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United States Dollar Diplomacy in China During the Taft Administration

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UNITED STATES DOLLAR DIPLOMACY
IN CHINA DURING THE TAFT
ADMINISTRATION

by
IN SUK RO

A thesis presented to the
Faculty of the School of Graduate
Studies in partial fulfillment
of the
Degree of Master of Arts

Western Michigan University
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# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. <strong>INTRODUCTION</strong></td>
<td>1</td>
</tr>
<tr>
<td>II. <strong>U.S. RELATIONS WITH CHINA UP TO THE TAFT ADMINISTRATION</strong></td>
<td>4</td>
</tr>
<tr>
<td>1. Background</td>
<td></td>
</tr>
<tr>
<td>2. Sphere of Interests in China</td>
<td></td>
</tr>
<tr>
<td>3. The Open Door Doctrine</td>
<td></td>
</tr>
<tr>
<td>III. <strong>TAFT, KNOX AND DOLLAR DIPLOMACY</strong></td>
<td>10</td>
</tr>
<tr>
<td>IV. <strong>RAILWAY LOANS</strong></td>
<td>17</td>
</tr>
<tr>
<td>1. Hukuang Loan</td>
<td></td>
</tr>
<tr>
<td>2. Chinchow-Aigun railroad and Knox's Neutralization Scheme</td>
<td></td>
</tr>
<tr>
<td>V. <strong>CURRENCY REFORM AND REORGANIZATION LOANS</strong></td>
<td>30</td>
</tr>
<tr>
<td>VI. <strong>AMERICAN WITHDRAWAL FROM THE CONSORTIUM</strong></td>
<td>45</td>
</tr>
<tr>
<td>VII. <strong>APPRAISAL AND CONCLUSION</strong></td>
<td>49</td>
</tr>
</tbody>
</table>
I. INTRODUCTION

The fundamental aims of a nation's foreign policies are national security and the achievement of national objectives through diplomacy. At different periods in American history, the foreign policy of the United States has been designed to advance a variety of aims. It is possible, for example, to speak of missionary diplomacy, moral diplomacy, military diplomacy and dollar diplomacy. The latter characterizes one phase of economic foreign policy in which the administration of President William Howard Taft represents a dramatic turning point. The foreign aid programs of the period after World War II, such as the Marshall plan and the Alliance for progress, have their roots in the economic foreign policy of Taft and his Secretary of State, Philander C. Knox.

Taft described his convictions with regard to foreign policy in these words:

The theory that the field of diplomacy does not include in any degree commerce and the increase of trade relations is one to which Mr. Knox and this administration does not subscribe. We believe it to be of utmost importance that while our foreign policy should not be turned a hair's breadth from the straight path of justice, it may be well made to include active intervention to secure for our merchandise and our capitalists opportunity for profitable investment which shall insure to the benefit of both countries concerned. There is nothing inconsistent in the promotion of trade relations, and the protection which the United States shall assure to her citizens in the assertion of just rights under investments made in foreign countries, shall promote the amount of such trade, it is a result to be commended.¹

Secretary Knox admirably stated the meaning of dollar diplomacy as follows:

It means using the capital of the country in the foreign field in a manner to enhance fixed national policies. It means the substitution of dollars for bullets. It means the creation of prosperity which will be preferred to predatory strife. It means taking advantage of the interest in peace of those who benefit by the investment of capital. It recognizes that financial soundness is a potent factor in political stability; that prosperity means contentment and contentment means repose.2

Thus, dollar diplomacy in the Taft administration had a dual character; economic and political. On the one hand, dollar diplomacy meant the use of dollars to advance and protect American business abroad, and on the other hand it meant the use of dollars to promote American national security.3

Although "dollar diplomacy" is traditionally thought of with respect to China, evidence of its application can be found in the relations of the United States with other countries as well. An example of the use of dollar diplomacy with national security as its goal can be seen in the case of The Dominican Republic. In 1904, this Caribbean republic, unstable, deeply in debt, and on the verge of bankruptcy and collapse, was threatened by European seizure of its custom houses for the protection of European creditors. At this point, United States dollar diplomacy was implemented, to the benefit of both The Dominican Republic and the United States, by way of an agreement in 1907 to have an American receiver-general col-


let all customs revenues. European creditors saw this as a virtual guaranty provided by the United States and refrain from any seizures. During this same period, dollar diplomacy was also implemented in other Latin American countries, such as Nicaragua and Honduras.

The American policy with respect to Liberia, one of the few independent African states of the time, may also be said to have been influenced by dollar diplomacy. In response to a Liberian request for aid to rehabilitate her financial stability, American bankers, encouraged by the United States government, interested themselves in Liberian finances and lent assistance. Thus dollar diplomacy may be said to have been practiced on a worldwide scale.

5 Ibid., p. 3.
II. U.S. RELATIONS WITH CHINA UP TO THE TAFT ADMINISTRATION

The victory of the communist Chinese forces over Nationalist Chinese forces in 1950 resulted in a dramatic change in the United States-China relations. After the take-over by the Red regime, United States foreign policy had to deal with a government controlled by forces that hereto for, had been the object of military attack by the Chinese Nationalists, with United States aid. The United States chose to deal with the communist government, essentially by not dealing with it, by refusing to recognize it as the legitimate government of China, and by blocking all efforts by some other nations to seat the representative of mainland China in the United Nations. Thus, a new era of United States-China relations was inaugurated. For a half century before, the policy of the United States toward China was based upon the principles of (1) equality of commercial opportunity, and (2) maintenance of the territorial and administrative integrity and political independence of China.

Although the United States at times recognized during the period from 1900 to 1950 the special relations between China and other countries, it also recognized and asserted that the domination of China by any one power or any group of powers would be contrary to the interests of both China and the United States. The United States took the position that the Chinese should be given time to develop those political institutions which would best meet their needs in the modern world. The United States also sought to prevent third powers from utilizing disturbances within China as an opportunity
for individual or collective aggrandizement. 6

During the first half of the nineteenth century, American policy toward China was implemented by treaties and other diplomatic procedures designed to secure equality of trading rights for the United States and other nations. One fundamental principle underlying American relations with China—equality of commercial opportunity—was incorporated in the first treaty between the two powers, the Treaty of Wangxia signed on July 3, 1844, in the form of a most-favored-nation clause. 7 Following the Opium War, Great Britain had forced China to grant her additional commercial privileges. The Treaty of Wangxia guaranteed that whatever treaty rights other powers gained with respect to trade, residence, religious activities, tariffs, or other commercial regulations, would automatically accrue to the United States. The most-favored-nation clause was retained in the subsequent commercial treaties negotiated with China in the nineteenth century, namely the Treaty of Tientsin of 1858 and the Burlingame Treaty of 1868. The general articles of the Burlingame Treaty were not of great importance. There was, however, one significant innovation. The two nations agreed to recognize the inherent and inalienable right of man to change his home and allegiance, and also the mutual advantage of free migration and emigration of their citizens and subjects, respectively, from one country to the other, for the purpose of curiosity, of trade, or as permanent residence. 8

7 Ibid., pp. 1-2.
The principle of equality of commercial opportunity worked well until the late 1890's, when new imperialistic pressures seemed to threaten a division of China among the other great powers, into spheres of interest, or spheres of influence.

In the cultural influences which flowed from America to China, the role of missionaries was significant. The first American missionaries to China, David Abeel and Elizah C. Bridgeman, reached Canton in 1800. Their task was to convert the Chinese to Christianity. Within a few years, the American Board of Commissioners for Foreign Missions, the Presbyterians, the Baptists, and the Episcopalians had sent additional men to this new foreign field. After 1844, the growing band of missionaries extended their activities to the new treaty ports. Some eighty-eight American protestant missionaries had arrived in China in 1860. But the number of converts to Christianity among the great masses of the people was negligible and the missionary enterprise was often a great source of friction with Chinese officials because of their traditional anti-Western concept. Nevertheless, the influence of American missionaries helped materially to shape the course of future Chinese events.9

The year 1898 saw a dramatic turning point in American Diplomatic history. The victory of the American Asiatic squadron, commanded by Commodore George Dewey, over the Spanish fleet in Manila Bay on May 1, 1898, seems to have started almost at once a movement for permanent possession of the Philippine Islands by the United States. Memorials from business groups and chambers of commerce poured into the State Department emphasizing the value to the United States of the

9 Ibid., pp. 41-43.
Philippines as the key to the markets of eastern Asia. 10

Although several reasons prompted the annexation of the Philippines by the United States, there can be no doubt that the desire for greater markets played a vital role in bringing about the acquisition and retention of the islands. 11 However, American hopes of vast future markets in China seemed doomed to be shattered by the aggressions of European nations in the years following the Sino-Japanese War. For in 1897, the great European powers began to claim monopolies for economic exploitation within certain areas in China called "spheres of interest".

A "sphere of interest" was an area in China wherein a nation had expressly or impliedly declared that it would permit no other nation to exert political influence, and that only itself would lead in the exploitation of the area's natural resources. 12 Control of the "sphere of interest" was exerted in the following way: first, the foreign investors secured a strategic base on the seacoast; this was followed by building a railway for exploitation of the natural resources and the domination of the economic life of the "sphere". The next step was to establish a bank which would obtain a first option on loans or concessions, especially those covering the railways and mines. To safeguard its particular interests, the government behind the investors then forced China to agree not to alienate its economic control, and entered into agreements with other countries to respect each other's spheres of interest.


The promise and concessions obtained from China which threatened her commercial freedom may be enumerated as follows:

March 15, 1897, a non-alienation pledge to France concerning Hainan.
February 11, 1898, a non-alienation pledge to Great Britain concerning the Yangtse Valley.
March 6, 1898, a lease to Germany of Kiaochow Bay in Shantung for ninety-nine years, together with railway and mining rights in the province.
March 27, 1898, a lease to Russia of the Kwangtung Peninsula for twenty-five years, together with the right to construct a railway from Harbin to Port Arthur.
April 26, 1898, a non-alienation pledge to Japan concerning Fukien Province.
May 27, 1898, a lease to France of Kwangchow Wan for ninety-nine years.
June 9, 1898, a lease to Great Britain of Kowloon for ninety-nine years.
July 1, 1898, a lease to Great Britain of Weihaiwei for "so long a period as Port Arthur shall remain in occupation of Russia".

The Washington government soon recognized the danger that United States trade might suffer and initiated international action to prevent the exclusion of its nationals from Chinese markets. With a view to securing equal opportunities in the development of China's trade, which was believed to offer vast fields for commercial and financial enterprise, the United States sought to prevent the partition of China, and particularly the absorption of Manchuria by Russia, and also to prevent the acquisition by any single power of exclusive interests and rights.

To that end, Secretary of State John Hay sent his famous notes to the several powers. The so-called policy of the Open Door, for the first time officially pronounced on that occasion, asked for formal assurances. Secretary of State Hay asked only that the powers observe the principles of the Open Door with respect to foreign

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trade within their spheres of interests; he did not propose that they surrender those spheres or agree not to enlarge them.

While the diplomats were still debating the significance of the notes and how they should reply to them, the Chinese were beginning to grow restless under foreign exploitation. This restlessness culminated in the Boxer uprising of 1900. That revolt was crushed by the Great Powers, but its aftermath had important consequences on American policy in China. Secretary Hay took advantage of the occasion to reaffirm the Open Door doctrine in a circular communication sent to Great Britain, France, Russia, Germany and Japan on July 3, 1900. In it, he urged the powers to cooperate to bring about permanent safety and peace to China, preserve China territorial and administrative entity, protect all rights guaranteed to friendly powers by treaty and international law, and safeguard for the world the principle of equal and impartial trade with all parts of the Chinese Empire.15 This doctrine was accepted on paper by the Great Powers.

The policy of the United States toward China was clearly formulated by President Roosevelt in a speech delivered at San Francisco in 1903, in which he proclaimed that United States was a great Asiatic Power:

The extension of the area of our domain has been immense; the extension in the area of our influence even greater. America's geographical position in the Pacific is such as to ensure peaceful domination if its waters in the advantage of that position.16

III. TAFT, KNOX AND DOLLAR DIPLOMACY

In the four years following the Roosevelt administration, President William H. Taft and his Secretary of State, Philander C. Knox gave a new turn to the Open Door policy inaugurated by John Hay. Hay had not concerned himself with the investment of American capital in China. For many years, free land suitable for economic expansion was abundant and easy to find in the United States and opportunities for domestic capital investments were many. Consequently, before the turn of the century, there had been little reason for American capital investing abroad. But by the time of the inauguration of Taft to the Presidency, such opportunities for profitable investment at home were decreasing in number and American investors were starting to cast their eyes towards other countries. A period of the greatest expansion of foreign investment in American history was beginning. Taft and Knox, in contrast to Hay, became deeply interested in securing entry into China for American capital, particularly in the field of railroad building. The evil effects of the 1907 panic had vanished by the time Taft took office, and investment capital was available. The Taft years were thus years during which American capital was seeking foreign outlets, and when American industrialists sought orders from abroad.17

President Taft, himself, inaugurated a general policy of economic imperialism known as "dollar diplomacy". Taft's "dollar diplomacy" aimed to protect and encourage American Investments in

The Taft administration made it clear as early as 1909, that it considered China one of the most important fields for American diplomacy. One reason for the new orientation was the President's background. Taft was familiar with the Far East, for he had served almost three years in the Philippines as governor, and, as Secretary of War, had on two occasions conferred in Tokyo with Japanese leaders.19

Unquestionably, Secretary Knox was also responsible in part for the "dollar diplomacy" of the Taft administration. President Taft conceded that it was his Secretary of State who decided foreign policy in his administration and claimed only the merit of selecting him for the task.20 At times the President became a bit nettled at the overbearing assurance of his Secretary of State, but Taft was easygoing and would merely remark, "there is no lack of confidence in Knox."21

The Secretary was determined to use American trade and investment in foreign countries as a lever to help backward areas contribute to this goal. Both Taft and Knox stressed "dollars not bullets" as the basic concept of their foreign policy. Where the United States had interests, or hoped to develop them, Taft and Knox believed that the United States government had an obligation to help

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nations in trouble, and that the best way to do so was through the stabilizing influence of loans. Money tended to have a quieting effect by itself; in addition, the Secretary believed, "the borrower is the servant of the lender," so that any country under financial obligation to the United States could not escape accepting some measure of tutelage along with the loans. The instruction and supervision would, of course, benefit greatly not only the country being instructed and supervised but also the rest of the world, especially the United States. 22

Knox believed that the State Department should be active in promoting opportunities for American business. Willard Straight, a State Department official who served as a consul general at Mukden in Manchuria, played a vital role in the dollar diplomacy of the Taft administration. Straight saw opportunities for development of American trade in China and for railroad building. There was only one way, he believed, in which he could effectively promote American Interests in Manchuria and at the same time use the increased American influence for the benefit of Chinese independence. He must bring about the investment of a large volume of American capital in that region. 23

In November, 1907, Straight seized a fortunate opportunity for discussing his plan to expand American interests in Manchuria with Mr. Taft, then Secretary of War in President Roosevelt's Cabinet, who happened to be traveling in the Far East.

Taft was due in Vladivostok about the middle of November en route for America by Trans-Siberian Railway. Straight joined him there on November 18, 1907, and took advantage of the opportunity to submit to Mr. Taft arguments in favor of his general plan for the investment of American capital in China with the approval and support of the American government.²⁴

Straight, in turn, was in close touch with the American railroad king, Edward H. Harriman, who dreamed of extending his railroad empire to Asia. Harriman's direct business relations with the Far East began in the year 1905. Harriman was closely associated with Kuhn, Loeb and Company, who had aided the Japanese government in floating its war loans in the United States. His interest in China and Japan grew out of his connection with the Pacific Mail Steamship; this is what had attracted his attention to that part of the world. When, in the spring of 1905, Harriman received an urgent invitation to visit Japan from the American Minister in Tokyo, Lloyd C. Griscom, he determined to suspend, for a time, his financial and railroad activities in the United States and personally investigate that Oriental field, with a view to ascertaining what could be done to extend American commerce in the Far East.²⁵

During his stay in Tokyo, after reading maps and newspapers, Harriman turned to Minister Griscom and said:

Griscom, there is no doubt about it. If I can secure control of the South Manchuria Railroad from Japan, I'll buy the Chin-

²⁴Ibid., pp. 249-250.
ese Eastern from Russia, acquire trackage over the Trans-
Siberian to the Baltic, and establish a line of steamers to
the United States. Then I can connect with the American
Transcontinental lines, and join up with the Pacific Mail
and the Japanese Transpacific steamers. It'll be the most
marvelous transportation system in the world. We'll girdle
the earth.26

Thus, the plan for a round-the-world transportation line
under unified American control was born. To carry out this plan,
Harriman planned first to secure control of the South Manchuria
Railway, which Japan had just acquired from Russia as the result
of the Portsmouth settlement.

Japan's determination to exploit these Manchurian properties
itself postponed the execution of Harriman's plan, but their project
was later revived by Straight.27

For a year or more, after Harriman's Tokyo visit, no op-
portunity to promote the Far Eastern enterprise presented itself.

But in September, 1907, Lord Pfrench, representing Pauling
& Co., of London, and J.O.P. Bland, representing the "British and
Chinese Corporation," secured from the Chinese government the right
to extend the Chinese Imperial Railway from Hsin-min-tun to Fakumen,
with the privilege of building, ultimately, to the trans-Siberian at
Tsitsihar. As this seemed to open the way for such a Russian con-
nection as Harriman had in view, Straight wrote him, in September,
1907 suggesting an alliance with the British syndicate, as a means
of securing the essential link in the projected round-the-world line
without the cooperation of the Japanese. Harriman replied by cable,

26Charles Venier, The United States and China 1906-13: A study

27Ibid., p. 28.
The Manchurian Scene of Action
(From a map drawn by Frederick D. Cloud, June 20, 1909)
however, in October 1907, that owing to the panic of that year, financial conditions were such as to prevent the raising of the necessary funds.  

Harriman's death on September 10, 1909 brought to an end this particular scheme of a round-the-world American transportation line. Straight may have been saddened by Harriman's death, but there was one important compensation: William H. Taft assumed the Presidency of the United States in 1909. The new President soon demonstrated his concurrence with demands of trade, investment, salesmanship, and efficient organization when he went before the Congress to state his conception of American foreign relations.

There was, he said, a basic relationship between political and economic interests which the government had to recognize. Representatives of American finance and industry sought investment opportunities and markets. Wherever they went, Taft claimed, the government had to follow, providing protection and seeking additional openings for its nationals. For the achievement of this purpose, he asserted it was necessary to enlarge and reorganize the State Department in the interest of greater efficiency, and called for Congressional appropriations to carry out this program.

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28 George Kennan, E. H. Harriman, p. 25.
IV. RAILWAY LOANS

Philander C. Knox entered upon his duties as Secretary of State on March 6, 1909. He soon became keenly interested in Assistant Secretary of State, Huntington Wilson's plan for the reorganization of the State Department. The most important innovation in this reorganization was the establishment of three new politico-geographical divisions—a Western European, a Near Eastern and a Latin American—in addition to a Far Eastern Division.30

The reorganization of the department was very efficient, the acme of administrative decentralization. Taft deferred to Knox, who gave a wide grant of authority to Huntington Wilson. Wilson in turn, was Straight's superior while he was Acting Chief of the Division of Far Eastern Affairs. All important offices, from Taft down to Straight, were held by men who favored a more active role for the United States in China and Manchuria.31

Both Taft and Knox were sympathetic to American economic expansion, and Straight, who had returned to Washington, was able to persuade the Department of State that the Orient offered great possibilities. Secretary Knox was not hard to convince and he issued a department memorandum declaring:32

The nations that finance the great Chinese railways and other enterprises will be foremost in the affairs of China.


32 Stuart, The Department of State p. 221.
and the participation of American capital in these investments will give the voice of the United States more authority in political controversies in that country which will go far toward guaranteeing the preservation of the administrative entity of China.

The Taft administration was now positively interested in promoting American influence in China by means of American investment. It proposed and began to support this policy with all the diplomatic resources of the State Department. The State Department's full support of legitimate and beneficial American enterprisers in foreign countries was now provided to the prudent investor desiring to know in advance what would be done for him if, through no fault of his own, he got into trouble, due, say, to oppression or failure to protect on the part of some foreign government.33

The loan policy with China involved foreign investments of such great unquestionable potential national advantage that the government was an active participant in them. After urging investors to permit themselves to become instrumentalities of the United States foreign policy, the government clothed those investors with rights to protection of especial dignity.34

In the spring of 1909, Knox faced a situation which to him had serious implications for the economic and political position of the United States in China. Backed by their respective governments, a tripartite group consisting of French, English and German bankers negotiated an agreement to lend money for the construction of two important railroad systems, one from Hankow to Szechuan and the other from Hankow to Canton. These railroad lines were called


34Ibid., pp. 303, 310.
collectively the Hukuang Railways. American non-participation in
what was known as the Hukuang Loan meant loss of investment outlets
and also of markets, for United States firms would not be entitled
to supply any of the materials.35

It was at once noticed that the Hukuang Loan agreement con-
tained two provisions of real interest to America. First, the internal
revenue (likin) were to be pledged to the lenders, and second, all
railway materials purchased abroad were to be bought in the countries
whose nationals supplied the loan.36

Following the announcement of the agreement between the
Chinese government and the governments of Germany, England, and France
for the Hukuang Railways in May 1909, the American government sent a
protest to Peking on May 24, 1909. The Department of State recalled
that the Chinese government had in 1904, promised to give American
capital a chance to participate in the financing of at least one of
these proposed Hukuang Railways. The American claim was based on
the written assurance given by China to Minister E. H. Conger in 1904
that, if China were unable to raise money for construction of a rail-
road from Hankow to Szechuan, it would give American and English cap-
italists the first chance to finance the line. The Department of
State, acting in this instance from political motives and on its own
initiative rather than the prompting of private interest, now called
the attention of the Chinese government to the interests of its

35Walter Scholes, "Philander C. Knox," An Uncertain Tradition
p. 68.

36"Our Dollar Diplomacy and Secretary Knox," Harper's Weekly
The desire for American participation in the Hukuang Loan was explained by Straight in these words:\footnote{38}

In order, therefore, that the United States might be entitled to a practical, and not merely to a theoretical, choice in this matter as well as to assure to American manufacturers a share in the profits of Chinese railway construction and the business arising therefrom, it was essential that representative American capitalists should participate in the Hukuang Loan.

Having determined that the markets of China should not be closed to American economic interests, the Department of State proposed to a group of American financiers the desirability of certain investments in China as a matter of American national policy. An American group, consisting of J. P. Morgan & Co., Kuhn, Loeb & Co., the First National Bank of New York, and the National City Bank of New York, was formed in the spring of 1909 upon the expressed desire of the Department of State that a financial group be organized to take up the participation to which American capital was entitled in the Hukuang Loan agreement then under negotiation by the British, French, and German banking groups.

The American group thus became interested in Chinese loan matters, not primarily for its-Hukuang-profit, but for the purposes indicated by Taft and Knox. As stated in President Taft's message to Congress of December, 1909, these purposes, in effect, called for the cooperation of the bankers as the "indispensable instrumentality" which the American government needed to enable it to "carry..."

\footnote{37Herbert Crole}y, \footnote{Willard Straight}, pp. 282-290.

\footnote{38Theodore W. Overlach}, \footnote{Foreign Financial Control in China}, p. 211.
out a practical and real application of the Open Door Policy." The Department of State considered that American cooperation with the banking groups of the several great Powers enabled the United States to exercise a practical voice in China's affairs and constituted the best guarantee for the preservation of China's integrity.39

Throughout June and early July, 1909, Washington continued to demand American inclusion in the Hukuang Loans. The Chinese were placed in the familiar position of being in the center of international rivalries. Hemmed in by American desires on the one side and by tripartite resistance on the other, the Chinese government agreed to American participation if the other powers consented. The Anglo-French-German financiers were reluctant to admit a fourth party to this important business; but as matters had reached a deadlock, they offered a twenty-five per-cent interest in the Szechuan Railway to the Americans, but wished to exclude them from any share in the Canton concession. The Americans claimed they were entitled to a fifty per-cent interest in the Szechuan line, on the basis of the promise to Conger. However, they were willing to settle for a twenty-five per-cent participation in both concessions.40 The question seemed likely to drag on indefinitely. The diplomatic efforts seemed futile and the Chinese government allowed matters to drift, hoping that the foreigners would quarrel amongst themselves.

At this point President Taft stepped in. Breaking all diplomatic precedent, he sent a personal message to Prince Chun, regent


40Herbert Croley, Willard Straight, p. 294.
of the Chinese Empire, in which he stated:

I am disturbed at the report that there is certain prejudiced opposition to your government's arranging for equal participation by American capital in the present railway loan...I send this message not doubting that your reflection upon the broad phases of this subject will at once have results satisfactory to both countries...I have resorted to this somewhat unusually direct communication with your Imperial highness, because of the high importance that I attach to the successful result of our present negotiations.

Confronted by such determination, China and the four powers made a virtue of necessity. A preliminary agreement for the Hukuang Loan was drawn up by the German, British, French, and American bankers at Paris on May 23, 1910. And the final agreement for the loan was signed on May 20, 1911. It provided for an equal sharing of the total $30,000,000 amount among the four lenders.

In this agreement the Imperial government of China authorized the bankers of the four powers to issue a five per-cent gold loan for six million pounds sterling. The term of the loan was to be forty years. The security was to be the likin, salt, and rice taxes. British, German and American engineers were to work on the sections in which their respective groups were interested. The loan was made that year.

During the years 1907, 1908, and 1909 a project for the construction of a long Chinese government railway between Chinchow and Aigun was being advanced by joint American and British financial and railway groups. A preliminary agreement concerning the Chinchow-

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42 United States Foreign Relations, 1910, p. 280.
44 J. S. Nearing, Dollar Diplomacy, p. 45.
Aigun Railway was signed at Mukden on October 2, 1909 by the viceroy of Manchuria and the government of Fengtien on one side, and the American group and Pauling and Company for the British group, on the other for the financing, construction, and operation of the railway from Chinchow to Aigun.\(^\text{46}\)

The agreement was entered into by Willard Straight for the American group and Lord Pfrench for Pauling and Company, and was subject to ratification by their principals. The Agreement provided that,\(^\text{47}\)

1. Since it might be necessary for the group, in making its financial arrangements with the Chinese government, to furnish funds on terms ensuring a margin of profit less that justified by the risks involved, Pauling and Company, would give the American group no less than the 2 1/2 per-cent of the contract price for both sections of the railway referred to, such percentage to be paid on the completion of the entire road.

2. At least one-half of the materials and equipment purchased was to be American.

3. Certain American engineers, to be recommended by the American group, were to be employed by Pauling and Company during the period of construction.

This agreement was required to have the sanction of a Chinese imperial edict before becoming effective. The preliminary agreement was confirmed by imperial edict on January 21, 1910.\(^\text{48}\)


\(^{47}\) *bid.*, pp. 802-303.

\(^{48}\) *bid.*, p. 802.
After the preliminary agreement was signed, Secretary Knox sent a memorandum to the British foreign office on November 6, 1909. This memorandum became known as the Knox "Neutralization Scheme." The Knox notes stated:

The government of the United States asks His Britannic Majesty's government to give their consideration to the following alternative and more comprehensive projects: First, perhaps the most effective way to preserve the undisturbed enjoyment by China of all political rights in Manchuria and to promote the development of those Provinces under a practical application of the policy of the open door and equal commercial opportunity would be to bring the Manchurian highways, the railroads, (sic.) under an economic, scientific, and impartial administration by some plan vesting in China the ownership of the railroads through funds furnished that purpose by the interested powers willing to participate. Second, should this suggestion not be found feasible in its entirety, then the desired end would be approximated, if not attained, by Great Britain and the United States diplomatically supporting the Chinaow-Aigun arrangement and inviting the interested powers friendly to complete commercial neutralization of Manchuria to participate in the financing and construction of that line.

In reply to Knox's proposal, British foreign minister Edward Grey responded on November 25, 1909:

The general principles involved in the first of your excellency's two suggestions entirely commend itself to His Majesty's Government, so far as the preservation of the open door policy and equal commercial opportunity are concerned, and would in their opinion, be well adapted to securing to China full control in Manchuria. I am, however, of the opinion, that until the pending negotiations for the Hukawang loan have been completed, it would seem undesirable to consider the question of another international loan for China's railway undertakings, and I would suggest, therefore, that, for the present at any rate, it would be wiser to postpone consideration of the first scheme. As regards the alternative proposal, I observe with satisfaction that the cooperation of interested powers forms part of the scheme, and I have the honor to suggest that as a preliminary step toward attaining this desirable end the two Governments should unite in endeavoring to persuade the Chinese Government to admit the Japanese to participation in the Chinaow-Aigun line, as being the parties most interested.

49United States Foreign Relations, 1910, pp. 234-235.
50Ibid., pp. 235-236.
Thus, the British reply to Knox forced the American government to face other powers without any favorable commitment from Great Britain. The British government, in fact, took an entirely sympathetic attitude toward the views of both Japan and Russia. It was bound to the former by the Anglo-Japanese Alliance, and its action was governed in respect to the latter by the Anglo-Russian agreement of 1899. The British contract for the line from Raimintum to Fakumen was signed in 1907 and it was for a railway which was specifically mentioned as a British project in a supplementary letter to the exchange of notes between Great Britain and Russia in 1899, concerning spheres for railway concession.

Shortly after the British indicated they were not willing to accept Knox’s neutralization plan, disapproval was indicated also by both Russia and Japan on the same date, January 21, 1910. The Russian aide-memoire contended that nothing appeared at the time to threaten either the sovereignty or the Open Door policy in Manchuria. At the same time the Russian government declared that the establishment of an international administration and control of the United States would seriously injure Russian interests, both public and private, to which the Russian government attached capital importance. Concerning the second alternative of the American proposition of the Chinchow-Aigun railway project, the Russian government also declared that it regarded the project of the proposed railway construction as being of capital importance to Russia.

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The reason the Russian government was so much concerned with the Chinchow-Aigun project was that its accomplishment would open up a new route giving access from the south not only to the Chinese Eastern Railroad, but directly to Russian possessions at Aigun. This shows the strategic and political importance of the enterprise.53

The reply of the Japanese government to the Knox plan was also in the negative. In the note, the Japanese foreign minister, Count Komura, declared that the most serious objection to the proposal in question lay in the fact that it contemplated a very important departure from the terms of the Treaty of Portsmouth, because that treaty was designed to establish in Manchuria a permanent order of things which the Knox plan would upset.54 So far as the question of the Open Door was concerned, the Japanese government declared that the principle of equal opportunity possessed in its application to Manchuria a more comprehensive signification that it had elsewhere in China, since by virtue of Article VII of the Treaty of Portsmouth the Japanese and Russian railways in the Provinces of Manchuria were dedicated exclusively to commercial and industrial uses. In the interest of economy and efficiency of the management, the substitution of international for national control of railways in Manchuria would be disadvantageous and undesirable, said the Japanese note. It further asserted that in the regions affected by the Japanese railways in Manchuria there had grown up numerous Japanese industrial and commercial undertakings, and in the development of these enterprises, a large number of Japanese subjects and large sums of Japanese money were enlisted; therefore, the

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54 Ibid., p. 251.
Japanese government could not consent to surrender the means by which such protection and defense were made possible.

Thus, Knox's "Neutralization Scheme" was practically turned down by the powers involved. Instead of bringing about a close cooperation among the powers in Manchuria, Knox's diplomacy forced Russia and Japan into an entente through fear of American penetration into Manchuria. On July 4, 1910 Russia and Japan signed an agreement to respect each other's spheres of interest in Manchuria. 55

Although the Knox scheme appeared to be aimed at ultimate control by China of her own economic and political affairs, the Secretary apparently ignored the reality of international politics in the Far East as well as Europe. On July 30, 1907, Japan and Russia signed a secret treaty 56 in which Japan recognized that Russia had special interests in northern Manchuria and Outer Mongolia and Russia, in return, recognized southern Manchuria and Inner Mongolia as an area where Japan had the special interests. Both countries undertook positive obligations to support and defend what had been established. 57

Knox also ignored the facts of the Anglo-Japanese Alliance system. England needed the friendship of Japan and Russia because of her growing rivalry with Germany, and could not antagonize them by supporting the Knox scheme in Manchuria.

The impasse to which the refusal of Russia and Japan brought the American government in 1910 resulted in an exchange of opinion.

56 Ibid., p. 33.
57 Ibid., pp. 36-37.
between former President Roosevelt on the one hand and President Taft and Secretary Knox on the other. At the request of Taft, Roosevelt wrote a letter on December 22, 1910 giving his opinion of the Knox policy in China.\footnote{Tyler Dennett, \textit{Roosevelt and the Russo-Japanese War} (New York: Doubleday, Page & Co., 1925), p. 320.} He believed that the vital interest of the Japanese was in Manchuria and Korea and therefore it would be in the American interest not to take any steps as regards Manchuria which would give the Japanese cause to feel that America were hostile to them and their interests. Roosevelt did not believe in the United States taking any position anywhere unless Americans could make good. Regarding Manchuria, if the Japanese chose to follow a course of conduct to which Americans were adverse, the Americans could not stop it unless they were prepared to go to war, he stated. According to Roosevelt's assertion, the Open Door policy in China was an excellent thing, so far as it could be maintained by general diplomatic agreement. However, he concluded that the Open Door policy completely disappeared as soon as a powerful nation determined to disregard it, and was willing to run the risk of war rather than observe it. Roosevelt considered the use of force out of the question if it were to become necessary as an alternative to diplomatic cooperation. The use of force to maintain the Open Door was not tried by the Taft administration.

In his reply to Roosevelt's argument, Secretary Knox clearly indicated that whether the American people would ever go to war or not in the defense of American interests in China depended on the nature of the provocation. However, Knox was not prepared to answer the question regarding whether the United States would be willing to give military support to the Open Door Policy.\footnote{\textit{loc. cit.}, pp. 36-37.}
Viewed from another angle, the difference between Roosevelt and Knox was that Roosevelt in 1910 was observing the Far Eastern problem from the viewpoint of 1905. He did not know that in the secret treaties with Russia of 1907 and 1910, Japan had virtually repudiated her promise to him to preserve the Open Door and the integrity of China as related to Manchuria. He did not realize how greatly the balance of power for which he had striven in 1905 was shifting. The neutralization plan was put forward to accomplish the exact purpose which Roosevelt had adopted in 1905, namely, the preservation of Chinese sovereignty in Manchuria. The essential difference between the Roosevelt and the Knox policies was in method. The former sought to preserve China by cooperative, the latter by independent and isolated action.  

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60 Ibid., pp. 324-325.
The scheme for currency reform as part of a larger program of general reform in China had a history that began with the Sino-American Commercial Treaty of October 8, 1903, in which article XIII provided as follows:

China agrees to take the necessary steps to provide for a uniform national coinage which shall be legal tender in payment of all duties, taxes and other obligations throughout the Empire by the citizens of the United States as well as Chinese subjects.

On August 11, 1908, Tang Shao-Yi, Chinese special ambassador to the United States, proposed to the Secretary of State the floatation of a loan for public works in Manchuria. With the approval of Secretary of State Elihu Root and President Roosevelt and the cooperation of Straight, conversations began with Kuhn, Loeb and Co. On November 8, 1908, while Tang's proposal was under consideration by the United States, the Viceroy of Manchuria concluded a loan with the HongKong and Shanghai Banking Corporation and its French and German colleagues for $1,100,000.

Currency reform was desperately needed particularly in view of China's financial straits, its ambitions to promote economic development, and the need of the empire to increase its indebtedness to foreign capitalists in order to finance such development.

The division of Far Eastern Affairs in the State Department regarded

61 U.S. Foreign Relations 1912, p. 83.
62 Ibid., p. 88.
currency reform as "pressing." In December, 1908, Tang Shao-Yi proposed to the Secretary of State that China, through American capitalists, float a large loan for meeting the expenses incident to currency reform and the abolition of likin.

The proposal was laid before Kuhn, Loeb and Company, who accepted it. The Chinese government did not, however, find itself ready immediately to begin negotiations.

The internal condition of China in 1909 was unstable. The Manchu Dynasty (1644-1911) was near its end. At the beginning of 1909, Yuan Shik-K'ai, was thereby forced to return to China.

After the Chinese government issued an edict on May 24, 1910 establishing a uniform monetary standard on the basis of the Mexican silver dollar, the acting Secretary of State, Huntington Wilson, expressed to the Chinese minister in Washington on June 13, 1910 his belief that the introduction of a satisfactory currency system would place China in a very advantageous position in respect to the proposal to increase import duties.

On September 22, 1910, the Vice President of the Chinese Board of Communications, Sheng Kung-pao, asked the American minister to China, William J. Calhoun, whether American bankers would be willing to undertake a loan of about fifty million taels in order to elaborate

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67 U.S. Foreign Relations 1912, p. 89.
the currency reform. A week later, September 29, Secretary Knox
sent a telegram to Calhoun instructing him to inform the Chinese
government that the Morgan syndicate would undertake the loan and
that the State Department hoped the arrangements could be made soon. 68
Upon the receipt of this note, the Chinese government made a suggestion
that if the United States would undertake the loan of $50,000,000,
an American would be appointed as a financial adviser to assist in
currency reform. The Chinese government desired to negotiate the
loan with the American bankers only. This new proposal was accepted
by the American group, and of this $50,000,000 loan, $20,000,000
taels (about $20,000,000) were included for Manchurian development. 69

Before the preliminary agreement for the loan was signed, the
American bankers, through the Department of State, informed the Chinese
government that if its representatives were authorized to sign, there
would have to be a full understanding that the group must have an
absolutely free hand in marketing the bonds and in associating with
it such European interests in the final agreement as it desired. To
this, the Chinese government replied that the bankers might have as
many with the Americans only and would expect them to hold the majority
of the bonds. 70 On October 27, 1910, the preliminary agreement for a
loan of $50,000,000 to finance currency reform and the industrial
development of Manchuria was signed in Peking by the American fin-
ancial group and the competent Chinese authorities. The principal

68 Ibid., p. 90.
69 Ibid., pp. 90-91 (One Tael is about one dollar)
70 Ibid., p. 93.
part of a loan was to be used to reform China's currency system in
pursuance of her treaty obligations to the United States, Great Britain,
and Japan. Although China desired to conclude with Americans only
the final agreement for a loan and expected them to issue the major
bonds, the American government made it clear that the proposed
currency reform would be of fundamental importance to all the powers
which had extensive commercial relations with China as well as to
China itself. The government of the United States requested the cor­
dial support of the interested powers.\textsuperscript{71} The American government
urged China to accept participation of the capitalists of other in­
terested powers in the proposed loan for currency reform. And the
State Department pointed out that China could not reach the ultimate
goal of tariff revision without the concurrence of the treaty powers;\textsuperscript{72}
therefore, the success of this reform would depend on a large measure
upon the sympathetic cooperation of these powers.

When the State Department notified France, Germany, and England
of the preliminary agreement, inviting the cordial support and col­
laboration of European bankers to carry out the currency reform,
French and German bankers insisted on joint signature of the final
loan agreement with China by all four groups; American, British, French,
and German. At a conference in London, November 9-10, 1910 a quadruple
agreement was thereupon signed, providing for joint action in car­
rying Chinese loans.\textsuperscript{73} Thus, at this London meeting, the first Four
Power Banking Consortium for China was formed with the American

\textsuperscript{71} Ibid., pp. 91-92.
\textsuperscript{72} Ibid., p. 91.
\textsuperscript{73} Ibid., p. 92.
group's pledge to secure China's consent for the participation of the British, French, and German interests. On February 11, 1911, the American minister to Peking, William J. Calhoun, notified the Department of State of the willingness of the Chinese government to have the quadruple signatures, and a financial adviser; the adviser to be an American if unanimous consent was given, otherwise to be of neutral nationality, Dutch preferred. On April 15, 1911, the loan agreement for currency reform and industrial development in Manchuria was signed by the local representatives of the quadruple banks on the one hand and Duke Tsai-tse, President of the Board of Finance, on the other hand. The rate of interest for this loan was to be five per-cent and the term of the loan to be forty-five years.

After the signature of the loan agreement in April, both Russia and Japan stated their views on the currency loan to China. When Japan, not represented in the quadruple group but greatly concerned with China affairs, presented an inquiry as to the possibility of participation, Secretary Knox replied that while it was a matter primarily for the banks to decide, in case Japan should apply for participation on an equal footing with others not now parties to the London agreement of April 15, the State Department would be prepared to support such an application. Furthermore, Knox invited both Russian and Japanese support for the loan.

74 Ibid., p. 94.
75 Ibid., p. 96.
76 Ibid., p. 96.
77 Ibid., p. 96.
As the reform was one in which all the leading powers were alike interested, the United States consistently favored the widest possible international participation both in the loan and in the reforms. However, Russia and Japan voiced protest against article XVL of the currency reform contract. In view of their protest, it is interesting to note article XVL:

... should the Chinese government decide to invite foreign capitalists to participate with Chinese interests in Manchurian business contemplated under this loan, or to be undertaken in connection therewith, the banks shall first be invited to so participate.

Article XVL granted to the signatory banks an option upon future foreign loans relating to the same matters. By this article the Japanese government felt that the four powers' financial group in three Manchurian provinces was accorded priority over other foreigners not only as regards enterprises contemplated by the agreement but in the matter of any other activities which might thereafter be associated with such enterprises. Japan pointed out that it had special interests and rights in southern Manchuria and therefore could not accept measures that tended to menace those special rights and interests and place Japanese subjects and institutions in a disadvantageous position in comparison with other countries' subjects and institutions. Japan insisted that difficulties of the situation could be met satisfactorily either by the entire suppression of Article XVL or by a revision of that article to deprive bank concessionaires of the preference. Russia expressed views similar to those of Japan.

78 Ibid., pp. 96-98.
While both Russia and Japan put pressure on the quadruple powers, the currency reform loan was in fact never floated because of the outbreak of the Chinese revolution on October 10, 1911. This finally brought about the overthrow of the Manchu Dynasty and the establishment of the Chinese Republic.

After the establishment of the Republic of China in 1912, the Chinese government was confronted with almost insuperable difficulties. Its treasury was empty, and its resources were drained. Many government liabilities were awaiting liquidation before an administrative machinery could be put in full motion. In order to save this situation the new government had to resort to foreign loans. In the middle of February, the Chinese acting minister of finance, Chou Tzu-chi, approached the representatives of the Four-Power Consortium for advances to meet the monthly needs of the government. Some days later, Tang Shao-Yi, who had arrived at Peking to arrange a coalition government on behalf of the Republican authorities at Nanking, discussed with representatives of the Four-Power Consortium the question of the immediate loan proposed by Chou Tzu-chi and, in addition, suggested a large loan to reorganize the Chinese administration. In response to the Chinese request, the consortium advanced to the Peking government 2,000,000 taels on February 28, and 1,100,000 taels on March 9.

At this juncture, it is necessary to note that whereas the currency reform and industrial development loan was intended largely

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to bolster up a collapsing government by a reform program of the Chinese currency system and general economic promotion in the Manchurian Provinces, the purposes of the Reorganization Loan were the support of the more conservative Yuan Faction contending for the control of Republican China after the empire had been overthrown. The negotiations over the Reorganization Loan were so intimately connected with the political developments of the new republic that they can be understood only in the context of Chinese domestic activities. It is essential, therefore, to preface a consideration of the Reorganization Loan negotiations with a brief survey of the revolutionary events.\textsuperscript{83}

The general terms of the Reorganization Loan were intended to achieve two purposes. The first was to enable the Chinese government to reorganize its administration on an effective modern basis, to pay off its large outstanding debts, and to build up Chinese credit. The second was to protect the interests of American and European investors. For such protection, in the judgment of the foreign governments and the groups, the only method was to insure, despite any possible recurrence of political unrest in China, the proper expenditure of the funds loaned to China and to safeguard the handling of the revenues pledged for the principal and interest on the bonds.\textsuperscript{84}

In a letter, dated March 9, 1912, to the representatives of the consortium, Yuan Shih-k'ai, President of the Peking administration, confirmed the terms offered for the two advances and proposed

\textsuperscript{83} Fifield, American Participation in the China Consortiums, p. 67.

that the Chinese government assure the groups the firm option of undertaking the comprehensive loan for general reorganization purposes already proposed to them, to be floated as soon as possible, and to be applied in the first instance to the redemption of the sterling treasury bills, aforesaid. But, only five days after he had made this pledge, Yuan, under the pressure of immediate needs, concluded an agreement with a Belgian syndicate for a loan of £1,000,000 designed to consolidate the central and local governments and relieve the distresses prevailing among the people and in the commercial circles.85 The American, French, German, and British ministers at Peking on March 25 protested that Belgian loan to Yuan Shih-k'ai on the ground that the Chinese agreement with Belgian bank for a loan was a breach of the contract or arrangement made between Yuan Shih-k'ai and the representatives of the groups, evidenced by the exchange of letters between him, and them dated March 9. To this protest, Yuan Shih-k'ai replied that China's need for money was very great, the amount required was very large, and no doubt, Premier Tang Shao-yi feared the bankers would not be willing to give him all that was required. An opportunity to secure more money from other sources having presented itself, continued Yuan Shih-k'ai, he took advantage of it and made the Belgian loan.86 However, on April 27, 1912 a Chinese government undertook to cancel the provisions of the Belgian contract relating to a loan of £10,000,000 and engaged not to repay the Belgian

86 U.S. Foreign Relations, 1912, pp. 122-123.
advances with funds borrowed from the four groups. Two days later the bankers were instructed to resume negotiations with the Chinese government.87

In view of the urgent need on the part of the Chinese government for funds and the fear of another loan being completed with an independent banking group, and on conditions contained in the letter of March 9, specifically to exclude all further outside borrowings, the bankers were willing to make an immediate advance. On May 17, consequently, 3,000,000 taels were turned over to the Chinese government. The consortium made two more advances, one on June 12 for 3,000,000 taels and the other on June 18 for the same amount.88

At the same time the four banking groups were enlarged into a Six-Power Consortium through the entrance of Russia and Japan. And these six foreign banks or groups of banks, acting for themselves and for syndicated financial interests in their respective countries, agreed that they would participate equally and upon equal terms with regard to the proposed Reorganization Loan or any other future administrative loans or advances which might be made to the Chinese government to any of its provinces, or to companies having Chinese government or provincial guarantees. There was a proviso that this should not be construed to include current banking business and small financial operations, nor loans that did not involve the issuance to public or bonds or other securities. Should one

87 Ibid., p. 124.
88 F. V. Field, American Participation in the China Consortium, pp. 50-52.
or more of the parties decline to participate in a proposed loan, the other parties would be free to undertake the loan, but the bonds should be issued only in their respective markets.\textsuperscript{89} Both Russia and Japan made reservations in entering the international banking consortium. The reservations pointed out that it was contrary to the interests of Japan or of Russia to conclude a loan or made any advance without approval by the Japanese group or the Russian group, and that the Japanese or Russian group should be entitled to withdraw from the agreement if such loan or advance were made against its wishes. The retiring group was to remain bound by all engagements into which it might have entered prior to such withdrawal. The withdrawal of the Japanese group or the Russian group should not affect the rights or liabilities of the other groups.\textsuperscript{90}

During the negotiations of the Reorganization Loan, it was discovered that the powers concerned aimed at securing the supervision of China's finance. The powers also demanded foreign administration of the revenues pledged as security, the supervision of the expenditure of funds, the specification of the purpose and uses of the advances, and the abstention of the Chinese government from making loans with other parties pending the issuance of the Reorganization Loan. To these proposals, the Chinese government refused to give its consent, objecting particularly to the foreign supervision over expenditures and the disbandment of troops. A

\textsuperscript{89}W. W. Willoughby, \textit{Foreign Rights and Interests in China}, pp. 499-50

\textsuperscript{90}U.S. Foreign Relations, 1912, pp. 140-41.
During the period of impasse the Chinese government, which was then in urgent need of financial support from abroad, again turned to other sources from temporary relief. This time it concluded, on August 30, 1912, with an independent British syndicate, G. Birch and Company, a loan of ¥10,000,000 with the condition that G. Birch and Company would be given preference should China seek to contract future loans, provided the terms were equally advantageous as those otherwise obtainable. The conclusion of this loan, commonly called the Crisp Loan, called forth a second protest from the powers. In consequence, the privilege of preference was withdrawn and the issue of the second half of the loan was cancelled at a compensation of ¥150,000.  

Thereafter, negotiations with the powers were resumed again. They continued on during the winter of 1912-1913. However, additional difficulties complicated the talks. France demanded repayment from the Reorganization Loan funds of damages suffered by its nationals during the looting and pillaging that accompanied the outbreak of the revolution. The Russians insisted upon a varied issue price of the loan bonds, and the powers became involved in an exhausting argument over the choice of auditors and financial supervisors who were to oversee the loan expenditure. France also insisted that French advisers be named and that the nationality of the appointees

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92 Ibid., pp. 79-80.

should be proportionate in number to the issue of bonds made in the respective countries. Russia supported France. In view of the lack of agreement among the consortium powers the Chinese minister of Finance sent a note to the consortium powers, saying that he would break off the negotiations and borrow elsewhere. The British and German ministers at Peking thereupon both said their interests in China were too great to be jeopardized either by the loan going to pieces, or by the intrusion of other financial elements and notified the Chinese that the British and German bankers were prepared to accept the contract as it then stood, independently of the other powers.  

In spite of the French position and the British and German threat, the negotiations did not break down. In the face of the probable collapse of the consortium, the Chinese government adopted a policy of reconciliation, notifying the six powers of the following appointments: a Dane for the chief salt inspector; a German for director of the foreign loan bureau; and an Italian for the adviser to audit department. The United States agreed to these appointments but suggested as an alternative that a representative of France and of England be substituted for the Dane and Italian. France and England naturally accepted American suggestion. However, Russia objected on the ground that Russian government had the largest proportion of the Boxer indemnity secured on the salt revenue and therefore was entitled to representation in its administration.

94 U.S. Foreign Relations, 1913, p. 147.
95 Ibid., p. 151.
96 Ibid., p. 151.
Another plan was then proposed whereby the director of national loans was to be of German nationality; the chief salt inspector, British; and of the two associated directors of the audit and accounts department one was to be French and the other Russian. This proposal was not approved by the United States. Negotiations over the appointment of foreign advisers among the powers at Peking were thus at a standstill. In view of the confusion, the United States urged that the negotiations proceed but avoid questions of a purely political consideration, and suggested as a compromise solution the appointment of a Dane as chief salt inspector, a German as director of the national loan bureau, and a Frenchman as director of the audit department. The United States also pointed out that it preferred to have the appointments made on a basis of efficiency rather than nationality.

The United States found no support except from the German government for its compromise proposal relating to foreign advisers connected with the reorganization loan. France insisted that four advisers be appointed instead of three, and Russia demanded that one Russian adviser be appointed. The Russian government argued that control over the finances of China should be entrusted to foreign advisers chosen by the powers, not by the Chinese government. In support of its demand, the Russian government recalled the Russo-Chinese declaration, signed in St. Petersburg in 1895, which stated that China would not invest any country with rights of supervision over any branch of her revenue without extending the same rights to Russia.

97 Ibid., p. 152.
98 Ibid., p. 154.
99 Ibid., p. 162.
100 Ibid., p. 162.
The Russian note was regarded by the United States as unfriendly to China. The French were cooperating with Russia and together they forced England into line. The United States minister at Peking, William J. Calhoun clearly pointed out the situation when he reported to the Secretary of State on February 21, 1913:

The outlook was such that there could be no hope of early signature. To my mind it was no longer a question of friendly international cooperation to help China but a combination of big powers with common interests to accomplish their own selfish political aims.

101 Ibid., p. 164.
VI. AMERICAN WITHDRAWAL FROM THE CONSORTIUM

While disagreement continued, it seemed impossible to reach an accord with the Reorganization Loan agreement. The domestic political scene was changing in the United States. In November, 1912, the Progressive ferment split the Republican party and brought the Democrats to control in Washington with the election of Woodrow Wilson as President. This turn of events forced the American group to reconsider its position.

The American group originally had entered the Chinese loan negotiations at the request of the Department of State and had acted continuously with the Department's approval and direction. The Republican administration of President Taft had given the official invitation to the American group to enter Chinese loan scramble. Because of their criticism of big business during the campaign, heavily on their anti-big crusade, the Democrats did not appear likely to favor the continuance of the bankers' operations in China. 102

Owing to the political situation in America as well as the uncertain financial conditions in China, the American group seriously contemplated withdrawal from the negotiations for a loan unless the contract was signed without further delay. 103 Upon learning of the intention of the bankers to withdraw, Secretary Knox let it be known that any sudden change of attitude on the part of the American group would end in embarrassment to the government, and urged the American

103 U.S. Foreign Relations, 1913, p. 163.
bankers not to decide upon any change until the next administration had declared its policy regarding the matter. This was the situation when President Woodrow Wilson assumed office on March 4, 1913.

Under the working of the American political system, all national policies, including foreign policy, are dependent upon the views of the administration in power. The members of the American group very naturally desired to know whether the new administration would continue to regard them as an indespensable instrumentality of governmental policy in the Far East or whether they would be relegated to the non-preferred position of ordinary private citizens holding a contract with a foreign government. On March 5, 1913, the American group requested Secretary of State William J. Bryan, to let them know his wishes as to the future conduct of the negotiations. A decision was requested from the State Department concerning its policy toward the international banking consortium. The members of the group took a perfectly clear position that they would not continue their efforts unless the Wilson administration renewed the request of the previous administration.

Secretary Bryan was not prepared to give an immediate answer, but he replied that he would take action in due course. On March

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104 Tiem-yi Li, Woodrow Wilson's China Policy, 1913-1917, p. 33.
13, 1913, President Wilson issued to the press a declaration of the policy of the United States with regard to China. The statement marked a radical change in American foreign policy and occupied a significant page in United States-Chinese relations. President Wilson's statement was as follows:

The conditions of the loan seem to us to touch very nearly the administrative independence of China itself, and this administration does not feel that it ought, even by implication, to be a party to those conditions. The responsibility on its part which would be implied in requesting the bankers to undertake the loan might conceivably go to the length in some unhappy contingency of forcible interference in the financial, and even the political, affairs of that great oriental state, just now awakening to a consciousness of its power and of its obligations to its people. The conditions include not only the pledging of particular taxes, some of them antiquated and burdensome, to secure the loan, but also the administration of those taxes by foreign agents. The responsibility on the part our government implied in the encouragement of a loan thus secured and administered is plain enough and is obnoxious to the principles upon which the government of our people rests.

The government of the United States is not only willing, but earnestly desirous, of aiding the great Chinese people in every way that is consistent with their untrammeled development and its own immemorial principles. The American people certainly wish to participate in the opening to the Chinese and to the use of the world the almost untouched and perhaps unrivaled resources of China.

The government of the United States is earnestly desirous of promoting the most extended and intimate trade relationship between this country and the Chinese Republic. The present administration will urge and support the legislative measures necessary to give American merchants, manufacturers, contractors, and engineers the banking and other financial facilities which they are at a serious disadvantage as compared with their industrial and commercial rivals. This is its duty. This is the main material interest of its citizens in the development of China. Our interests are those of the open door—a door of friendship and mutual advantage. This is the only door we care to enter.108

President Wilson's statement was immediately communicated to the interested governments and the American group promptly announced its withdrawal from the loan.

The withdrawal of the United States left China without a disinterested friend to help her in her dealings with other powers. After the loss of the United States there was no moral leader among the powers which would uphold the doctrine of equal opportunity of trade and integrity of China. As a consequence, the Powers reverted to their old practices of international struggle for concessions. 109

With the American group's withdrawal from Chinese loans, the United States, for a short time at least, ended its efforts in China.

109 M. J. Bau, The Open Door Doctrine in Relation to China, p. 84.
VII. AN APPRAISAL AND CONCLUSION

For half a century (1899-1949), the cardinal policy of the United States toward China was based upon the principles of the Open Door policy—equality of commercial opportunity and the maintenance of the territorial and administrative integrity and political independence of China.

The preamble upon which President Theodore Roosevelt based his foreign policy was to "speak softly but carry a big stick", which implied the possession of military force was of fundamental importance. In contrast, both President Taft and Secretary of State Knox were proud to call their policy "dollar diplomacy". The Taft administration stressed "collars not bullets" as the moving force of its foreign policy.

Taft was convinced of the prime importance in government policy of promoting the industrial and commercial prosperity of the country. He naturally regarded the expansion of foreign commerce as a basic requirement for the nation's economic progress and conceived it to be the responsibility of government to promote such expansion. It was in this context that the Taft administration sought to realize its aims in China. Profit to American bankers and business men was involved in the maintenance of the principle of equality of opportunity and respect for the Chinese territorial integrity, and Taft assumed this was in the interest of the country as a whole.

In 1909, the nation was, in general, enjoying a period of prosperity and was on the eve of a substantial business expansion.
Business was recovering from the panic of 1907, and in increasing amount of capital was becoming available for investment. The end of westward expansion was in sight and the railroad network was virtually completed. American investors, who had found in earlier years abundant opportunities for profitable investment at home, were becoming more interested in possibilities of foreign investments. The acquisition of Hawaii and the Philippines in 1898 aroused heightened American interest in China as a market for American goods and a place for investing American capital. Because of the political and economic weakness of China, the United States considered her national interest as bound up with that nation's territorial and administrative integrity, which was threatened by European powers. The United States sought to prevent the partition of China and also to prevent the acquisition by any single power, especially Japan or Russia, of exclusive interests and rights in China. Both Taft and Knox hoped that China might be stabilized politically and economically, and they believed that this could be promoted through the loans and capital investments by American financial interests and by urging Chinese reform. This belief in the compatibility of helping American business and strengthening China against encroachment led the Taft administration to a positive approach and commitment to dollar diplomacy. Thus, Taft and Knox took the initiative in inviting American capitalists to make investments in China and in providing government protection for the opening of markets and commercial opportunities.

Taft saw in railroad, reorganization, and currency reform loans a means by which to channel the entry of American money into
China. To pave the way for such entry, Taft and Knox sought to persuade other powers to agree to internationalize the loans, to oppose exclusive rights for any one power, and to maintain the principle of the Open Door. Taft himself had an intense personal interest in making use of American capital in the development of China as an instrument for the promotion of the welfare of that country. He hoped for an increase in China's material prosperity without entanglements or creating embarrassments affecting the growth of her independent political power and the preservation of her territorial integrity. Taft no doubt believed that China would benefit from the building of railroads, from placing its currency on a sound basis, and from reorganizing its government. Furthermore, Taft and Knox presumably regarded it as beneficial to China to have such loans made by international groups rather than by any one power, which might utilize such loans as a tool of imperialism. Thus dollar diplomacy was designed to help both China and the United States.

Though the aims of the Taft and Knox policy in China affairs may be praiseworthy, the methods of their diplomacy were neither practical, realistic, nor successful. The fundamental weakness of the Taft-Knox policy in China was that both men ignored or failed to recognize the irresponsible and selfish motives of the powers involved, their imperialist ambitions, and their fierce competitive spirit. When Secretary Knox called for cooperation among the interested powers for the commercial, financial, and railroad neutralization, a complex series of reactions resulted. Japan and Russia were united in their determination to defend their special interests in China.

110 C. S. F., 1939, p. 178.
Besides this Russo-Japanese entente, there was also an Anglo-Japanese alliance and a Russo-British entente. Because the United States refused either to compromise or to recognize the special interests of Russia and Japan in Manchuria, the Taft-Knox policy incurred the ill will of Russia and irritated Japan. The failure of the policy of the Taft administration in Manchuria was due to the inability to obtain positive support from England and France to batter down the staunch opposition of Russia and Japan. Japan was deeply interested in China and aimed at the establishment of hegemony over that country. Dollar diplomacy was clearly a menace to the privileged position of Japan in Manchuria. Both Russia and Japan insisted on preserving their privileged status in Manchuria and possessed the will and power to override and ignore the discontent of the United States. Furthermore, the United States never supplied any military support for the Open Door policy in China. The Open Door was hardly more than a beautiful phrase. In substance, the Taft-Knox Far Eastern policy was a forced and unhappy marriage between idealism and commercialism. One inherent weakness of the policy was the failure of the State Department to acquire accurate information on Asiatic-European affairs.

From an Idealistic viewpoint, the virtue of Dollar diplomacy lay in its substitution of dollars for bullets in the field of foreign policy. For the first time in American diplomatic history, the Taft administration officially represented the placing of major emphasis on the economic aspect of diplomacy. There is nothing wrong with promoting and protecting American economic interest abroad. But unless this economic diplomacy is mutually beneficial, it has no moral value. Dollar diplomacy could be moral as well as economic, but the
human spirit can not be entered upon a balance sheet. Nor can it be
elevated by economic exploitation. Recognition of the equality of
men is the only basis for friendship between the peoples and govern-
ments of two nations. It might have been possible for dollar diplomacy
to provide a strong foundation for better relations among different
countries if it had been based squarely on moral considerations. In
the case of the Taft administration, it is possible to argue that
dollar diplomacy was intended to serve the best interests of both
China and the United States. But there is serious doubt that the
welfare of China was the major consideration.

Whatever the true motives of Taft and Knox were, their policy
accomplished little to prevent the foreign exploitation of China. It
accomplished little even from a selfish standpoint: that is, for Amer-
ican investors. It had the effect of sharpening conflict among the
major states instead of improving international relations. About
the most that can be said for it is that it may have been well-inten-
tioned.
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