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Memorandum on the Chin-Ai Project, August 1910

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MEMORANDUM.

On Monday, August 1st, Mr. Davison called on me in New York, but he was not feeling well, and little was accomplished toward the discussion of Far Eastern affairs. He gave a general impression that the foreign adventures of the group were almost more trouble than they were worth; that the group was greatly impressed with its patriotism and the burden of expense and trouble it was encountering in prosecuting this political-financial affair; it wished to consult the desires of the Government but wanted to know where it stood. He remarked that the China business had cost them $70,000 in a year, that Kuhn, Loeb and Company, the National City Bank, and the First National Bank knew nothing about the business except when impressed with it by being confronted with the expense account, that they depended entirely upon the Morgans for their information, and attributed entirely to the Morgans their finding themselves in this business.

At Mr. Davison's request I agreed to be present the next day at eleven at a meeting of the group.

At
At this meeting there were present J. P. Morgan, Jr., Mr. Vanderlip, President of the City National Bank, Mr. P. Morgan, President of the First National Bank, Mr. Otto Kuhn, of Kuhn, Loeb and Company, and Mr. McKnight, of J. P. Morgan and Company. I said I was fresh from full discussion with the Secretary and would be very glad to explain to them the Department's views if they would let me know as to what they desired to be informed. Mr. Morgan then made some rather vague remarks in the same general tone as Mr. Davison's of the day before. As to the Hukuang loan he said he supposed everything was all right. I said it appeared so, and that the transaction seemed to have been a brilliant success. As to the Chin-ai railway he spoke discouragingly and enumerated many powers including Germany as opposed. I pointed out that Japan had agreed to participate upon condition of the construction of a branch line and that as a result it would seem that Japan could not now make more than perfunctory opposition even if it accepted the Russian interpretation of the Convention of July 4 (Article 1) to the effect that Japan must join Russia in opposition to this road, as one detrimental to legitimate Russian railway interests. As for Russia we had had a
long and amicable correspondence, but the present
Minister for Foreign Affairs seemed absolutely opposed
to the Chin-ai road; although Russia admitted it could
not prevent its construction it gave notice of an in-
tention to be disagreeable to China if the roads were
built.

I recalled the fact that when Mr. Davison first
consulted the Secretary about the Chin-ai project, the
Secretary had said that it being an Anglo-American
project this Government would be disposed to support
it if the British Government did. I emphasized the fact
that indeed from the very first the Department had em-
phasized the great desirability of having a powerful
American bank in China to avail of all sorts of oppor-
tunities in the Far East since China was now only on
the threshold of development, and I recapitulated the
matter of the Chin-ai railway, pointing out that when
this Government consulted Great Britain about the neu-
tralization plan Great Britain very cordially approved
in principle, and had almost unequivocally undertaken
to support the Chin-ai railway. Since then (as I ex-
plained with some frankness) the British Foreign Office
had persistently claimed to be bound by an obsolete
Anglo-Russian agreement and by consideration for Japan.
As for British support it might come with a change of ministry or with a change of heart on the part in of the present Government, which might result from the increasing opposition of British public opinion to the present British policy in China. Of course the project could be abandoned by this country and the burden of the loss of prestige cast upon Great Britain, but abandonment of the project might perhaps be a severe blow to the prestige of the United States. Another possibility would be substantial German participation with strong German diplomatic support, whether without British support or ultimately with British support, -- the latter if available being one of great political importance. Mr. Kahn said that I had made Mr. Kahn remarked that he thought the Germans would be glad to join. These things, I said, must be very carefully and deliberately considered by the Government. Perhaps Mr. Menocal, the group's representative, anxious to accomplish something quickly, was sending too sensational reports from Peking. At all events, the Government had authorized the Legation to keep the Chinese Government from losing courage and would continue to use diplomatically or through the bankers for German ac- its operation on a large scale.
its influence so far as China was concerned. It should be the role of the group to do their part in a quiet way to the same end. In speaking particularly to Mr. Morgan I tried to make it clear that to do any real good the American bankers should go to China to stay instead of making spasmodic and superficial efforts. They all seem to have the feeling that American business is so much easier that it hardly paid them to do this. As to establishing a bank (in China), just as to opening a Pan-American bank, Mr. Vanderlip complained that they could not even get a charter without an amendment to the Federal banking law.

It was suggested that there be another meeting later in the day, but Mr. Kahn said that I had made the Department's views very clear, that they would better themselves confer and reach some decision.

In summing up the situation, the Government will endeavor to encourage China in keeping opportunities open. The group should quietly do the same by showing no signs of retreating. All concerned should wait patiently and maintain the status quo pending development of the ultimate British attitude, and pending consideration by the United States of making overtures diplomatically or through the bankers for German cooperation on a large scale.