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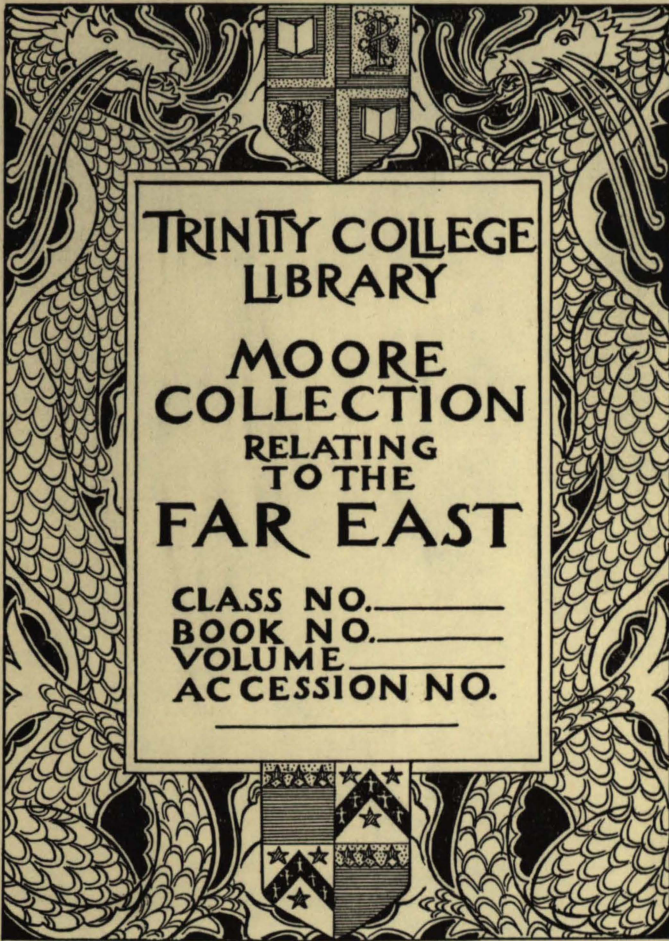
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THE CONTROL OF FOREIGN LOANS AND CONCESSIONS IN CHINA

*A Report presented to the Final Settlements Committee of the New York
Peace Society, July 17, 1918,*

By FREDERICK MOORE*

THE International Consortium recently operating in China became a noteworthy example of an effort to internationalize government loans and concessions at a time when uncontrolled competition threatened the welfare of that country and endangered the continuance of peace between the Powers. The example is worthy of serious consideration because such governments as those which have existed in China are a source of injury and injustice to their own people, and competition for concessions in such countries is a constant danger to international peace. A general statement can be made which is applicable to such states as China, Turkey and Persia, showing how conditions in them provoke war.

In none of these backward states is the government, for any long period of time, sufficiently stable to maintain itself in power against rebellion and to protect the country from foreign aggression without foreign assistance. It is, therefore, repeatedly the policy of the government in power to seek foreign support or protection in one way or another, and

* Mr. Moore, formerly editor of *Asia*, writes with knowledge gained during a long residence in China. The Final Settlements Committee assumes no responsibility for the opinions which he holds, but the Publication Committee of the Society is confident that his statements will be helpful to those who are studying the problem of administration in backward and disorganized countries.

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it is frequently the policy of the opponents of the existing government, often armed rebels, likewise to seek foreign assistance in order to overthrow the men who hold the offices. While it is often to the interest of one or more Powers to support the existing government, rival Powers from time to time support its opponents.

Foreign financiers and concessionaires, though they generally prefer plain business transactions, untrammelled with either domestic or international politics, constantly find it necessary to involve themselves or permit themselves to be involved in politics, either by the government of the backward country or by that of their own state. It has been almost invariably true, for instance, that the Chinese Government, in giving concessions or making loans to American financiers, has had in view a primary domestic or international political motive. Only two years ago an American company obtained from China concessions that were said to be on better terms than the Chinese have ever before granted. The object of the Chinese Government was not, however, merely the desire to be generous to Americans, whom they favor, but to create a situation which would be likely to command the attention of the Government of the United States. I refer to the Simms-Carey railway contracts; and I give this example to show that even a country with as idealistic a policy as that of the United States under President Wilson, and even concessionaires who sought for practically unentangled business, are made to play political parts, and do in one way or another accept those parts.*

Once the seed of rivalry is sown, the fertilizer is poured upon it from various sides and it fructifies rapidly. The concessionaire wishes to make his profits and therefore seeks the support of his government, while the concessionaires of rival countries invoke the assistance in turn of their governments (as in the instance above cited) to prevent the consummation of a concession that conflicts with concessions previously granted. Newspapers take up the question, and the rival concessionaires, generally backed by their governments, lay their cases before their own national publics; and business men of the nations take up the argument, each as a rule advocating the side of its own concessionaires. Yet the cause of those concessionaires or financiers may not be the right one. In the case of America we have the infamous instance of the Hankow-

* The Simms-Carey contracts were secured in the year 1916, with the active assistance of Paul S. Reinsch, the American Minister, to Peking. The concessions were for new lines of railway which conflicted with concessions or promises already given to British, French, Russian, and Japanese concessionaires, and several of these governments protested against the fulfillment of the Simms-Carey contracts, which were consequently altered.

Canton concession, one of the most shameful episodes of concession mongering on record.* There are also, of course, records of dishonorable dealings on the part of British, Russian, French, German, Belgian, Austrian and Japanese concessionaires. No nation is lacking in unscrupulous men who can influence considerable capital.

The reformer with the simple solution to this problem of loans and concessions says that none should be contracted, that backward nations should be left to work out their own problems. Such a policy of withdrawal would not be satisfactory even if you could persuade all other nations to keep their capitalists away from undeveloped countries, for then you would divide the world into two groups, the progressive nations, who would continue to progress, and the backward countries that would sink deeper into disorder and ignorance. Promotion of large enterprises and construction of railways, though accompanied by much dishonesty and some bloodshed, have certainly advanced the welfare of the world; and many financiers are, like men of other professions, highly honorable and some even altruistic. But, apart from this theoretical reasoning, it is impossible to keep even our own American promoters, financiers, and engineers away from the countries that need and want their services. It is, therefore, essential to find a means to control and regulate the danger

* In 1898 the Chinese Government, anxious to award to an unaggressive nation a contract which Belgian concessionaires were striving to wring from them in the interests of Russia, gave to Calvin Brice a very liberal contract for the construction of the important Hankow-Canton Railway, carefully stipulating in a subsidiary agreement that the company should remain entirely American. Failing to obtain the concession direct from China, the Belgian financiers planned to buy a controlling interest and succeeded in doing so after the death of Brice and after Barclay Parsons, the well-known engineer, became President of the so-called American China Development Company. The Chinese Government protested vigorously, but, as is customary with the Chinese, it preferred to buy back the concession rather than fight the legality of the violated clause. J. P. Morgan & Co. acted as the American agents in repurchasing the stock held by the Belgians, undoubtedly being able to do so only because the defeat of Russia by Japan (in 1905) had terminated the Russian ambition to control the railway across China. (The road from Peking to Hankow was already under Russian, nominally Belgian, control). In spite of the fact that the contract required the completion of the road, 740 miles, in five years, the American company had constructed only 32 miles and had built earthwork for fifty more. This construction, consuming seven years, had cost, through bad management, indifference and graft, \$3,000,000. In settlement the company obtained \$6,750,000, the excess of \$3,750,000 being in payment for the so-styled "surrender of valuable rights." When Americans speak of dishonesty on the part of Chinese officials, the latter sometimes remind them that "squeeze" does not assume the proportions of "graft."

and terminate the system of free scrambling for concessions; and, with this object in view, the practical beginning that was made in China by the International Consortium is notably worthy of study.

In backward states, such as we are considering, men who are both capable and honest seldom attain high office. The practical purpose, one might say, duty, of office holders (with exceptions, of course) is to get rich and retain power. Their political opponents, likewise with exceptions, are the same sort of men. Those in office seek loans for the conduct of state affairs or for improvements, such as railway construction, mining enterprises and oil development. Those out of office seek loans for purposes of rebellion, promising to reward their backers with concessions; and sometimes the government of one Power or group of Powers, whose interests are opposed by the authorities in the backward state, find it expedient to give assistance to the rebel party; and this is often the right thing to do.

A notable instance is the case of Mehemet Ali of Egypt, who, with the sympathy, if no more, of France, practically freed Egypt from Turkish rule and then nearly conquered Turkey, which was only saved by the actual intervention of the Powers, nearly causing a general war. British aid, under General Gordon, to the Chinese Government in the Taiping rebellion, and events in Mexico (both the French intervention which put Maximilian on the throne, followed by the threat of the United States after our Civil War, and the recent course of the Wilson Administration in that country) are other instances. The present administration is now enlisted with the Allies in support of a faction in Russia, the object being to prevent the Germans continuing in control through the connivance of the government in power.

It is not always the case that corrupt officials of the backward state demand and receive bribes from the foreigners for granting concessions or making loans. In China they frequently do not. But the Chinese official, nevertheless, can obtain his "squeeze" in one of a dozen recognized ways. Sufficient money might be borrowed by the Government to construct a railway of, say, 500 miles, but, after all the money is spent, there may be only forty miles of roadway and very little rolling stock. A hundred millions might be borrowed for the purpose of stabilizing currency, but after the money is gone the currency would remain unsound. Yet the Government (probably a new one composed of men who were not in office when the first loan was made) would apply for another loan in order to complete the railway or renew the attempt to reform the currency; and these men would assert, of course, that they are not like their predecessors.

It will be seen, therefore, that if a railway is to stand as security for the loan, it is essential that the foreign capitalists who supply the money shall superintend the construction and control the line until the debt is repaid; or if the loan be for, say, currency reform, that foreigners must supervise that. And it is also essential that the capitalists have the support of their own Government, otherwise the loan may be repudiated by a new government in the backward state, or a parallel railway line may be offered by the new government. The Chinese have threatened but have never repudiated a foreign loan; yet it is their practice to grant conflicting concessions, contrary to contract.

The Chinese Government does this in an effort to dislodge the Power whose capitalists were first interested, and America and American concessionaires (as we have seen) as well as Britons, Japanese and others, have been parties to political manoeuvres of this character.*

It will be seen how essential it is under such conditions for the great Powers to control the granting of concessions and the making of loans in backward states. It is idealistic and impracticable to regard states whose integrity is already seriously impaired and further threatened, as free and independent and deserving of equal loan and concession privileges,—as Mr. Morgan Shuster seemed arbitrarily to regard Persia, and President Wilson and Mr. Bryan formerly regarded China. Loans freely made to any government or governments in a backward state will bankrupt that state in the course of time; and loans will always be made, even if the bankers do not offer them of their own free will, through a Power or Powers seeking, for political motives or as a means of protection from the political motives of others, to control or influence the backward state. It has been to the interest of both France and Germany to finance and get control of Morocco; to the interest of Britain, France and Germany to finance and get control of Turkey; to the interest of Japan, and of Powers opposed to her, to finance and control China. An aggressive nation offers the money in return for strategic privileges, coaling stations, authority over arsenals, or some other important concessions; whereupon it is immediately necessary for the rival Power or Powers, whose object may be to preserve the independence of the backward state (as in the present case of Russia) to prevent the design; and in order to do so without the conspicuous movement of warships or troops, it is frequently necessary to grant the loan which the backward state desires. Bankers are asked by their Govern-

* It will be recalled that Secretary Knox tried to support an Anglo-American railway concession in Manchuria, in order to save that province for China. His plans were thwarted by Russia and Japan.

ment to make advances, which they do with the guarantee of their Government.

In the scramble for concessions in China twenty-five years ago, a system of spheres of influence was developed by the statesmen of Europe in order to lessen the danger of war between the Powers, but the scheme seemed definitely to mark out territory for annexation, and promptly led to military and naval encroachments and war. The attention of the Chinese was drawn to the competition of the Powers for privileges of developing the latent wealth of their country, and the Boxer uprising resulted, the object being to drive the foreigners out. Four years later (1904) the Russo-Japanese war resulted from a combination of aggressions and concession-seeking by Russia on a truly imperial scale.

Some time after the conclusion of the Russo-Japanese war, banking groups of the three leading lending nations, Britain, France and Germany, came to an agreement pledging themselves in future to make no loans to China and accept no concessions from her except jointly, each national group accepting a one-third share of all such transactions. The governments, for their part, realizing the dangers of uncontrolled competition, agreed to discourage all loans and concessions sought by capitalists outside the Consortium. Had the governments not sanctioned the agreement and had they refused to aid in its operation, independent German, French, and British competition would have nullified its purpose and effect, and China would have continued on the downward road, paying constantly increasing rates of interest on bonds constantly deteriorating in value, till, as in the cases of Morocco, Turkey and Persia, and Egypt under Ismail Pasha, bankruptcy resulted. Concessions would probably have been obtained from her on the same scale as formerly, many of them being associated with political objects.

The Consortium determined to make loans only for specified purposes and to supervise the expenditure of those loans so that they should not be applied by the Chinese to other purposes than those for which the money was borrowed. The notorious case of appropriations for the Chinese Navy, expended on a summer palace with a lake and a marble boat for the Empress Dowager, is an indication of what could happen if the expenditures were not supervised by foreigners. The fact that China is now nominally a republic would prevent the money being expended upon a palace but would not prevent its being squandered through incompetence and corruption. Money was to be loaned by the Consortium for practical developments, improvements, legitimate expenses, reforms and reorganization, not for political or party purposes or for ambitious schemes of no

practical value, such as a vast army, which China is in no position to maintain or control. Opportunity for large personal plunder on the part of officials,—which is one of the primary purposes for which an army is maintained in China,—was to be eliminated as far as the Consortium could do so.

The Consortium would never, of course, have been able to control all the banks or include all the governments in the world, so the Chinese could always borrow small sums at high rates of interest from independent financiers who would not insist on control, some such bankers not caring what the officials did with the money and others regarding the Chinese as deserving of full control of their own affairs.

It is important as well as interesting to note that China has never maintained a record of her actual income or expenditures; and of the important institutions of the Government only those controlled by foreigners keep accurate figures. One reason for this is the inability of the Chinese to keep systematic accounts on a large scale, and another is that accounts make possible the discovery of officials who follow the recognized custom, centuries old, of personal appropriations. There are no effective laws or system of courts and police in the country to punish peculating officials, who, if they are imprisoned, are put there only because their political adversaries are in power. The Chinese Government bank is unsafe for ordinary deposits. Chinese officials themselves place their money in the foreign banks established in Peking and the Treaty Ports, depositing in the Government bank only such funds as they are willing to risk sacrificing for the pretence of trust in that institution. The republic has not made much progress in shaking off the traditional form of personal and paternal government which permitted the Emperor and his viceroys to appropriate as they chose, as long as their exactions were not oppressive and they gave the people protection in return for taxations.

When the Consortium made contracts for the construction of railways, the railways were to stand as security;* naturally, therefore, it was necessary to see that they were actually constructed and properly operated till the loans were paid off. When loans were for purposes which afforded no tangible holding as security,—such as for the payment of troops and for currency reform,—it was necessary to obtain as security the hypothe-

* For the past decade the Chinese Government has adhered to the policy of owning the new railways that are constructed, granting concessions only when compelled by foreign nations to do so, as in the case of the Manchurian roads. The Consortium's contracts were for construction and for financing railroads on China's behalf.

cation of certain definite government revenues. But unless the revenues were controlled by foreigners there was danger of the security dwindling away. It was necessary, for this reason, and equally for the benefit of the Chinese as for the foreign bond holders, that a foreigner should be put in control of the hypothecated revenues.

As the Consortium was under constant and severe criticism, this supervision was performed with the utmost consideration for the Chinese, even with laxity and ineffectiveness at times. As an outside, independent observer with no inherent motive for sympathizing with either side, and desiring primarily to see the Chinese people benefited and the danger of war terminated, I personally offered voluntary advice to the Chinese to accept the Consortium, and to the Legations and bankers to insist on more serious and fuller control.

It is absolutely necessary to subject China to a period of international tutelage; otherwise she will remain for a long and dubious period in danger of being conquered and subjected by a single Power or divided between two or more. The process is already at work, and we may have a substantial *fait accompli* presented at the coming peace conference. In the past twenty years China has practically lost all of her so-called Dependencies, has submitted to grave encroachments on the provinces of China proper, has suffered the contest of three foreign wars on her soil, has been through three major revolutions and is at present in the throes of another, and has suffered serious encroachments on her internal, general sovereignty. Foreign troops are established in her principal cities and guard one of her national railways. Foreign gunboats patrol the upper reaches of the Yangtze River, six days' journey from that river's mouth. American troops and American gunboats participate,—and properly, and for the benefit of China,—in this infringement of her sovereignty.

At the request of Secretary Knox, during the Taft administration, "The American Group" of banks was formed; and an old promise on the part of a Chinese official to give certain railway concessions to Americans was revived. Subsequently a loan was made. The primary object was not business but politics, the preservation of the integrity and independence of China, and the Open Door. The business to be obtained had not been sufficient to attract any large American group hitherto, and it was now sought by the American bankers at Mr. Knox's special request and with the guarantee of the State Department's support.

It is of importance to note that the financing of China at the rate of 5 per cent. interest was on a European basis, which was considerably lower than the American standard; therefore, the loans in which the

American Group participated were in themselves such that no other American bankers could undertake without considerable difficulty.* As financial undertakings they were undesirable. The construction of railways on a percentage-above-cost basis was of course satisfactory, but here China was protected as she had never been before, by the Legations, as, in a measure, supervisors of the contracts. The Powers were sponsors for the bankers they had selected, and recourse to the Legations and beyond them to Washington, London, Paris, Berlin, St. Petersburg and Tokyo, and to publicity in the press—which has generally served the Chinese well—was always open to them.

I do not mean to contend that the scheme was entirely devoid of mercenary motives. It was not. The bankers naturally wanted their commissions and they wanted to make those commissions as large and to keep them as exclusively their own as possible. Accordingly the British-French-German Consortium objected at first to American participation, but the American Group threatened to become a competitor, and this circumstance, together with the political pressure Washington was able to bring to bear, caused the Consortium to admit the new Group, making it, in 1911, one of four Powers.

Secretary Knox, developing the policy of John Hay, had previously proposed the internationalization of Manchurian railways, which are owned and controlled by Russia and Japan, but both these Powers had refused to pool their interests. Later, when the Chinese Government sought to obtain the so-called Reorganization Loan from the Four-Power Group, intending to spend part of the money in Manchuria, Japan and Russia obtained admission to the Consortium, which then included six Powers. It is significant of the safeguarding value of such internalization that these two aggressive countries, Japan and Russia, sufficiently respected the power and prestige of the Quadruple Group to refrain from opposing it. On the contrary, they sought to become members of it.

The Consortium had now become highly political and international, for Russia and Japan in 1912, even in a greater degree than the United States, were not lending nations. France and Britain were the financiers of their respective allies, who were expected to borrow money from them in order to lend it to China. Thus the whole financing of China was

* After President Wilson denounced the Consortium in 1913 the State Department strove in vain to find other American bankers who would finance China, but failed for the reason above stated and also because the Democrats, by the President's action, gave new and definite evidence that American financiers must invest abroad at their own peril, the American government having no continuous foreign policy, and giving the bankers no assurance of protection.

obviously lifted above the conditions of secrecy and competition, both these dangerous features being obliterated from the safeguarding Consortium. Each group of bankers in the Consortium maintained its own special agent in China, and these agents were, of course, in close touch with each other and with the various Legations. Secrecy among the nations and among the banks was impossible, and even secrecy from the press was out of the question with six groups of banks and seven governments knowing what was going on. It was always to the interest of one or more to make use of public opinion.

Of course the Chinese sought constantly to obtain independent loans free from such restrictions as the Consortium imposed. It was the purpose of the Consortium and the Legations to insist upon supervision of expenditure over all sums China should in future borrow. The Chinese were left at liberty to select their own foreign supervisors, who became Chinese employees, the only restriction being that the characters and ability of the supervisors should meet with the approval of the banks and legations. There was an unfortunate but not serious feature in the desire of each interested country to obtain a share of the appointments to these advisory positions.

When the reorganization Loan of \$125,000,000 was made (in 1912) for the purpose of disbanding the revolutionary army and reorganizing the new republican government, one of the conditions imposed by the Six Powers was that foreigners should control the expenditures, in order to see that the soldiers were actually paid off and sent to their homes, and not dismissed without money and left to organize brigand bands.* Many such bands, some numbering thousands of men, had already taken to murder and plunder. In 1911-12, the City of Nanking was five times looted by Chinese soldiers, as first the Southern and afterwards the Northern army captured and recaptured it.

Another requirement of the Consortium,—and this is worthy of particular notice,—was that an expert, together with a Chinese official, should be appointed to the joint control of the Salt Gabelle—the revenue from that tax serving as a security for the repayment of the loan. Sir Richard Dane, formerly an Indian government official, was recommended to the Chinese, who accepted him; and the Gabelle, disorganized by the revolutions, immediately began to assume a stable character. When the European war began, the Gabelle proved to be the salvation of the existing Chinese Government, as the following amazing record will show. Prior

* Because the supervision was not sufficiently drastic, the army was never disbanded.

to 1913, when the reorganization was begun, the Chinese Government had no records to show what its revenue was from this important tax, which in the following year became its first source of income. An English official estimated that the tax had once paid approximately \$20,000,000 annually; a Japanese estimate put the highest annual income at \$11,000,000. It dwindled to less than \$5,000,000 during the revolutions (I give this figure from memory), when the majority of the provinces withheld remittances from Peking. Sir Richard Dane's success was due to his personal integrity, ability and character. A less strong and experienced man would have been defeated by Chinese obstruction; but Sir Richard proved himself a loyal and able servant of the Chinese, willing to tolerate neither corruption in them, nor unfairness to them on the part of the banks, some of which, practicing ordinary human methods, always read contracts in their own favor.

Sir Richard organized a Salt Police force, which put a stop to much of the smuggling. He created a sort of Civil Service, making the position of Chinese employees secure if they were loyal and honest, and insecure if otherwise. With the assistance of only a score of foreign supervisors, he so reorganized the Gabelle that the net return to the Government in 1915, the second year of his labors, after the entire expense of administration had been deducted, was nearly \$40,000,000.

This sum was far more than what was required for the security of the loan and the Chinese Government was, as always, in serious need of funds. Not contemplating so rapid or large an increase in this revenue, the Chinese had agreed in the loan contract that the banks should hold the revenues as security for the payment of interest and amortization. Some of the banks wished to retain the full sum of this increased revenue. Sir Richard, however, insisted that they hand over to the Chinese Government the surplus beyond the sums necessary for security; and the banks were unable to withstand the international pressure he was able to bring to bear. I give this as an instance of the value of international control of contracts.

Although evidence of the stabilizing influence of foreigners in high authority was not lacking, the Maritime Customs and the Post Office being noteworthy examples of long standing, Chinese officials persistently objected to the employment of other foreigners on the grounds of encroachment upon their independence.* At the same time minor English and

* The Chinese object also to the Customs and Post Office Inspectors General, who were imposed on them by the governments of Britain and France respectively.

American bankers denounced as unfair and discriminating the restrictions by which a few banks possessed the privilege of making loans to China. The British got over some of the hostility by expanding their Group and admitting a large number of British banks; the Germans obeyed their government's orders; the French Government prevented outside French loans by refusing to allow them to be listed on the Paris Bourse, which had also the effect of reducing Belgian and other loans to a minimum. But the propaganda of the Chinese and certain Americans in the United States had its effect in 1913 when the Democratic Administration came into power and President Wilson denounced the Consortium as an unfair and unjust limitation of the authority of an independent nation. The pledges given by Secretary Knox to the American Group were withdrawn, which made it impossible for that Group to keep its agreement with the other Groups, for other American banks were now to have the assistance and encouragement of the State Department in making uncontrolled loans to China in competition with the Consortium. The withdrawal of the American Group left the Consortium a Five-Power Group, which operated as such for another year till the present war began. It was then no longer possible for the European nations to finance China, and the State Department succeeded in finding no American Group that would do so except on a political basis. The Chinese were, therefore, unable to obtain further loans and to make further concessions requiring much capital, except with Japanese bankers.

It is no doubt President Wilson's object, in requesting J. P. Morgan & Co. to reconstruct an American Group to finance China, to substitute international influence for a single national control, the latter method being one of the dangerous conditions. It is possible, of course, that the League of Nations, which President Wilson advocates, may not be formed; and with this possibility in view Japan might be compelled in self-defense, if for no other purpose, to take control in China before aggression comes again from Europe. China cannot and will not defend herself.

The Consortium was a sincere effort on the part of a league of nations to support China and put her on a sound financial basis. Its greatest weakness was its failure to secure control. The scheme was the work of practical men who knew China and had worldly wisdom and experience, and some of them were men of fine scruples, and, what is more, high training in honesty. I know most of them personally and several of them intimately. The Consortium's program ought to have been proclaimed as altruistic and along lines of international control by a league of nations, but the attitude of the world was not yet ripe for the acceptance of this principle, which President Wilson has now come to advocate. The gov-

ernments concerned would have done well to make their policies publicly known by a measure of proper and dignified press-agenting; but almost the only publicity the Consortium got was from the pens and tongues of critics. Most of the critics were Chinese, whose pride rebelled, as it always will, at being placed under control and tutelage; some of them were Americans who knew no better than to think that all financial and diplomatic schemes must be evil; and some were mere promoters and jealous rival bankers. It was the political business of the Democratic party to win the election of 1912 by depicting Republican policies in bad colors, and the Democrats obtained from such critics much of their information regarding "The American Group," who had gone into China at the specific request of Secretary Knox, with the purpose of developing the international project, co-ordinating and controlling the competitive foreign interests and lending America's support to the protection of that country. The Republican party made the mistake of appealing for support on the basis of American interests and commerce. This, to many Americans, was only another name for Wall Street and Big Business and did not win their sympathy.

The scheme had its faults. It is impossible to create any international program that will be perfect and work exact justice to all nations and each man or group of men. The foremost, perhaps, of the flaws in the scheme was that it stifled free competition, which is a principle that the trading nations and their merchants have set up. But the international advantages to China and to the world far outweighed the injustice to these promoters and capitalists who were not included in the selected banking groups.

It is a recognized and proper privilege of one administration to undo the work of another when that work has been proved unsound, or when the new administration has been elected upon contrary principles; but in changing its policies it is wise to heed the precedents of diplomatic usage. The American Government had entered into agreements with six other Powers, who at least had the right to be heard, whatever may be said about the claims of the Taft Administration to consideration at the hands of the Democrats. At any rate, those other nations, even if not permitted to explain their intentions and interests in China, ought certainly to have had warning of the coming condemnation of their efforts. But the new Administration's denunciation of the Consortium came without consultation and without notice, and ran the risk of working injury to China. Fortunately, President Wilson is now willing to return to the Consortium arrangement, being satisfied, evidently, that adequate safeguards can be provided.

The following is the public statement issued by the State Department on July 29, 1918, after the Administration had decided to revive the Consortium:

"China declared war against Germany very largely because of the action of the United States. Therefore this Government has felt a special interest in the desire of China so to equip herself as to be of more specific assistance in the war against the Central Powers. Until the present time the engagement of the United States in preparing to exert effectively its strength in the European theatre of war has operated to prevent specific constructive steps to help realize her desires. Recently, however, this Government felt that because of the approach of the scenes of disorder to Chinese territory, a special effort should be made to place proper means at the disposal of China. Consequently, a number of American bankers, who had been interested in the past in making loans to China and who had had experience in the Orient, were called to Washington and asked to become interested in the matter. The bankers responded very promptly and an agreement has been reached between them and the Department of State which has the following salient features:

"First: The formation of a group of American bankers to make a loan or loans and to consist of representatives from different parts of the country;

"Second: An assurance on the part of the bankers that they will co-operate with the Government and follow the policies outlined by the Department of State;

"Third: Submission of the names of the banks who will compose the group for the approval of the Department of State;

"Fourth: Submission of the terms and conditions of any loan or loans for approval by the Department of State;

"Fifth: Assurances that if the terms and conditions of the loan are accepted by this Government and by the Government to which the loan is made, in order to encourage and facilitate the free intercourse between American citizens and foreign states which is mutually advantageous, the Government will be willing to aid in every way possible and to make prompt and vigorous representations, and to take every possible step to insure the execution of equitable contracts made in good faith by its citizens in foreign lands.

"It is hoped that the American Group will be associated with bankers of Great Britain, Japan, and France. Negotiations are now in progress between the Government of the United States and these governments, which it is hoped will result in their co-operation and in the participation

by the bankers of those countries in equal parts in any loan which may be made.

"Besides the warlike conditions which confront China on her northern and western borders, there is a further incentive to co-operate with all these governments, because the war has created a community of interest between them and their citizens and those of other governments, and has broken down barriers which once have existed and has made easier the intercourse between them. It is hoped that, if the project succeeds, it will serve as an agency through which this community of interest and the consequent expansion of our mutual interests abroad may be adequately and properly expressed."

The original American Group included J. P. Morgan & Co., the National City Bank, the First National Bank, and Kuhn, Loeb & Co. The new Group recently organized includes twenty-six American banks, all, probably, that can legitimately be expected to compete for Chinese loans and all that desire to participate.

If, out of sentimental instead of practical consideration for the Chinese, and from a false idea of putting them on their mettle and of treating them with the dignity of a fully independent state, the new Consortium gives the present temporary Peking government large sums of money without effective foreign control, we are liable to do the Chinese people and their country serious, and possibly, at this critical time, irreparable injury.

But on the other hand there is splendid opportunity, if the occasion is seized in a statesmanlike way, to use the revived Consortium as one of the factors in an international program for a general understanding and agreement with regard to China. The interests of Britain (with her Pacific Colonies, Australia, New Zealand and Canada), of France, of the United States and of China are similar. The declared policies of these countries and Japan are the same—namely, the preservation of the independence and integrity of China. It is necessary only to coordinate the alliances and declarations that already exist and to unify them in order to protect China. Merely to give this backward state protection, however, is not sufficient; a measure of active temporary interference in her affairs is necessary for the purpose of lifting her above the condition of incompetence and temptation to other nations. A general international treaty in line with President Wilson's program for a league of nations will give to many of the statesmen of Japan a joyful relief, because it should protect them from either an unwelcome necessity, or a seductive temptation to create by the mastery of China, one of the greatest empires in the world.

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realized, more or less, that, so long as it retains what is known as the 'Command of the Sea,' we cannot be invaded."

This sentence of Mr. Fiennes would during this war be equally true in the mouth of any American.

The history of sea power to the Briton is the history of the evolution of his own League of Dominions. It is a wonderful story here unrolled from the defeat of the French at Sluys and of the Spaniards in the Great Armada down to the throttling of Napoleon Bonaparte and now of his Potsdam imitator.

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PAT. JAN 21, 1908

