build us in a naval race.

Due to extreme secrecy, no information can now be obtained in Japan as to tonnage or types under construction.

Officer personnel are generally a sturdy lot, well trained in their profession. Their Flag Officers average 6 to 10 years younger than ours - an important item.

They are good seamen and ship handlers. In the operations in the Whangpoo River in 1937, ships were moved night and day for three months, without lights, or navigational aids, with practically no casualties.

Their normal training area in the waters around Japan is much more difficult from the point of view of sea and weather than is our operating area in Southern California.

No information is available as to their skill in gunnery. It was noted that in the fall maneuvers of 1936, gunnery exercises were carried out while the fleet was making passage between Kobe and Yokohama. This may indicate a more flexible system of target practice than is permissible under our rigid and complicated rules.

Their enlisted personnel appear to be well trained. The men are generally of sturdy physique, and of fairly intelligent appearance. They are obviously of a much higher standard

than the Army personnel. They are drilled incessantly from morning till night. A Japanese officer once stated that their men liked to drill, but did not like to scrub decks or clean bright-work. Their ships are dirty as compared with ours.

The Japanese Naval plan for the expansion of the Empire is to occupy the islands to the southward - Philippines, Netherlands Indies, and Malaya. They have always opposed the Army's continental adventure.

There is great jealousy between the Army and Navy. As far as known, however, this has never interfered with the execution of the numerous combined operations of the present campaign. It may be a factor in future political developments in Tokyo.

Nothing is known of the efficiency of their submarines or aircraft carriers.

The Japanese Navy is a well organized, well trained force, possessing the necessary units to carry out an effective defense and maintain command of the sea in the Western Pacific against any single Power, or combination of Powers exclusive of the United States and Great Britain.

10. UNITED STATES NAVY.

The following comments and criticisms of our own Navy are offered solely with the idea that if it is agreed that they have any basis, improvement may be made which would increase our chances of success in war.

A fleet should consist of adequate materiel in the hands of efficient personnel as compared with that of the possible enemy.

Adequate materiel consists of sufficient fighting units, better armed, better armored, and faster than corresponding enemy types, and of the necessary types to carry out naval war.

The personnel must be better trained and more intelligent than that of the enemy. They must be able to shoot faster and more accurately with guns, mines, torpedoes and aircraft.

A Japanese admiral stated some time ago that they must make up for their shortage in materiel by a more highly trained personnel.

It is possible that the design organization in our Navy Department can be improved upon and made more efficient. Our materiel bureaus should be more closely coordinated in matters of design and expenditures. We should employ expert civilian designers to a greater extent than is now done. Money should be made available to obtain samples of the latest foreign ordnances and engineering material, in order that tests may be made to determine the comparative merit of our own designs.

Our ships have entirely too much space and weight devoted to comfortable quarters at the expense of fighting characteristics.

We are lacking in minelayers, minesweepers, net-layers, anti-aircraft vessels, anti-aircraft armament, aircraft tenders, and the necessary auxiliaries in our fleet.

Our U.S. Fleet should be organized along more realistic lines. We should get away from an organization premised principally on a major fleet action under normal conditions, and every effort should be directed towards an organization designed to cope with our most likely enemy, or enemies, under conditions and in areas in which future naval action will probably take place.

The organization and training of our fleet would, in my opinion, be improved by extending its bases to San Francisco, Puget Sound, and Pearl Harbor in order to obtain the advantages of decentralization and of sea experience in waters and under climatic conditions other than those of Southern California.

Our War College should try to visualize naval warfare as it will be waged in the future instead of as it was in the past. Aircraft, submarines, attrition will be major factors in a future war.

There should be closer cooperation between the War College, General Board, and War Plans Division of Operations.

The War Plan should be as simple as possible, and should be drafted with a full recognition of the part that will be played in a future naval war by aircraft, submarines, mines, and commerce destruction.

The present unsatisfactory situation with regard to selection should be solved in order to remove the feeling of uncertainty and unrest that now exists in the commissioned personnel.

Our future wars should be naval wars. Never again should we send a huge army, or any army, overseas, except as garrisons for advanced bases. For this purpose, our Marine Corps and present Army are adequate.

Never again should we go through a period of hysteria, and astronomical expenditures such as we experienced in 1917-18, due mainly to the tragic blunder of raising an army of 4,000,000 men.

This whole subject has been so thoroughly and lucidly discussed by Major George F. Elliott in his book "The Ramparts We Watch" and in his article in the December, 1938 issue of Harper's Magazine that further comment is unnecessary. This book and this article should be read by every American citizen.

11. THE PHILIPPINES.

After our acquisition of the Philippines, two diametrically opposite policies were pursued.

Politically, the Filipinos were told that when qualified for self-government, they would be given their independence. This course was followed consistently by the enactment of Congressional Acts, and by turning over to the Filipinos as time went on, a greater part in the Island government. Finally by the enactment of the Tydings-McDuffie Act, the Islands will be given full independence in 1946.

Economically, the Islands were bound to the United States by the establishment of virtual free trade in a special Act passed by Congress in 1909, and the great volume of trade and special industries that have been developed subsequent to that Act.

The Islands are now confronted with the practically insoluble problem of adjusting their economic conditions to the loss of the American market in 1946. If anything is certain in this world, it is that the economic conditions and standard of living in the Islands after 1946 will sink to that now existing in the Netherlands Indies and Malaya.

Furthermore the political situation in the Far East has greatly changed since 1936. The chance of survival of a weak, newly fledged nation launched upon its career at this time in this part of the world would be small indeed. Many Filipinos realize this and would gladly vote to remain under the United States if they dared to express their opinion. Even Mr. Quezon is reported as weakening on his lifelong stand for independence, but lacks the courage to say so on account of the possible "loss of face."

The Tydings-McDuffie Act was passed as a result of pressure by interests in the United States hostile to Philippine imports, and through the efforts of the Filipino politicians who were working for independence. No effort was made to investigate in any manner the political and economic future of a free Philippine nation, although its fate was fairly obvious at that time.

The Bill was no credit to any of the elements that secured its passage, nor to the United States.

We have a moral responsibility for the future of the Islands that cannot honorably be disregarded. The larger part of the population was born under the American flag. Their standards of living, sanitary and educational systems developed under our guidance, will disappear. For forty years they have been free from the danger of a foreign war. The fact that our flag is flying over them has been and would be in the future their guarantee of protection.

The initiative to annul the Tydings-McDuffie Act, however, should come from the Filipinos themselves. Once this is done, the Act should be annulled, and the Islands should be considered a permanent part of the United States.

The problem of a naval base in the Philippines remains unsettled. The Commander in Chief has recommended that the Manila Bay - Subic area be decided upon as a naval base and that proper peacetime facilities be provided for the maintenance of the Asiatic Fleet.

It is not believed that our Congress will ever provide the funds for a first class fortified base in the Islands. Such a base would cost from 150 to 200 million dollars, and would require a garrison of many thousand troops and hundreds of aircraft for temporary protection. The fact that our flag flies over the Philippines is their best protection.

12. BASIS OF SETTLEMENT OF THE FAR EASTERN PROBLEM.

The views of the Commander in Chief, Asiatic Fleet, on this subject were contained in letter of 7 November, 1937, to the Secretary of the Navy, copy of which is forwarded herewith as enclosure (A). Nothing has happened in the 20 months that have elapsed since the letter was written to alter the opinions expressed therein.

It is strongly recommended that the four interested signatories of the Nine Power Treaty, France, Great Britain, Netherlands, and the United States, re-affirm in positive terms their position that no settlement of the Far Eastern problem will be recognized that is not in consonance with that treaty.

Also, every support should be given the present Nationalist government to enable it to continue the war. The head of this government, Chiang Kai-shek, is today the national hero of the great mass of the Chinese people. No other man approaches him in power and prestige. The problems that will confront this government when fighting ends are appalling, and will require the sympathetic support of every friendly nation for their solution.

When Chiang Kai-shek and his government fall, chaos will rule in China.

H. E. YARNELL

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UNITED STATES ASIATIC FLEET
U.S.S. AUGUSTA (Flagship)

00/jse

Shanghai, China
7 November 1937

From: The Commander-in-Chief, U.S. Asiatic Fleet.
To : The Secretary of the Navy.
Subject: Proposals for Solution of present Sino-Japanese Situation.

1. In any proposal to end the present Sino-Japanese War, or to arrive at an agreement which can be accepted by both nations, the following basic essentials should be provided for:

- (a) The agreement, as far as possible should be in consonance with the Nine Power Treaty.
- (b) It should recognize, and satisfy as far as possible, the claims of both nations.
- (c) It should encourage and support a strong central Government in China.
- (d) It should settle extraterritoriality, the maintenance of foreign troops in China, the status of Shanghai and other problems.

2. NINE POWER TREATY

In this treaty, the Contracting Powers, other than China, agreed "to respect the sovereignty, the independence, and the territorial and administrative integrity of China." (Art. 1 (1).)

Japan violated this treaty by the separation and establishment of a Japanese controlled government in Manchuria in 1931. She has spent huge sums in an endeavor to develop and colonize the country. She will not relinquish her claim on Manchuria without a decisive defeat in war.

On the other hand, the control by China of this area since the establishment of the Republican form of government has been weak, and at times entirely non-existent. It is probable that if Manchuria were returned today, the Central Government would not be able to assert control or to maintain law and order. In fact a return of Manchuria to the Central Government of China would be likely to hinder her definite control over the remainder of Chinese territory, the achievement of which has been the major effort of the present government.

Unless Manchuria is returned, however, the Nine Power Treaty stands violated, and the signatories can hardly recommend a settlement under the treaty which does not provide for its return. Consequently, any settlement under the treaty does not appear feasible without a disregard of its first and most important article.

Leaving the treaty aside, and, considering the situation as it actually exists, it would appear that China must acquiesce in the present status of Manchuria, unless she is able to retake it by force of arms. This is of course out of the question, and it is also obvious that no other nation is going to do it for her.

It is therefore believed that China and the Great Powers must recognize the present status of Manchuria or "Manchukuo." This will be a great concession to Japan and in order to obtain it she may consider her honor satisfied and be willing to accede to the other terms of the settlement, one of which would be to remove her troops from North China and to agree not to interfere in that area. The Premier, Prince Konoye, has stated officially that Japan has no intentions of acquiring more territory. The neutral powers should insist on the integrity of China south of the Great Wall.

3. GRIEVANCES

Japan's main complaints against China are generally,-

- (a) Alleged trend toward Communism.
- (b) General unfriendliness toward Japan resulting in boycotts, anti-Japanese societies, etc.
- (c) Increase in strength of Army which constitutes a threat against Japan.

It is obvious that the present Chinese Government has been and is generally opposed to Communism. The present fight for existence may drive her, however, into the Russian camp in order to obtain the necessary munitions and assistance to carry on the war.

The general hostility to Japan which has resulted in boycotts and demonstrations has obviously been brought about by the actions of Japan herself. Once she renounces any intention of seizing more territory, ceases interference with Chinese domestic affairs, and makes some demonstration of friendship and co-operation, Chinese hostility would soon disappear.

Chinese grievances are,-

- (a) The seizure of Manchuria.

- (b) The avowed intention of the Japanese Army to separate the five northern provinces.
- (c) Constant demand for political control in the form of advisers, etc.
- (d) Presence of large numbers of Japanese controlled troops.
- (e) Encouragement of smuggling in North China.
- (f) The insolence and truculence of Japanese troops in North China and in Shanghai.

Incidents have been inevitable and bitterness between the two nations has increased.

The validity of the Chinese grievances cannot be denied. They could be eliminated by the withdrawal of Japanese troops from China, and by placing the relations between the two countries in the hands of the civil instead of the military authorities. To an outsider, it seems stupid and incomprehensible that Japan, who could gain so much commerce and influence in China by a "good neighbor" policy, resorts to the opposite, and uses threats, sword rattling, and finally actual war, whether so called or not, in an effort to gain her ends.

4. STRONG CENTRAL GOVERNMENT

It is essential that in any settlement, a strong Central Chinese Government should be maintained and assisted in its control of the country. Such a government constitutes the greatest factor in the maintenance of peace in the Far East. Mr. Stimson has justly said of China: "the essentially peaceful character of her domestic and internal culture is now the main stabilizing factor of Asia." China, even if strong, would have no dreams of world domination. Her domestic problems will occupy the efforts of her rulers for many years.

During the past ten years the present Government has accomplished much in the face of vast difficulties. Roads have been built, schools and colleges established, streets widened and cities improved, and comprehensive plans developed and partly placed in operation for the improvement of the health and welfare of the people. There has been a new spirit abroad in the land.

Naturally, only a start has been made, and much remains to be done. The control of the Central Government is still weak in the remote provinces. There are still, as in every government, many incompetents, grafters, and even traitors, but they were gradually being replaced and the power of the Government extended.

The tragedy of the present situation is that this great reconstruction is suspended, perhaps for many years, and energies and funds must be devoted to war. In case of defeat and loss of territory, the present Government may fall with none to replace it, while the country reverts to internal strife and war-lordism. To avoid such an outcome is the major problem to be solved.

The Generalissimo, as head of the present government, should be retained. There is none with sufficient background and prestige to replace him. The work of Madame Chiang Kai-shek in assisting the Generalissimo, and in establishing the "New Life Movement" has done much to further progress under the present Government.

5. EXTERRITORIALITY, ETC.

If a settlement can be reached which assures the retention of a stable government in China, it would strengthen the hands of such a government if the questions of extritoriality, retention of foreign troops in North China, the Shanghai problem and other infringements on Chinese sovereignty could be disposed of.

The abolition of the privileges of extritoriality for American nationals has been promised the Chinese Government by the United States as long ago as 1903. In article 15 of the treaty concluded in that year between the United States and China, the American Government agreed that it would be prepared to relinquish the jurisdiction which it exercised over its nationals in China "when satisfied that the state of the Chinese laws, the arrangements for their administration, and other considerations warrant it in so doing."

Germany and Austria lost this privilege during the Great War.

Russia has voluntarily renounced her claim.

There is no evidence that the nationals of these countries have suffered in any degree in consequence.

The presence of foreign troops in North China is an aftermath of the Boxer Rebellion. These troops should be withdrawn as soon as the Central Government has established definite control with Central troops in that area.

If Shanghai survives the present ordeal, and it will of course, the present status and form of government should be radically altered. The Shanghai Municipal Council can govern after a fashion in time of peace. The Consular Body has no real authority. Foreign troops have protected part of the Settlement, but also have been the cause of vast destruction in the remaining section of the city on two occasions. A Chinese city of Shanghai

adjoins the International Settlement and French Concession. The "external roads areas" are sources of constant friction.

What the solution should be is beyond my ability to suggest. Perhaps an arrangement similar to the Special Areas of Hankow might be effective. It is a great problem requiring able and liberal minds for its solution. And in its solution the sovereignty of China must be given full consideration.

There are other questions that should be discussed and agreements reached, such as foreign warships in Chinese waters, the use of Chinese coastal waterways and rivers by foreign merchant shipping and the foreign residential areas in certain cities.

Whether such an understanding and agreement as outlined above can be reached depends almost entirely on whether it will be accepted by Japan. And it is hardly possible that it will be accepted as long as the Japanese Army dictates her foreign policy. Their dream is of Far Eastern domination by ruthless force regardless of cost or the subsequent suffering they will bring on their own people.

Until the liberal and enlightened element of the civilian Japanese leaders obtain control over their foreign policy the outlook for a just and permanent solution of this Far Eastern problem is not encouraging.

6. TO SUMMARIZE

- (a) A strong Central Chinese Government must be supported and maintained.
- (b) China and the Western Powers will recognize the present status of Manchukuo.
- (c) Foreign troops will be withdrawn from North China as soon as the Central Government establishes its authority over this area.
- (d) The right of extrterritoriality will be relinquished by such powers as still maintain it.
- (e) A commission will be appointed to study and report on the Shanghai problem. This commission will be composed of an equal number of Chinese and foreign members.
- (f) When assured that the Chinese Government can afford adequate protection to their nationals, the respective governments will withdraw their gunboats from Chinese waters.

7. FUTURE PROBABILITIES IN CASE NO SETTLEMENT IS ACCOMPLISHED BY THE POWERS.

- (a) Japan's military success in the present venture is practically assured. She has struck before the "New Life" had sufficiently matured to defend itself.
- (b) With no outside interference the military will prove its contention and will be more firmly in the saddle than ever.
- (c) The political and commercial domination of the greater part of China is only a matter of time. The ambitions of the Japanese military have been consistent and apparent for many years.
- (d) A war with Russia might somewhat retard the control of China. But Japan expects and possibly invites such a war because, with her country aroused and geared to war, she is in the best situation to conduct one. Also intelligence of her enemies has always been good and if she chooses war it will probably be won by her without too great an effort. Her objectives will be limited, namely, to acquire sufficient territory to remove any military threat from the mainland, an accomplishment long believed essential to future security by her military advisers.

Success in these enterprises will bring about a complete unbalance of forces in the Far East and the world, involving the destiny of civilization and the white race.

Should a satisfactory solution of the Chinese question be impossible within the near future there would seem to be but one course for the Pacific Powers to take; a joint agreement and definite action, commercial and, if necessary, military, to curb the uncontrolled ambitions of the Japanese imperialists.

H. E. YARNELL.

Copies to:

American Ambassador, Nanking
American Ambassador, Tokyo