POSTWAR PERCEPTIONS OF THE CHINA MARKET: A STUDY OF AMERICAN BUSINESS ATTITUDES, 1943-1949

by

Lawrence Robert Aronsen
B.A. University of British Columbia, 1970

A THESIS SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF
MASTER OF ARTS
in the Department of
History

C LAWRENCE ROBERT ARONSEN 1974
SIMON FRASER UNIVERSITY
July 1974

All rights reserved. This thesis may not be reproduced in whole or in part, by photocopy or other means, without permission of the author.
APPROVAL

Name: Lawrence Robert Aronsen

Degree: Master of Arts


Examin ing Committee:

Chairman: E. R. Ingram Ellis

Dr. Ian Mugridge
Senior Supervisor

Dr. Von J. Kirschner

Dr. Joan Hoff Wilson
External Examiner
Professor, Department of History
California State University, Sacramento

Date Approved: 6th July 1974
PARTIAL COPYRIGHT LICENSE

I hereby grant to Simon Fraser University the right to lend my thesis or dissertation (the title of which is shown below) to users of the Simon Fraser University Library, and to make partial or single copies only for such users or in response to a request from the library of any other university, or other educational institution, on its own behalf or for one of its users. I further agree that permission for multiple copying of this thesis for scholarly purposes may be granted by me or the Dean of Graduate Studies. It is understood that copying or publication of this thesis for financial gain shall not be allowed without my written permission.

Title of Thesis/Dissertation:

Author:

\(\text{signature}\)

\(\text{Lawrence R. Aronjen}\)

\(\text{name}\)

\(\text{July 24/74}\)

\(\text{date}\)
ABSTRACT

POSTWAR PERCEPTIONS OF THE CHINA MARKET: A STUDY OF AMERICAN BUSINESSMEN'S ATTITUDES, 1943-1949

Americans, like other Westerners, have long been attracted to China. Missionaries hoped to convert the Chinese to Christianity while their secular counterparts, the Progressives, wished to export American ideas on education, economic reform, and political democracy. American businessmen, on the other hand, were less concerned with these high ideals than with visions of material gain. In the twentieth century they perceived China as an outlet for both surplus capital and manufactured goods.

At the turn of the century, banking houses and financial institutions were most interested in China, but industrialists, particularly those in the cotton trade, also looked to the Far East for markets. At the end of the Second World War, the situation was reversed; the large industrial and manufacturing corporations saw in China lucrative economic opportunities, whereas the banking houses now played a secondary role. Expanding economic relations with China and elsewhere after the war were promoted by corporate liberal businessmen, who saw them as necessary to the successful conversion of the economy to normal peacetime
production without reverting to an economic depression similar to the 1930's. China, although not as important as Canada or Europe in American plans for postwar foreign economic expansion, was for a short period, seen as significant.

From 1943 to 1946, businessmen enthusiastically discussed the China market in trade magazines and at annual trade conventions sponsored by the National Foreign Trade Council and the China American Council of Commerce and Industry. Similarly, academics working with the Institute of Pacific Relations produced a number of detailed research monographs that supplemented the economic newsletters concerned with commercial activities in the Orient. The views expressed ranged from cautious optimism to complete acceptance of the opinion that the possibilities for development were unlimited.

American businessmen tended to accept the more optimistic reports because they believed that the pre-conditions for a profitable economic venture existed in China. One reason for this was that the Chiang Kai-shek regime had publicly committed itself to a multi-billion dollar postwar program of reconversion and industrialization of the national economy and, therefore, was eager for American capital and technical expertise. Another reason was that the prospects of a stable economy were greatly enhanced when Mao Tse-tung agreed to
negotiate with the Kuomintang in 1945. Finally, as it became clear that the United States' government was committed to the maintenance of the status quo in China as part of its security policy for the Far East, there was reason to believe that aid programs involving various commercial firms, would be expanded. Given the enormous problems resulting from reconverting the American economy, these commitments reinforced the business newspaper community's enthusiasm for market expansion. By the end of 1946, however, such a development in China was becoming increasingly unlikely.

The resumption of the Civil War in 1946 and the termination of the Marshall Mission in early 1947 marked a change in the attitude of American businessmen towards the China market. After 1947, the increasing reluctance of the Chiang Kai-shek regime to facilitate foreign corporate expansion, the failure to begin the industrialization program, and the soaring rate of inflation in China, all added to the disillusionment of American businessmen. Although there was considerable disappointment when it became clear that the Eldorado in the East was nothing more than a dream, the immediate loss was inconsiderable because American capital and commodity exports to the Far East never amounted to more than five percent of the annual
Before the end of the decade, American businessmen easily adjusted to the new developments in China for two reasons. First, markets in other East Asian countries, Japan, the Philippines, and Korea, were greatly expanded. Second, for a while, surprisingly enough, businessmen even traded with the Communists and some were optimistic about future possibilities because the new government was proving to be efficient and honorable in its foreign commercial transactions. This optimism was to be short lived because, like the "Old China Hands" in the State Department, the China market in the early 1950's became a casualty of the Cold War.
<table>
<thead>
<tr>
<th>TABLE OF CONTENTS</th>
<th>PAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>INTRODUCTION</td>
<td>1</td>
</tr>
<tr>
<td>CHAPTER</td>
<td></td>
</tr>
<tr>
<td>I  THE OPTIMISTIC INTERLUDE: A SURVEY OF BUSINESS ATTITUDES, 1943-1946</td>
<td>15</td>
</tr>
<tr>
<td>CONCLUSION</td>
<td>112</td>
</tr>
<tr>
<td>BIBLIOGRAPHY</td>
<td>121</td>
</tr>
</tbody>
</table>
INTRODUCTION

Sino-American relations immediately following the Second World War is a relatively well researched field. Numerous articles, Ph.D. dissertations and books have analysed the period from a wide range of viewpoints and using different methodological approaches. While some of the studies written during the Cold War are highly controversial to be sure, most attempt to analyse the period from a more detached and objective position.¹ A significant portion of this work examines the domestic aspects of American China policy, placing a strong emphasis on the role of the political elite. The American political elite, particularly officials in the Truman Administration and the State Department, have been the subject of many detailed inquiries into what has come to be known as "the loss of China." Other studies have examined the views of interest groups and public opinion on American foreign policy in the Far East and postwar developments within China.² Although the role of missionaries in the prewar period has been thoroughly researched by James C. Thomson, one can agree with the dean of American Sinologists, John K. Fairbank, that more work needs to be done in this area, particularly in the absence of any studies of the postwar period.³ An even greater priority should be given to the study of economic factors because in the postwar period American decision-makers were not so much concerned about saving their souls (or Chinese
souls) as they were about the recurrent possibility of a depression.

In recent historiography economic aspects of Sino-American relations has been primarily the preserve of New Left historians. Their approach, however, is by no means a new breakthrough in the study of American foreign policy. Earlier scholars, writing at a time when the ideas of Charles Beard received considerable attention, saw the formulation of American foreign policy as a function of the nation's political economy. Nevertheless, with the enormous growth of the multi-national corporations after the Second World War and America's increasing dependence on underdeveloped countries in Africa, Asia and Latin America, looking at the roots of American corporate expansion overseas has assumed new importance. Furthermore, the perception of the Vietnam War as indirect Chinese Communist aggression in no small measure influenced a whole generation of graduate students in the 1960s. The analytical framework used by many doctoral students during this period was developed in William A. Williams' seminal work, The Tragedy of American Diplomacy. Williams' Tragedy, published in 1959, was a radical departure from the mainstream of American historiography and its influence was reflected in many specialized studies on American foreign policy. Probably the most impressive of these early studies was Walter Lafeber's The New Empire which appeared in 1964. The New Empire contained, however,
only one chapter on economic expansion in the Far East and the first book to concentrate entirely on that region was Thomas McCormick's *The China Market*. McCormick employed the power elite thesis developed by C. Wright Mills in analysing the relationship between the political elite and the corporate elite in the formulation of China policy early in the twentieth century. Joan Hoff Wilson, in her *American Businessmen and Foreign Policy, 1920-1933*, was also interested in economic factors in the determination of policy but covered a wider range of issues than McCormick. Wilson, like Lafeber, gave a general overview for a specific period, an approach also used by Lloyd Gardner in *Economic Aspects of New Deal Diplomacy*.10

New Left historians writing on the Cold War period have produced surprisingly little on Sino-American relations. Two notable collections of essays by David Horowitz and Barton Bernstein dealt primarily with American relations with Europe.11 By far the most thorough study on the attitudes of the corporate elite towards postwar foreign economic expansion and its role in the decision-making process was Thomas G. Paterson's unpublished Ph.D. dissertation, *The Economic Cold War: American Business and Economic Foreign Policy*.12 In this important study, Paterson analysed the views of businessmen on major issues confronting European countries early after World War Two maintaining that Europe, more than any other region was perceived as being vital
to the development and reconversion of the American postwar political economy.

The Paterson dissertation, as well as the work of G. William Domhoff, David Eakins, Gabriel Kolko, and the collection of articles compiled by David Horowitz, all present cogent arguments for studying the attitudes of businessmen on the issue of foreign economic expansion. Two reasons are given for this approach. First, in the immediate post-war period, issues related to foreign economic expansion received a high priority not only from the corporate elite but also from officials in the Truman Administration. These officials held that domestic, economic, and political stability were related to the acquisition of foreign markets and the export of capital. Second, corporate leaders had considerable influence in the formulation of foreign policy because those in the political elite shared a similar ideological perspective. More important, however, was the accessibility corporate leaders had to the decision-making process. They were used either as advisers on certain issues or were employed directly as State Department officials or functionaries in the Truman Administration. In short, an understanding of what businessmen were saying about various postwar issues is essential for an understanding of the evolution of American foreign policy after the Second World War.

The framework developed for analysing the Cold War by
those historians known as the "Wisconsin School" has not to any great extent been applied to China policy by any others than John Gittings and the Kolkos. While Gittings does not concentrate on the economic aspects of Sino-American relations he does note the importance of trade in the post-war period. His work is revisionist in the sense that established myths about Sino-American relations over the last thirty years are re-examined. Various assumptions such as China's tendency to isolate herself from the community of nations along with the conspiracy thesis of the civil war presented by many American officials are refuted in a non-polemical and reasoned analysis.

The Kolkos, in their massively documented book *The Limits of Power*, maintain that economic factors were decisive in determining American policy not only in Europe but also in the Far East. Little attention is paid to the influence of military strategy based on geo-political calculations and the Kolkos consciously de-emphasize the role of accident or misunderstanding. Focussing on material conditions and thereby de-emphasizing other factors has left the Kolkos open to criticism from within the New Left school as well as from the mainstream of American diplomatic historians. To put it simply, economic factors such as trade, investment, and loans, cannot be separated from the ideological component. President Truman's speech at Baylor University in 1947 is but one of many examples substantiating this point.
These objectives (peace and freedom) are bound up completely with a third objective—re-establishment of world trade. In fact the three—peace, freedom, and world trade—are inseparable. The grave lessons of the past have proved it.17

One may question Truman's concept of freedom as well as his prerequisites for peace, but to say that they were simply rationalizations for American economic expansion misses the point. There is too much evidence to suggest that the individual components of American foreign policy were interrelated in a way in which Bernard Baruch called "the essential oneness of United States economic, political and strategic interests."18

Although the Kolkos provide substantial evidence to demonstrate that American politicians and businessmen perceived the value of markets, this does not necessarily mean that their understanding was correct. Since the turn of the century when John Hay circulated the Open Door Notes which marked the beginning of a formal American commitment in the Far East, the China market has been misperceived and constantly inflated. Paul Varg, in a perceptive essay on the early period, has argued that "the rhetoric concerning the China market ran so wild as to suggest that the market was in the nature of a myth."19 He concluded that any objective analysis of the market potential of China would have led to a realization that the situation was hopeless even for enterprising entrepreneurs. China's
feudal social institutions, political instability, and economic backwardness were formidable barriers in the way of a successful market; and its capacity to absorb American surplus capital and commodities after the Second World War had not changed appreciably since the first decade of the twentieth century. In fact, the Chinese political economy which was never a model for growth and stability, deteriorated from its pre-war position with serious consequences for the economic expansion of American corporations.

This thesis, focusing explicitly on the business community during the years 1943 to 1949, examines essentially three questions. What were the initial perceptions of the China market; what factors can account for the demise of the market; and what alternatives were considered when it was realized that the market would be severely limited? It should, however, be pointed out that there are other questions that could be examined in further research before any definite conclusions can be made.

First, what was the relationship between the political elite and the corporate elite in the formulation of China policy? Although evidence presented in the thesis is not very extensive, it has been tentatively concluded that there was a close working relationship between corporate and political officials, on China policy as on policy towards other countries. What specific issues were discussed and what policy options were examined are questions
that could be pursued in another paper. For a thorough investigation of these questions, access to the Truman Library as well as the papers of the decision-makers involved would be necessary. The publication of the State Department papers for 1947 through 1949 would be useful even though these papers will be edited by Government authorities. Nevertheless, after taking into consideration these limitations, the volume for 1946 was especially revealing, particularly the material on the negotiations concerning the Treaty of Trade and Commerce between China and the United States.20

A second question that could be pursued is how the perception of the China market varied from corporation to corporation, from region to region, and from the industrial manufacturing sector to the banking community. From the evidence gathered it is only possible to touch briefly on the last part of this question. Access to the papers of the large corporate organizations concerned with foreign trade is essential but unfortunately most of them are reluctant to let researchers into their files.

A third question that should be examined is concerned with the problem of causation. Related specifically to the thesis, what was the primary motivation for the formulation of American-China policy from 1945-1949? Can one factor be isolated (e.g. the search for markets) and be regarded as decisive over other considerations. Clearly economic
aspects of American Far Eastern policy are important, but they cannot be seen in isolation from other factors. President Truman, for example, saw American economic expansion in China not only in terms of the benefits accruing to the business community but also as the requirement for stability in the Orient. Balance of power considerations and foreign economic expansion were not antithetical to each other but were mutually exclusive. The same can be said for the national interests of China and of the United States. Both were perceived as being part of the same thing as the following statement made by President Truman suggests.

We believe that our hopes for China are identical with what the Chinese people themselves most earnestly desire. We shall therefore continue our positive and realistic policy toward China which is based on full respect for her national sovereignty and on our traditional friendship for the Chinese people and is designed to promote international peace.²¹

In Truman's mind as well as other officials responsible for the formulation of China policy the ideological, strategic and economic components were inseparable. However, before any intelligent overview can be given, an examination of that sector of American society most concerned with economic issues (the American businessman) is necessary. This thesis attempts in part to overcome that deficiency.
INTRODUCTION

FOOTNOTES

1 Some observers of the period present a conspiracy hypothesis to explain the "loss of China." See for example John T. Flynn, The Lattimore Story (New York, 1953). Flynn subtitles his book "The full story of the most incredible conspiracy of our time." A contemporary polemic using the same approach is Anthony Kubek, How the Far East Was Lost, American Policy and the Creation of Communist China, 1941-1949 (Chicago, 1963). A more sophisticated analysis is presented in Tang Tsou, America's Failure in China, 1941-1950 (Chicago, 1963). Tang Tsou argues that American decision-makers misperceived the real intentions of the Chinese Communists and saw them as being essentially "agrarian reformers." Their erroneous perceptions of the nature of Chinese Communism, so argues Tsou, can be traced to the nature of the American political culture which tends to de-emphasize political ideology.


4 For an orthodox interpretation of what New Left Historiography is see Irwin Unger, Beyond Liberalism: The New Left Views American History (Toronto, 1971). The term Left is most often used to describe student politics of the 1960's and has been used as a label for recent revisionist historiography. According to Unger, there are three characteristics that separate this school from the mainstream. First, most of the adherents are "presentists" in that they ask questions about the past that are substantially influenced
by the present. Second, they are influenced by Marx but more so by Charles Beard and his work on American foreign policy. Third, they focus on specific topics, the most important being American foreign policy. American expansion since the turn of the century is severely criticized and an isolationist position is strongly supported.

Whether such a school exists is difficult to say since what supposedly constitutes New Left Historiography is so internally controversial. For example, Gardner and Fleming have different interpretations of whether or not there was continuity between the F.D.R. and Truman administrations, Alperovitz and Kolko have substantially different interpretations of the Atomic bomb controversy, and it is clear that Williams and Horowitz have different views regarding the role of the base and superstructure in the formation of foreign policy. Also, New Left historians change over time. Horowitz now experiments with a Marxist-Leninist framework while Gardner in his latest work has given little attention to economic factors. Finally, those in the mainstream like Ronald Steel have adopted some Revisionist arguments but explicitly point out that they are not in the New Left paradigm.

It is with the above qualifications that I use the term New Left throughout the thesis.


8 Thomas J. McCormick, China Market: America's Quest for Informal Empire, 1893-1901. While the "power elite" concept is a useful analytical tool, it also has its limitations. According to McCormick the main difficulty with such an approach is the failure to consider the role of non-elite groups such as farmers and the industrial proletariat in the decision-making process. Nevertheless,
the "power elite" still had the most influence on decision-making while, at the same time, policy was formulated taking into consideration the needs of other groups such as farmers. For a study of non-elite groups and their influence on decision-making, see William A. Williams, The Roots of the American Empire (New York, 1969) 107-57. Williams discusses the agrarian community while Ronald Radosh in American Labor and United States Foreign Policy (New York, 1969), examines the role of labor.

Joan Hoff Wilson, American Business & Foreign Policy, 1920-1933 (Kentucky, 1971). Wilson is careful to point out that businessmen did not always act as a monolithic interest group exerting constant pressure on decision-makers responsible for policy formulation. Instead, their influence varied from issue to issue but more importantly, there often was considerable disagreement between bankers, manufacturers, and export-import companies.

Lloyd C. Gardner, Economic Aspects of New Deal Diplomacy (Madison, Wisconsin, 1964). Gardner, unlike Wilson makes little reference to the influence of businessmen on policy formulation but focuses on the Open Door ideology prevalent among those in the political elite. Nevertheless his conclusions are somewhat the same in that economic factors were an important consideration in the formulation of policy.


Thomas G. Paterson, "The Economic Cold War: American Business and Economic Foreign Policy," (Unpublished Ph.D. dissertation, University of California, Berkeley, 1968). The Paterson dissertation is the most thoroughly researched study of the attitudes of American businessmen on the Cold War in Europe. It is not however, simply an "economic interpretation of the Cold War, but rather an investigation of economic policy." One of the central themes of the dissertation is the "peace and prosperity concept which is a modification of the traditional Bisdian approach. Paterson's work is revisionist in the sense that he focuses on economic problems and is critical of American postwar policy. In a recent anthology Cold War Critics, Paterson parts company with radical scholars like Gabriel Kolko by arguing that there were alternatives to the way in which the Cold War developed. It is difficult to neatly classify
Paterson, but his work has been of significant importance to revisionists.


15 Typical of those officials in the United States State Department after the McCarthy purge were the comments by Dean Rusk. In a speech before the China Institute in New York in May of 1951, Rusk presented his analysis of the Chinese Revolution in 1949.

> The peace and security of China are being sacrificed to the ambitions of the Communist conspiracy.... The Peiping Regime may be a colonial Russian government---a Slavic Manchuquo on a larger scale. It is not the government of China.... (The New York Times, May 19, 1951, 38).

Gittings argues that the role of the Soviet Union was negligible since Stalin on numerous occasions encouraged the Chinese Communists to work within a coalition government with the Kuomintang. Furthermore, little military aid was given and if the Communists had anybody to thank for military equipment it was the United States.

16 Kolkos, *Limits of Power*. The Kolkos' concept of causation is hierarchical with the economic factor being the most important. Other New Left historians like Thomas Paterson prefer to explain policy formulation as the result of a complex of variables each mutually interdependent on the other.

17 President Truman in a speech at Baylor University in March 1947. Quotation taken from *Public Papers of the*
President...Harry S. Truman...1947 (Washington, D.C., 1963), 167.


The business community's interest in the China market dates back to the late eighteenth century, a period often referred to as the "Age of Mercantilism." At that time the large trading company was an important economic unit, essential to the economic growth and prosperity of the New England states. The economic well being of the trading company was in turn dependent on the development and expansion of an extensive overseas trading network. This being the case, American mercantilists were constantly on the look-out for new commercial opportunities. When news of the potentially lucrative trade with the Orient reached the New England coast, a number of mercantile leaders refitted ships previously used in privateering ventures during the War of Independence, and proceeded to navigate the stormy waters of the Pacific Ocean. Adventurous traders would set out in their converted gun-runners from east coast ports like Boston and New York, sail around Cape Horn to trade with west coast Indians, and then depart for China. The China trade was so prosperous that one or two trips enabled a ship's captain to retire on a comfortable income.
With the exhaustion of the supply of marketable furs and increased European competition, however, trade with the Far East steadily declined in importance until the end of the nineteenth century. 4

Late in the nineteenth century, with the development of industrial capitalism, the American economic landscape came to be dominated by the large corporation and a few powerful banking houses. American businessmen soon realized, however, that the transition from a mercantilist system to a corporate political economy did not mark the beginning of a new industrial utopia. Instead, an accelerated rate of capital investment and technological change, combined with a falling rate of profit, led to a mounting social crisis characterized by high unemployment and labor unrest. As Walter LaFeber has observed in his analysis of the period, American businessmen could have pursued a domestic solution to the problem of disposing of surplus production but "instead of searching for farming, mineral or grazing lands, Americans sought foreign markets for agricultural staples or industrial goods." 5 Canada, Europe, Latin America, and the Far East came to be seen as the most important areas for new economic opportunities. Although the trade with East Asian countries did not reach the same level as other areas such as Europe and Latin America, the idea of a potential market remained in the minds of businessmen throughout the nineteenth and for most of the first half of the twentieth
In the twentieth century one can discern two variables in the complicated China market formula. First, the intensity of the perception depended on what sector of the business elite one is looking at. The manufacturers represented by the American Asiatic Association and later by the China American Council of Commerce and Industry, repeatedly emphasized the possibility of a virtually unlimited market. In contrast, the banking houses and financial groups were skeptical about the investment of capital in an unstable political and economic situation. Because of this attitude, manufacturers often had difficulty exporting commodities which would have to be bought with loans sponsored by American bankers. In the period after the Second World War, this problem was resolved directly through the financing of low interest, long term loans and indirectly through the government's participation in the UNRRA relief program.

The strength or weakness of the China market perception also varied with the historical period. Two factors should be kept in mind when examining this second variable. These are the state of the internal political economy and the immediate constellation of forces in the international marketplace. At the turn of the century, the emergence of industrial capitalism and the resulting social and economic disruptions can partly account for the intensity of the rhetoric.
that came from the business community. Towards the end of the Second World War, it was the ascendancy of the United States as the unquestioned leader of the capitalist world combined with the immense problems of converting a war economy to a peacetime one. But, American businessmen did not now have, as they did at the turn of the century, to compete with other countries in order to maintain the Open Door in China. Instead, the crucial problem facing businessmen was the rising national consciousness of existing traditional elites complicated by the emergence of revolutionary forces intent on consolidating gains made during the war. First, the Open Door was threatened by political forces on the right, characterized by quasi-fascist economic and political policies, and, second, by leftist revolutionary forces calling for the removal of "foreign exploiters." American businessmen in postwar China had to deal with both of these developments and they eventually proved to be a more dangerous threat to the preservation of the Open Door than foreign competition earlier in the twentieth century.

Concern over the position of the United States in the postwar world economy was expressed by businessmen in 1942 and 1943 when it became evident that the war had shifted in favour of the Allies. Most of the problems that attracted serious attention were related to the conversion from a war economy to a peacetime one. To carry out the transition as quickly and effectively as possible, one of two courses
would have to be pursued. The United States could follow a policy of free trade and economic internationalism or set up tariff barriers and develop the domestic market. On this issue, the business community split into two factions which McLellan and Woodhouse call the "fundamentalists" and the "progressives." 10 The "fundamentalists" were basically isolationist and rejected any government interference with the market mechanism, domestically or internationally. Typically, they were small scale entrepreneurs who favored tariffs and a policy of protectionism. The "progressives", on the other hand, realized that American economic stability and prosperity depended on the economic situation in the rest of the world.

Although differences between nationalists and internationalists existed throughout the twentieth century, discord between the two groups was particularly strong after the Second World War. It should be noted, however, that the postwar split in the business community was not a continuation of the earlier conflict of interest between bankers and corporate industrialists during the first three decades of the twentieth century.

Of the two groups, the "progressives" were more powerful economically and came to dominate much of the thinking about postwar economic planning. This group, which consisted of representatives of the banking houses and the larger corporations, especially those with overseas holdings,
realized the tragic consequences of economic nationalism and monetary warfare during the interwar period. At the end of the war, therefore, they felt that it was America's obligation to assume economic leadership in the world in its own interest as well as the economic stability of foreign nations. In the eyes of American businessmen, the two were inseparable. The views of the "progressives" were translated into policy; and the Marshall Plan, the General Agreement on Tariffs and Trade, and the Export-Import Bank program are a few examples of the influence exerted. More specifically, in the case of China policy, there was the Bretton Woods Agreements of 1944, the Locke Mission in 1945, Lend Lease, the China Trade Act, UNRRA, and the loans extended in 1947 and 1948.

Generally speaking, the "progressives" supported policies that included the search for new markets, raw materials and investment opportunities. Areas that were understood as being vital to the success of these policies included Europe, Latin America and Asia. The potential for new markets in Asia caught the attention of many businessmen, especially those on the West Coast. The attractiveness of the Far East, and of China in particular, came from a large population, substantial natural resources, the availability of cheap labour, and the eagerness of the Chiang Kai-shek government to begin a program of rapid economic development. This positive image of China was conveyed to
American corporate officials by entrepreneurs living in China before and during the war as well as by academics familiar with the situation in the Far East. Their optimism was reinforced by the assurances of prominent officials in the Nationalist government and by the Generalissimo himself.

The economic importance of the China market was discussed in numerous business journals as well as in seminars sponsored by institutions concerned with Chinese history, politics, and economics; and the ideas which emerged were translated into practice through the creation of trade organizations such as the China-America Council of Commerce and Industry and the Far East Division of the National Foreign Trade Council. In order to evaluate the potential market, trade missions were sent to China and local offices were established. To facilitate solutions to any problems that could arise between the Chinese government and American businessmen, a close working relationship with the Departments of State and Commerce arose. Much enthusiasm was generated over the economic potential of China and America’s role in its development; and this was to last until the failure of the Marshall Mission became apparent.

Issues of vital interest to businessmen discussed at periodic trade convention meetings also appeared in the pages of many business journals and Institute of Pacific Relations publications. Some of these included general questions about the size of the China market and its
importance to the United States; but more specific questions dealt with the commodities China would need immediately and in the distant future. Initially, China would be concerned with necessities such as food and clothing which would be distributed through UNRRA. 17 A few of the more important long range needs included industrial equipment and investment capital. How China would create the foreign exchange reserves to finance imports and whether the attitude of the government towards foreign capital was favourable were critical questions; but businessmen, for the most part, provided optimistic answers. In the pages of widely read business newsletters, few questions were asked about the unstable political situation in China which was ultimately the decisive factor in explaining the failure of the China market to become a reality in the postwar period. 18

Although businessmen made no attempt to evaluate critically the market potential of China, information was available which might have led to a more realistic assessment. Between 1943 and 1945, a number of reports and articles were available which openly questioned the intentions and the ability of the Chiang Kai-shek government to reach a settlement with the Communists. The likelihood of a national program for economic reconstruction in which American businessmen would participate was remote if a compromise between the two contending factions was not worked out. Generally, American businessmen were confident
that Chiang would find a solution to China's political problems and follow through on his promises regarding a national program for industrialization. The pessimistic conclusions of skeptical State Department and military officials as well as newspaper journalists were not taken into consideration.\textsuperscript{19} Even Chiang's extremely nationalistic proposals for postwar reconstruction discussed in his book, \textit{China's Destiny}, were overlooked while many of his later statements on the need for cooperation with foreign businessmen were taken at face value.\textsuperscript{20} Businessmen, instead of consulting these sources, looked to various business journals as well as the numerous studies done in the academic community.

Most of the academic observers, who were primarily responsible for informing the business community, argued that the China market would be quite substantial and therefore of great importance to the United States.\textsuperscript{21} According to Lawrence Rosinger, an official from the Foreign Policy Association, the need for markets was essential to the United States since the Lend Lease Program was to be terminated at the end of the war.\textsuperscript{22} In 1944 the United States was exporting about $14.3 billion worth of materials annually and $11.5 billion consisted of lend-lease exports. With the end of the program, new markets would have to be found to maintain war-time levels of employment and national income. Since the domestic market could not compensate entirely for the surplus
production, international markets would have to be created. China was one possibility and, to prove his point, Rosinger cited a study showing that, if the most populated country in the world industrialized at the same rate as Japan had for the first third of the twentieth century, enormous amounts of capital would be required.\textsuperscript{23} China would need $13.6$ billion, in the first postwar decade, $23.1$ billion in the second, and $44.9$ billion in the third. The amount of capital goods required, again using Japan as the basis for comparison, would amount to $5.5$ billion in the first decade.\textsuperscript{24} To be sure, Rosinger's figures were extremely high but more conservative estimates still indicated a substantial need for capital and commodities. Elsa Gidlow, writing in \textit{Sales Management}, calculated that, within ten years from the end of the war China, would be absorbing $277$ million a year in imports and that there would be unlimited investment opportunities.\textsuperscript{25} Gidlow also noted that these figures for imports would be multiplied several times if China's industrialization proceeded according to plans proposed by the Nationalist government.\textsuperscript{26}

Prominent officials in the Nationalist government were quite convinced that postwar industrialization would become a reality and this is reflected in their estimates of the need for foreign capital. After the repeal of the extraterritoriality treaties in 1943, Foreign Minister T. V. Soong
reassured foreign bankers and industrialists by stating that China would welcome a foreign investment of ten billion dollars over the next few years. 27 Seen in the context of the prewar figures for foreign investment, this was indeed an enormous sum. Financing Minister H. H. Kung, realizing that such large amounts of investment capital would require some kind of guarantee, proposed to the Executive Yuan that new regulations be drafted which would "provide due protection of law" to the foreign investor. 28 Trade organizations such as CACCI greeted these proposals enthusiastically and looked forward in the future to working out a new trade treaty acceptable to both countries.

Perhaps the attitude of Chinese officials is best summed up in an editorial in the journal, Contemporary China, published in New York by the Chinese News Service, an agency of the Nationalist government. As the journal represented the official views of the Chiang Kai-shek government and was circulated in the American business community, its comments are worth noting.

Now for the first time in modern history, the promise of the China market appears to have a good chance of fulfillment. And that market is going to be primarily a market of American goods and services and probably to a less extent that of British goods and services. 29
It was evident to Kuomintang officials that the sun was setting on the British Empire in Asia and that the rising imperial star was that of the United States. The favorable reaction in public statements to American economic expansion was partly due to the efforts of the United States to remove the extraterritoriality system and the repeal of the Anti-Chinese Exclusion Act. Kuomintang officials were also concerned about the financing of their postwar campaign to liquidate the Communist menace and therefore encouraged closer economic ties that would strengthen the American political commitment to the maintenance of the status quo.

A series of articles on the China market in Contemporary China appeared early in 1944. A year later, the IPR held its Ninth Conference at Hot Springs, Virginia, which focussed on postwar political and economic problems in the Far East. Specific discussion topics that appeared on the agenda included programs for economic reconstruction and development with some comments on the principal objectives, the availability of capital, and the need for international machinery for coordination to avoid overlapping. Another section examined the "form, direction, and terms of foreign investment." Finally, the merits of private and government control over capital investment as well as the nature of the relationship between investment and trade with special reference to the balance of payment and the problem of repayment were discussed. Needless to say, businessmen
were vitally interested in the answers to these questions and it was appropriate that the IPR should discuss them at its annual conference.

The IPR, created in 1925 with assistance from the Rockefeller Foundation, had often done research that was of interest to businessmen. Along with the research monographs produced for the Hot Springs Conference in 1945, the IPR also conducted a seminar in San Francisco for junior executives on the West Coast to familiarize them with the "Background for American Business Across the Pacific." Seminars were also given for the general public and high school teachers to inform West Coast residents of postwar developments in the Far East. Informing the public and the business community was necessary because the Far East was "vital to the future economic growth of the area". The valuable service the IPR provided to the business community and the public at large is indicated by the Institute's spectacular growth in the West Coast region. In San Francisco where the central West Coast office was located, membership increased from 209 in 1943 to more than 400 in 1946, while its budget in 1945 was $298,000, over three times that of 1942.

Evidence that some businessmen were especially appreciative of the work done by the Institute on the problems of postwar reconstruction in East Asia is found in their reaction to the attacks on that organization
during the McCarthy era. In defense of the IPR, W.R. Herod, President of International General Electric Company, wrote the following on behalf of his company that probably expressed the views of many other corporate liberals.

I personally, and also my company, have obtained a great deal of value from (a) the contacts and the interchange of opinions with members of the American Institute of Pacific Relations, (b) the AIPR's research... in the consideration of broad problems in the Far East ... I have found that a diversity of contacts and viewpoints, with many of which I may not agree, has nevertheless been of help. 34

There is an element of irony in the assistance given to the IPR by corporate liberals like W.R. Herod if one accepts the arguments presented by recent revisionists of the McCarthy period. According to Richard Freeland and Athan Theoharis, it was the Truman Administration and its liberal supporters who were initially responsible for the growth of anti-communist hysteria during the early years of the Cold War. 35 But, Truman and his policy advisers did not realize the anti-communist climate that was created at home to gain support for the economic and military program for international expansion would have its domestic consequences. In the 1950's the elite inspired anti-communist crusade developed a dynamic of its own by attacking liberal institutions as the Carnegie and Rockefeller Foundations and was directly responsible
for the demise of the IPR in 1957.

Many of the research studies referred to by Herod were done by the IPR in the 1930's and 1940's and covered such topics as Chinese labor problems, the Chinese business elite, and the growth and industrialization of urban areas like Shanghai and Peking. A subject that particularly interested businessmen was the Chinese postwar economy and its relationship to American postwar economic expansion. 36

One IPR publication that received widespread attention in the business community was Chih Tsang's *China's Postwar Markets*. 37 The author's background as a former director of the Shanghai Commercial and Savings Bank and wartime General Secretary of the Chinese government's purchasing agency, the Universal Trading Company, qualified him as an authority on China's postwar economic requirements. Chih Tsang avoided the rhetoric of some China market enthusiasts and presented a perceptive analysis of the wartime economy followed by a projection of the trends for three to four years following the end of the war with Japan. His estimates were somewhat conservative since he only took into account the plans for the reconstruction of the more industrialized parts of the country, overlooking the possibility of the construction of new mines, factories, railroads, and public utilities in regions that were hitherto economically backward. 38 Nevertheless, his
analysis was generally accepted as a useful indication of the economic situation in postwar China.

Writing in 1944, Chih Tsang emphasized the growing importance of China to those industrialized countries interested in postwar business and trading opportunities. "Given peace and freedom of trade, there is good reason to anticipate a new era of business opportunity arising on the Far Eastern horizon, of which China forms the most important part." The reason for this was that "China will be exhausted of materials of every description, both capital and consumer's goods, at the end of the war." The United States would be in a favourable position to capitalize on this situation because the former competitors for the China market either had war torn economies or had been defeated militarily. In 1936, a year before the Japanese began expanding their war against China, imports from Great Britain constituted approximately twelve percent of the annual total and those from Japan and Germany just over thirty-two percent. The position in the United States was further enhanced because of its close wartime alliance with the Nationalist government when their business connections were established and experience was gained as a supplier of war material. Chih Tsang estimated that, beginning in 1945, forty-three percent of China's purchases would be made in the United States. But, as Lawrence Rosinger noted, long term prosperous trade could only be
realized through the industrialization of China and progressive reform of the agricultural sector. Industrialization was a lengthy process which meant that the benefits from trade as well as investments would be realized over a considerable period.42

While academics like Rosinger and Chih Tsang explained the success of the China market as being dependent on long range factors, businessmen tended to focus on the immediate issues. How, for example, would the abolition of extra-territoriality affect foreign investments? Furthermore, what would be the extent of government involvement in the postwar reconstruction program? Only one journal, Business Week, did not get satisfactory answers to these questions and cautioned against extensive investments until the Nationalist government's position was clear.43

Reports cautioning American business to moderate their aspirations did not appear very often in business journals covering economic developments in East Asia. Instead, a survey of business journals and the annual meeting reports of leading trade organizations from 1943 to 1947 reveals that the opposite was the case. The content of the journal articles and the remarks made at trade conventions could be described without exaggeration as being unduly enthusiastic about economic prospects in the Far East. One outstanding example was Henry Luce's Fortune Magazine that often reported on economic and political developments in Asia.
Luce, a member of the Board of Trustees of the IPR, was born in China and had a lifelong interest in the affairs of that country. Writing in 1943 for *Fortune Magazine*, Theodore White maintained that "China may afford the greatest single outlet for American surplus producing capacity, machine tools, and heavy goods after the war. American business firms with long-standing interests in the Far East are well aware of this." Profitable economic activities were not only confined to trade for, according to Kuang Tai Hu in an article in the *Harvard Business Review*, there would also be a demand for American capital investment. Any doubts concerning the acceptibility of foreign capital by the Kuomintang were dismissed by Kuang because foreign investments in China will now incur less political ill feeling than they did before. The political and legal reforms which have been introduced by the Chinese Government will result in the thorough unification and modernization of the entire legal and political structure of the country. Once these reforms have become effective, one constitution, one civil law, one commerce law, and one corporation law will apply to all China.

From Kuang's viewpoint, the quasi-fascist Nationalist government could be considered reformist which corporate liberals saw as the prerequisite for modernization sponsored by American capital. The grim reality of a
decaying ruling elite characterized by corruption, nepotism, and a militaristic outlook was conveniently filtered out by the ideological prism of corporate liberalism.

Other journals such as *Forbes*, *Sales Management*, and *Banking* shared the optimism of *The Harvard Business Review* and *Fortune Magazine*. H.S. Kahm, in an article for *Forbes*, prophetically announced that "a new frontier for American industry and enterprise is in the making today in China, and its potentialities are staggering to the mind."

"Imagine," he said, "for the moment that the war is over, that you are now engaged in selling a cheap, essential product to the Chinese. Your profit on each item is a single penny. One Chinese in ten buys this product monthly. Your profit: $450,000 a month." The idea of a vast market in a new frontier had widespread appeal even after forty years searching for that elusive gold mine. Its persistence in the context of the larger goals of American foreign policy was succinctly explained by Nelson Rockefeller before a House of Representatives Foreign Affairs committee in 1951. "With the closing of our own frontier," he pointed out, "there is hope that other frontiers still exist in the world." The "New Frontier," a catchy phrase, not only appeared in business journals but was also discussed at trade convention meetings. Cornell Franklin, in an address to the
Far East Session of the NFTC, spoke of a new business frontier in Asia.

The Far East may rightly be called a new frontier, as far as American business is concerned. Undeveloped resources, vast quantities of raw material, (and) important industry, are to be found in almost every country in the Orient.49

By 1947, however, it was still not clear who was going to control the new frontier in China. In the summer of that year, Communist troops started crossing the Yellow River and infiltrated southwards to set up new base areas in central China.50 Chiang Kai-shek responded with an "Order for General Mobilization" but the results were catastrophic. His Kuomintang army, equipped with American arms, was no match for the spirited and highly organized People's Liberation Army and this resulted in heavy casualties for the Nationalists.51 The future of the open door for American businessmen became increasingly uncertain, but, at the NFTC annual conventions from 1944 to 1947, no doubts at all were expressed about the prospects for trade and investment in China.

Known throughout the business community as one of the most prestigious trade organizations, the NFTC had representatives from all sectors of the economy. Some of the corporations that participated in the organization's
various activities included the Bethlehem Steel Export Corporation, Standard Oil of New Jersey, International Telephone and Telegraph and the Chase National Bank of the City of New York. At the annual conventions beginning in 1944, crucial questions concerning postwar trade and investment policies were discussed. The 1944 convention attracted businessmen from all sectors of the economy and a final declaration was drafted outlining the position of the organization on postwar economic issues. Concerning direct private foreign investment, it was stated that "in the postwar period there will be an intensified need for direct private investments of capital in other countries, and of loans for reconstruction and rehabilitation." To provide "reasonable reciprocal safeguards" for "American direct foreign investments," treaties of commerce and amity would have to be worked out. The experience of the Second World War was a major factor in determining the NFTC's position on international trade.

The war has taught us that we are a part of the world in which we live, and that our own economy and the economies of other nations are interlocked and interdependent. A greatly increased volume of international trade is indispensable to support the increased production and the complete reconversion to the processes of peace that a healthy world economy demands.
These principles, formulated to provide a guideline for general international economic agreements, were reflected in the NFTC's position on China. The organization's optimistic outlook on the China market was revealed in three points. These were that China would emerge as the primary postwar market in the Far East, that the Civil War would be terminated, and that the United States was the moral leader of the world demonstrated by its altruistic policy in aiding China to reconstruct its war torn economy.

M.J. Buckley, Vice-President of American President Lines, Ltd., pointed out in a speech before the 1944 convention, that, in the postwar period, China would replace Japan as the United States' most important customer in the Far East. American relations over the last 150 years had been characterized as friendly and Buckley predicted that, after the war, the friendship would continue and the increase in trade with China would be greater than that with any other nation. After a brief history of Sino-American commercial relations before the 1945 convention, State Department official John Carter Vincent expressed a similar viewpoint, but was cautiously optimistic.

In making this brief sketch of current conditions in the Far East I cannot be accused of optimism (I have been, many times). But I do think the potentialities of an expanding American business with the Far East exist and can be developed.
On the question of Chiang Kai-shek's postwar policies the same views, ranging from total acceptance to qualified reservation, were expressed. In his address before the 1944 convention, William P. Hunt, a businessman with economic interests in the Far East, summed up his position on the possibility of the civil war continuing after the cessation of hostilities with Japan. "I stake my all that China will come out of this war unchanged in its leadership and without the pathos of civil war." When questioned about the ambivalent policies of the Nationalist government towards foreign capital, Hunt was willing to accept the assurances of Kuomintang officials at face value.

"I am willing, as I said before, to accept the categoric statements of the Chinese Government, that there is room for private enterprise, and that government will take up only that part which private enterprise will not, plus an additional fact: Government in China is prepared to go into business, where Chinese will not, in association with American, business, provided American business wants to."

Former American Ambassador, Clarence Gauss, was more reluctant to accept the formal guarantee of the Chiang Kai-shek government but did not "doubt the sincerity and determination of the Chinese in their ambition for
Any misunderstandings that did arise between American businessmen and Chinese officials were not very serious and were primarily "poor translations and translations from the Chinese to English are in some cases difficult, inexact and perplexing."

If one had to make a generalization about business conventions such as the ones sponsored by the NFTC, it would be safe to say that most of them conclude with a comment on the essential goodness of the American corporate elite and the virtues of extending their capital and expertise to the rest of the world. Chairman Buckley's concluding remarks to the Thirty-first National Foreign Trade Convention were no exception.

We should help China, and, for that matter, all the rest of Asia, to raise its living standards. No country can become very great until it builds up its people--the small people as well as the greater people--and puts them on a better living basis, a better wage basis, so that they can buy better and live better--in other words, so that they could have a better standard of living. That is what we hope for in China and in other countries of the Far East.

Five years later, the Chinese revolutionaries overthrew the traditional social system which was a peculiar mixture of feudalism and bureaucratic capitalism, and attempted to
reach some of the goals elaborated by Chairman Buckley. Unfortunately for American businessmen, the words of inspiration came from another chairman.

While the NFTC was primarily concerned with the general issues of international trade and investment, involving all areas of the world, CACCI, on the other hand, was created specifically to help facilitate economic intercourse between two countries. The purpose of the Council, as stated in its Directory, was "to promote policies and conditions that will bring about a maximum interchange of goods between the two countries, as well as large scale investment for American capital in China." CACCI also provided "specialized services to its members to facilitate their business in China and to help them with plans for expansion and new projects." Formed in 1943, CACCI originally had a membership of only thirty-six companies but by 1946 this had increased to over four hundred. This rapid growth was one of many indicators of the renewed interest in the postwar China market. Member companies varied in size from small local industries to large internationally based corporations, leaders in their fields.

CACCI's promotional program was extensive and covered a wide range of activities. Organized into two departments, research and public relations, the Council was able to perform many different functions. The most important
one was lobbying the government for favorable commercial legislation, which would simplify and expedite Sino-American trade. Its lobbying powers were extensive, for not only was influence exerted to get favorable American legislation passed, but pressure was also applied to the Chinese government either directly through communication with its officials or indirectly through the State Department. In 1946 when the problem of tariff levels arose, CACCI called for pressure to be put on Chinese authorities to be more consistent and reasonable from the American point of view in the evaluation of import products for tariff purposes. Furthermore, the Chinese were encouraged to make stronger efforts to stabilize their currency which was essential to a healthy trade relationship.

Like most corporate liberal trade organizations, CACCI had a close working relationship with the political elite. Often members from the State and Commerce Departments would attend CACCI functions and on one occasion President Truman addressed the annual convention. The State and Commerce Departments both cooperated in discussing with CACCI officials international economic problems of a short and a long term nature. Some of the problems examined included proposed International Monetary agreements and their relations to Sino-American trade, the proposed plan for China's postwar reconstruction, and the economic philosophy underlying short range and long term development programs.
The Department of Commerce, known as "The Businessman's Bureau", often provided services to facilitate the resumption of trade with foreign countries after the war. For example, a China Legal Section was created in the Far Eastern Unit of the Department of Commerce to "study the China Trading Act and related matters, with a view to providing guidance for American businessmen when China is again open to foreign trade, and to making constructive suggestions looking to modifications or improvements which may seem desirable in the common interest." Information useful to corporate officials was published by the Department's Field Offices, the daily press, and official publications such as the Foreign Commerce Weekly. The Commerce Department often transmitted its information through more informal channels by personally informing the American businessmen immediately concerned. The State Department supplemented the functions of the Commerce Department by providing useful practical services. American businessmen travelling to the Far East were given food, accommodation, and local transportation if needed. Also, consular officials were on duty in the larger Chinese cities to help in the re-establishment of banking services. Furthermore, the State Department through its negotiations with the Chinese government, made it easier for businessmen to obtain travel visas.
Of special importance was the research on the Commercial Treaty of 1946. CACCI was especially interested in this treaty since the abolition of extra-territoriality in 1943 had eliminated the traditional privileges of businessmen. Before 1943, they had received tangible concessions and the new treaty would have to be quite comprehensive in its guidelines for new trading and investment arrangements. The basis of the 1946 treaty was the "most-favoured-nation" clause that provided that treatment not less favourable than accorded to any third country was to be accorded to nationals and corporations of the United States and China. This clause and others brought a generally favourable response from American observers and an equally vehement rejection from the Chinese Communists. From their viewpoint,

The harshness and scope of the treaty far surpass the Twenty-one Demands that Yuan Shih-k'ai signed with the Japanese. The country will be subjugated and the nation exterminated if this treaty is carried out.

Although the Treaty was to be renegotiated in 1951, the Chinese Communists made it clear that any economic and political commitments made by the Kuomintang would not be recognized. Thus, the Treaty became ineffective after 1949.

While the Chinese Communists did not look forward to
entering into an economic relationship with the United States based on the 1946 Commercial Treaty, the Nationalist government, on a number of occasions, expressed a desire to secure an arrangement that would be beneficial to both countries. As the end of the Second World War approached, visiting Kuomintang officials sought to reassure American businessmen of the serious intentions of the Chinese government to modernize the economy by using American capital and industrial commodities. Speaking at a dinner given in his honor by CACCI, Dr. H.H. Kung, Vice-President of the Executive Yuan and Minister of Finance, described his vision of China's economic development in the postwar period.

As I talk to you now, I have in my mind a visual picture of China's economic development in the near future. It is a beautiful picture. I can see the smoke arising from our factories in many cities in China, beclouding the setting sun. (sic) I can see the hard-working Chinese farmers toiling in the fields of their ancestors, with new agricultural tools which you have employed to such great advantage. I can see new networks of railroads, highways, steamships, and airways stretching across the Asiatic continent and linking our cities with other parts of the world.73

Kung's utopian vision of the future was not to be realized by the waving of a magician's wand. Instead, the magic of American "expert knowledge and seasoned experience,"
combined with "surplus capital to finance the various enterprises which we are to undertake," would transform his desire for the millenium into reality.

If American businessmen had any doubts about Chiang Kai-shek's reactionary nationalism and its implications for foreign corporations, they were partially dispelled by the Chinese Ambassador, Dr. Wei Tao-ming, in an address at a CACCI convention in San Francisco on July 7, 1944. The Nationalist government would "carry out her program for political democracy," while at the same time basing its reconstruction program on a "mixed system of government and private enterprise." To guarantee the removal of conflicts between the public and the private sector, special provisions were enacted to safeguard foreign capital. These general proposals were spelled out in detail in an address to the Chungking Rotary Club on November 30, 1944 by Dr. Sun Fo, Executive Yuan, a long time admirer of the reform policies of Sun Yat-sen, proposed a liberalization of the laws with regards to foreign capital and industry. The number and kind of state enterprises would be limited and these enterprises would not be given favorable treatment over private enterprises. Private foreign enterprises, on the other hand, would be eligible for state aid in the form of technological assistance and transport facilities. Moreover, there would be no restriction on the percentage of
foreign capital invested in joint enterprises and foreign nationals, in accordance with Chinese law, could directly invest in enterprises operated solely by them. In other words, except for a few modifications, American businessmen were assured that the traditional Open Door policy would be maintained by the Chinese government.

In the eyes of American businessmen the perception of the postwar China market expanded significantly as the final preparations for the war against Japan began. Their visions of a Chinese "eldorado" were surprisingly similar to those of their predecessors late in the nineteenth century when the economic system of the United States experienced its first major crisis of the industrial era. Unlike the earlier period, however, the China market was not seen as a solution to a depression like the one during the 1890's but as an alternative to the possibility of one in the future.

In summary, American businessmen, like the alchemists before them, tried to make gold out of the far less valuable iron. Ultimately, it could be argued their futile effort at transmutation was a reflection of the needs of the American political economy during a period of crisis. To be sure, American businessmen had not only misperceived the intentions of the Chiang Kai-shek regime, but also over-estimated the ability of the United States government to
stabilize the postwar situation in the Far East and facilitate Open Door expansion. But, from the point of view of American corporate liberals at the time of the final peace treaty with Japan, there were good reasons for believing that political and economic stability would prevail in China. It was only a year later that serious doubts began to emerge and the perceptions of businessmen began to approach reality.
FOOTNOTES

1William Appleman Williams, The Contours of American History (Chicago, 1966), 75-117. See also Louis M. Hacker, The Course of American Economic Growth and Development (New York, 1970), 21-43. The businessmen referred to during this period are those connected with overseas trading houses, import-export firms, and shipping companies. In other words, the influence of members of the mercantile elite.

With the ascendancy of industrial capitalism, not only did the composition of the business elite change but so did its approach to the problems of modernization that confront capitalist societies. Bankers and Industrialists were by the twentieth century the leading entrepreneurs but within this elite different positions emerged regarding the reform and rationalization of the political economy. On one side were those who wanted to approach social, political, and economic problems within the traditional laissez-faire framework while their opponents within the reformist sector wished to employ more liberal concepts. These businessmen sometimes referred to as "corporate liberals" came to play an increasingly important role and gradually undermined the influence to the more conservative laissez-faire followers. In the making of domestic policy, specifically the New Deal and postwar conversion, the corporate liberals had made a considerable contribution. Likewise, in the formulation of foreign policy they were the primary architects of an international economic and military system with the United States at the center. While it is recognized that laissez-faire businessmen are scattered around the economic landscape and find a home in the Republican Party, it is the attitudes of "corporate liberals" in the period from 1943 to 1949 that will be examined in the thesis.


3Dulles, 42.
4Milton Plesur, America's Outward Thrust: Approaches to Foreign Affairs, 1865-1890 (DeKalb, Illinois, 1971), 213-215. In 1865, .2% of all exports went to China and by 1895 the figure had declined to .9%. By 1905 however, the figure climbed to 3.5% of the total export trade.


6It was stated by the National Association of Manufacturers that trade with China was "only in its early stages" at the end of the nineteenth century but had "enormous possibilities," since it could furnish a market for millions upon millions of dollars' worth of American products. Quoted in Charles S. Campbell, Jr., Special Business Interests and the Open Door Policy (New Haven, Connecticut, 1951), 12.

7Many authors, in their work on the economic aspects of American foreign policy, have overlooked the differences between the banking and manufacturing sectors. One notable exception is Wilson, American Business, 202-206.

8For further information on the question of loans see Keith Hutchison, Rival Partners (New York, 1946), 227-228. American loans to China were to be used to finance such ambitious recovery projects such as the development of the Yangtze River for irrigation purposes as well as hydro-electric power.

9New Left historians have repeatedly emphasized this point in their research on postwar American foreign policy. See for example, David Eakins, "Business Planners and America's Postwar Expansion," Horowitz, ed., Corporations and the Cold War, 143-72; Kolkos, The Limits of Power, 11-28; and Thomas Paterson, "The Economic Foreign Policy," 56-112.


11 World War Two was instrumental in bringing about a fundamental change in the attitude of American businessmen towards the international market place and its relationship to domestic prosperity. The National Association of Manufacturers reflected this new outlook in its Second Report to the Committee studying postwar economic conditions. "Our national self-interest must take into account the interests of other peoples as well as ourselves. We cannot be prosperous by attempting to stay aloof from the problems of the rest of the world.... The best chance for postwar economic progress in the United States will be through agreements with other nations on proper methods of maintaining peace and increasing world prosperity." For the full text of this and the statements of other business organizations see John W. Masland, "Group Interests in Post-War American Pacific Policy," American Council Paper No. 6 presented to the Ninth Conference of the Institute of Pacific Relations, January, 1945, 1-15, Appendix A.

12 Very little research has been done on the postwar market in China but there have been thoroughly documented studies completed examining the economic potential of Latin America and Europe. The definitive work on Latin America is David Green, The Containment of Latin America (Chicago, 1971), 113-136. Europe has been extensively examined in Lloyd Gardner "America and the German 'Problem', 1945-1949," in Bernstein, ed., Politics and Policies of the Truman Administration, 113-148. Gardner's recent book also has a chapter on postwar economic relations with Britain. See Lloyd Gardner, Architects of Illusion (Chicago, 1970), 113-138. Additional information is found in the Kolkos, Limits of Power, 111-245, and Paterson, The Economic Cold War, 255-356.

13 See Francis R. Valeo, Far Eastern Economic Development and the West Coast Economy (Washington, 1950), 55-68. Valeo points out that corporate owners on the West Coast had 11.3% percent of their foreign assets in Asia while only 5.3% percent of all American-owned assets were in Asia. As a market for West coast exports, the Far East was of special importance. For the postwar period it was projected that a wide range of export commodities from natural resources to manufactured goods would be shipped to China, Japan, and the Phillipines.
Some of the better known journals included the Commercial and Financial Chronicle, Forbes, Fortune, the Harvard Business Review and a number of others. Most were either cautiously optimistic or totally enthusiastic about the prospects for trade in the postwar period.

Hereafter cited as CACCI and NFTC.

Hereafter cited as the IPR. From 1925 to 1952 the IPR had published approximately 220 major research volumes covering a wide range of subjects. Its research publications on postwar economic problems in the Far East was extensive especially with regard to American interests. For a partial list of the literature see William Holland, Commentary on the McCarran Report on the I.P.R. (New York, 1953), 81-94.

Hereafter cited as UNRRA. UNRRA was organized in 1943 and from the beginning the United States had considerable influence in the organization since it contributed over 70% of the funding for the program. According to Gabriel Kolko the United States benefited from participation in the program in two ways. First, it would help to prevent war torn and hungry nations from moving to the left politically. Secondly, American surplus farm production could be distributed internationally and thereby strengthening the farm sector domestically. See Gabriel Kolko, The Politics of War (New York, 1968), 259-260.

One business journal that was consistently critical of unfounded optimism of American businessmen was the China Weekly Review. For the most part its criticisms were not discussed in business circles unlike the widely circulated China Trade News, published by the China-America Council of Commerce and Industry, Inc.

China's Press Relations with the World (New York, 1950), 239-257.

20 See Philip Jaffe, (ed.), China's Destiny & Chinese Economic Theory (New York, 1947). It was estimated that over a million copies were sold since the book was required reading for university students, public officials, army officers, and members of the Kuomintang Youth Corps. In 1947 an English translation was published in the United States which was a "liberalized" version of the original text. Nevertheless, Chiang was quite explicit on the issue of postwar economic policy. Generally, he favored a protectionist tariff policy, emphasis on military spending, and the development of heavy industry under the strict control of the state, not foreign business interests.


23 Ibid., 250.

24 Ibid., 251.

25 Elsa Gidlow, "Our Post-War Trade with China: How Big is the Potential?" Sales Management, (June 1, 1944), 23. Gidlow concluded the article with a quote from Julean Arnold, a well known observer of the economic scene in China. "China," according to Arnold, "would startle the world with the gigantic volume of trade arising from its industrialization" ...and "who learns to work with China in a sphere of intelligent cooperation will have the key to the greatest treasure-house of trade the world has ever known."

26 Even with limited industrialization, Gidlow's estimates were extremely conservative. See P.K. Mok, review of "China's Postwar Markets," Pacific Historical Review,
Mok believed that a figure for trade of $487 million was not unrealistic.

27 Cited in an editorial "The Prospect of Foreign Investment in China," Contemporary China III (February 7, 1944), 1.

28 Ibid. On December 28, 1944, the Supreme National Defense Council of China adopted a resolution which established the following principles for China's economic policy with regard to the participation of foreign capital: First, there would be no restriction placed on the percentage of foreign shares of capital in any Sino-Foreign enterprise. Second, State enterprises would be able to contract foreign loans or seek foreign investments. Third, all enterprises in China which were directly financed and operated by foreign nationals would have to observe Chinese laws and regulations. For additional information on the recommendations of the Supreme National Defense Council of China, see "Development Programs in China and India," Pacific Affairs, 28 (March, 1945), 92-93.

29 "The Promise of the China Market," Contemporary China, III (January 24, 1944), 104.

30 These and other questions were outlined in W. C. Johnstone, Rapporteur's Report", Institute of Pacific Relations (January 15, 1944), 1-2. See also Institute of Pacific Relations, Elaboration of Draft Agenda for the ninth I.P.R. Conference, (September 29, 1944), 1-9.

31 For a revealing analysis of the ideological orientation of Asian Studies research institutes see Judith Coburn, "Asian Scholars and Government: The Chrysanthemum on the Sword," in E. Friedman and M. Selden, eds., American's Asia (New York: 1969), 67-107; David Horowitz, "Politics and Knowledge: An Unorthodox History of Modern China Studies," Bulletin of Concerned Asian Scholars 3 (Summer-Fall, 1971), 139-168. Horowitz notes that in 1952 aid from the large corporate funded foundations began to decrease due to the investigation of the McCarran Committee. Previous to the McCarran investigations some of the outstanding members from the corporate elite on the Board of Trustees included Charles K. Gamble, Director, Standard-Vacuum Oil Company, Paul Hoffman, President, Studebaker Corporation, Henry R. Luce, Editor and Publisher, Time, Life, and Fortune, Juan Trippe, President, Pan-American Airways, and A.W. Robertson,

32 Ibid., 37.

33 Ibid., 35.


37 Chih Tsang, *China's Postwar Markets* (New York, 1945). In the Forward William Holland noted that the book did not represent the views of the I.P.R., but was nevertheless important, not only for government officials but for private businessmen because it analysed "the economic needs of post-war China and the financial and technical means by which these needs can be supplied."

38 This point is made in two reviews of his book. See Arnold, "China a Challenge" 292, and Mok, Review, 120.


40 In 1936 the United States consumed 25% of China's exports and the amount China imported from the United States came to 19% of the total. See Contemporary China, "The Promise of the China Market," 2.
41 Tsang, C., 120. In 1946 Chinese imports from the United States climbed to 57% of the total which was the highest for the postwar period. For a breakdown of trade by country see United States Department of Commerce, "Economic Review of China, 1947", International Reference V, (November, 1948), 5.

42 Rosinger, L. "China as a Postwar Market," 252-253. This observation is also found in a Brookings Institution study which stated that "The United States has customarily counted not so much upon their current value (investments) as on their value in the light of China's future potentialities." See Leo Pstovsky, Major Problems of United States Foreign Policy 1947 (Washington, 1947), 209-210.

43 "The War and Business Abroad," Business Week (December 9, 1944), 112.

44 In the conflict that erupted in the late 1940's over American China policy, Luce supported the China lobby and became very critical of Truman's decision to withdraw. Truman's reluctance to become embroiled in the Chinese Civil War meant to Luce an abnegation of "The American Century." Economically Asia was vital to the fulfillment of his cherished dream because "it will be worth to us exactly zero or else it will be worth to us four, five, ten billions of dollars a year." Quoted in Jerry Israel, Progressivism and the Open Door (Pittsburgh, 1971), 195.

45 White, Theodore, "China's Postwar Plans," Fortune XXVIII (October, 1943), 1956. White realized that there would be political problems in China after the war, but was on the whole optimistic about the future.


47 Kahm, H.S., "Opportunities in Post-War China," Forbes (November 15, 1943), 12. According to Kahm the United States would supply China with everything from "can-openers to locomotives." The marketing strategy was quite simple. China would export cheap commodities to the orient and raw materials to industrial countries and with the foreign exchange import American products such as refrigerators, automobiles, airplanes and radios. Since this
situation would last for a number of years, Kahm felt that "American business men will have before them some of the most lucrative opportunities since the settlement of our own Far West." Further information on the opportunities for American businessmen are discussed in The Far Eastern Economic Review 1 (November 13, 1946), 2; and Shirley Jenkins, Trading With Asia (New York: American Council, Institute of Pacific Relations, 1946), 4-5.


49 Cornell S. Franklin, "Presentation to Charles K. Moser," Proceedings, Thirty-Fourth National Foreign Trade Convention, (October 22, 1947), 418. Cornell Franklin was Chairman of the Shanghai Municipal Council before the war and in 1945 became Chairman of the China Committee of the NFTC in Shanghai.


51 Liao Kai-Lung, From Yenan to Peking (Peking, 1954), 64. According to Communist sources the Nationalist army suffered over 700,000 casualties between July and December of 1947. This period was a turning point in the civil war and after December the Communist armies were continuously on the offensive.

52 Proceedings, Thirty-First National Foreign Trade Convention (October 9, 1944), x-xi. According to the NFTC's official statement of purpose "Membership is regarded as a public service on behalf of the nation's overseas trade as a whole, placing at the disposal of the Council the mature experience, technical knowledge and advice of executives of all branches of industry and commerce that relate to international trade."

53 Masland, "Group interests..." 14.
Buckley's analysis of the potential China trade was quite straightforward. In 1937 the United States sold nine million tons of commodities to Japan but after the war this figure would be substantially reduced. Therefore, Buckley concluded that to restore the balance of American commerce in Asia "we shall look, to my mind, to our old friend China, to a major extent."

John Carter Vincent, "American Business with the Far East," Proceedings, Thirty-Third National Foreign Trade Convention, (November 12, 1946), 159. Carter was the Director of the office of Far Eastern Affairs in the State Department from 1945 to 1947 which today is known as the Assistant Secretary of State for Far Eastern Affairs. After 1947 Vincent was demoted to a series of lesser positions and finally in 1953 was forced to retire by Secretary of State, John Foster Dulles. For an account of his tenure in the State Department during the Chinese civil war see Ross Terrill, "John Carter Vincent and the American 'loss' of China," in Bruce Douglass and Ross Terrill, eds., China and Ourselves (Boston, 1969), 122-154.

Clarence Gauss, the Ambassador to China from 1941-44, was described by Chairman, William Hunt as a statesman "who championed American foreign trade like it never had a champion before, and like it never can have a champion again."

Businessmen in the past have often rationalized their commercial activities, stressing the supposed benefits bestowed on the host country. In the case of China, the "progressive" aspect of the economic relationship was espoused by businessmen as early as 1900. See, for example, Israel, 3-30, and Gerald Markowitz, "Progressive Imperialism: Consensus and Conflict in the Progressive Movement on Foreign Policy, 1898-1917" (Unpublished Ph.D. dissertation, University of Wisconsin, 1971),
195-230. It seems, however, that the effects of foreign businessmen have been somewhat detrimental to the growth and prosperity of the Chinese nation-state in the twentieth century, as the following studies point out: Joseph Esherick, "Harvard on China: The Apologetics of Imperialism," Bulletin of Concerned Asian Scholars, 4 (December, 1972), 9-16; Hu Sheng, Imperialism and Chinese Politics (Peking: Foreign Languages Press, 1955).

62 Masland, "Group interests..." 63.

63 Ibid., 13. Members of the Board of Directors included representatives from Bristol-Myers, Standard Oil of California, American Locomotive, International Harvester, International General Electric, the Chase Bank, and others.


67 Masland, "Group interests..." 12.


70 American Import & Export Bulletin, (December, 1945), 774.


74 Ibid.

75 Ibid., 1-3.
CHAPTER II

Between 1943 and 1945 American businessmen were collectively optimistic about the potential market in China but by 1946, however, some doubts were expressed in various business journals; and, with the termination of the Marshall mission in January of 1947, a mood of despair and disillusionment prevailed. To explain these new developments, three questions concerning the evolution of Sino-American economic relations from 1947 to 1949 must be answered. First, what factors can account for the change in attitude of American businessmen towards the China market? Second, what were the alternatives open to businessmen and third, which ones were eventually taken?

The postwar interlude from the fall of 1945 to early 1947 could be described as a period of transition. American businessmen increasingly doubted the future of China, although there was some evidence that China's domestic and international position was improving. These general and somewhat deceptive indicators kept American businessmen interested in China, but their usefulness was limited.
Internationally, China's status increased considerably when she became a member of the United Nations and one of the five permanent members of the Security Council. In theory at least, China was to be treated as a great power in the international political arena, even though in reality it was at best a weak middle power. Domestically, Chiang Kai-shek's position was strengthened by the relative economic stability, reflected in the levelling of the inflationary curve in the summer of 1945. Prospects for the future seemed hopeful with the return of the wealthy provinces along the coast and the establishment of international lines of communication. Furthermore, Japanese reparations would provide the foreign exchange needed to buy equipment for China's postwar reconstruction. On a number of occasions, Kuomintang officials announced that the government was committed to implementing a program of reform and modernization which presumably would undermine the program of the Communists. After returning from an economic mission on behalf of the American government, Edwin Locke, the former Vice-President of the Chase-Manhattan Bank, noted that the Generalissimo had "indicated his determination to bring about the needed political reforms in China." Chiang Kai-shek even seemed willing to discuss the basic issues of contention with the Communists and invited Mao Tse-tung to Chungking in the summer of 1945.
On the surface at least, these political and economic developments seemed to indicate that internal stability was a distinct possibility in the immediate future.

The rapid growth in the volume of American trade with China from 1945 to 1946 was additional evidence that the expectations of businessmen were being partly realized. In 1946 American commercial exports to China amounted to $297 million, that compared to the average for the decade before the war of $43.7 million was an increase of 580 percent. There were substantial increases in almost every category of exports, the most important being cotton, grain, farm machinery and forest products. 4

For the Chinese, on the other hand, the foreign trade picture was not as bright. In 1946, American imports from China came to $92.7 million against a ten year prewar average of $17 million, which was an increase of only 32 percent. In other words, the United States had a favourable balance of trade with China amounting to $204.3 million, the reverse of the prewar situation. 5 The reason for the large postwar deficit was an abnormally high demand for foreign commodities because of the destruction of industry during the war and the import of military supplies to fight the Communists. In 1947, much to the disappointment of American businessmen, the Kuomintang government imposed restrictions that led to a more favorable balance.
Trade figures are sometimes deceptive and China was a good example of this. Compared to trade with other areas of the world, Europe, Canada, and Latin America, the China trade was relatively insignificant. Commercial exports to that country from the United States in the immediate post-war period never amounted to more than five percent of the total. Of this small volume of trade, only 3.7 percent of the total was in cash sales, the rest being on credit. If a transaction was made in cash it was from the Chinese foreign exchange reserves that were built up by a series of loans from the American government. The United States also granted credit for purchases not made in cash, a policy somewhat similar to lend-lease during the war. In other words, the United States government was actually stimulating the export market for businessmen by financing China's imports, an arrangement not unlike the one with European countries. But, unknown to economic planners at the time, European recovery was to advance in a favourable direction, whereas, the economic situation in China was steadily deteriorating.

Most of the trade with China came under the category of commercial imports, but, a substantial percentage also derived from United Nations relief. In 1946 and 1947, China's total commercial imports amounted to $1,011.6 million, while aggregate UNRRA supplies came to nearly
one-third of this amount, the actual value being $313.1 million. A large proportion of UNRRA relief consisting of daily necessities such as rice, wheat, flour, textile products, medical provisions, came from the United States. Businessmen, of course, did not take issue with the American government's aid policies, since they were ultimately responsible for producing relief commodities, but, if a successful economic relationship with China was to be developed over a long period, growth within the Chinese economy was the necessary prerequisite. As one business journal put it, "without an economy creating wealth and purchasing power, the great China market is a semi-myth." As the history of the postwar development of Japan, Germany, and Canada has demonstrated, economic growth is the sine qua non of a successful long-term market. Relying on loans and foreign aid is not always the most rewarding approach to stimulating foreign exports and it was unfortunate for American commercial magnates that they could not foresee the termination of the UNRRA program in 1947.

To some businessmen, especially those associated with CACCI and the NFTC, the figures for postwar trade indicated that the China market was expanding in 1946 and they were quite pleased with the trend. Trade had more than doubled and over one hundred corporations had established branches or
representatives in China. In an address to a 1946 CACCI convention, Arthur Foye reported that the volume of business was beyond all expectations and that prospects for the future were good. Foye recognized that there were political difficulties but the improvement of trade regulations was not contingent on the establishment of complete political unity. In fact, one business journal emphasized in an editorial, the possibility of a successful unification of the country by military forces. Throughout the fall of 1946, Chiang Kai-shek launched a series of campaigns against the Communists that seemed to be successful at the time but later proved to be a tragic blunder. As the prospects for continued civil war increased, it became clear that militarily and economically, the Chiang Kai-shek regime was incapable of providing a solution to the problems confronting the country.

In 1946, the consensus in the corporate liberal sector of the business community on the issue of postwar economic relations with China began to dissolve. Some business journals were becoming increasingly pessimistic about postwar developments in China and often took issue with the unrestrained enthusiasm of officials like Arthur Foye. The China Weekly Review was one economic newsletter that was critical of those businessmen who did not keep in touch with political and economic developments,
particularly in the civil war. One editorial was unusually critical of the trade promotional activities of CACCI. "So far the Council has stubbornly and stupidly refused to recognize the essential fact that China is today completely incapable of being either a market for, or a supplier of anything in worthwhile quantities." 12 Other journals such as Business Week were also less than optimistic. The journal was convinced that business transactions could not be carried out in an environment of uncontrolled inflation, corruption, and extreme nationalism. 13 Given these conditions the observation of Randall Gould in the journal Banking is not surprising. Gould asked "American banks in Shanghai are open for business, but just where is the business? That question finds no easy answer either in the immediate situation or future prospects. But like every other foreign interest here, the bankers are keeping stiff upper lips and hoping for the best." 14

Up to 1946, many businessmen assumed that the cessation of hostilities in the Pacific would allow China to proceed with Chiang Kai-shek's plans for industrialization. But in 1946, those journals that were unsympathetic to Kuomintang policies came to the conclusion that the failure to resolve the central issues of contention between the Communists and the Kuomintang was the major reason for the stagnating economy. One business journal pointed out that
if the government proceeded to mobilize for civil war and continued with the policy of deficit spending, there would be no hope for the future of China. Another journal reported that, by the fall of 1946, the civil war was more widespread than before the Japanese invasion and was seriously impeding the recovery of the country's domestic economy and foreign trade. In December of 1946, the *Far Eastern Economic Review* perceptively summarized the consequences for Chinese economic development if the civil war continued unabated.

If the civil war is continued, there is no prospect for development in China. Government expenditures will rise, inflation will increase, speculation will continue and political strife will widen as economic stagnation grips more and more of the country. Order under these circumstances can be maintained only by keeping China an armed camp with Kuomintang troops spread throughout the land, parasitically consuming more and more of China's wealth.

The Chinese civil war had been fought almost continuously since the attempt by Chiang Kai-shek to liquidate the Communist faction in the Kuomintang in 1927. When Japan incorporated China into its Greater East Asia Co-Prosperity Sphere, the Communists and the Kuomintang briefly suspended the civil war and formed a United Front. Relations between the KMT and the CCP remained cool because the alliance was little more than an armed
truce and the political differences between the two groups remained unresolved at the end of the war with Japan in 1945. During the war the Communists had greatly expanded their military and political base and refused to demobilize until a political settlement could be reached with the Kuomintang. American businessmen looked forward to the settlement of the political disputes in China and when Mao went to Chungking in August 1945 the prospects for political unity seemed promising. When the negotiations were suspended in October, the Economist concluded that very little had been accomplished. No agreement between the two sides had been reached on the crucial issues of control of the army and administration of liberated areas. It was hoped that the intervention of a third party, the United States, would help to bring about a peaceful settlement of the lengthy civil war.

On December 25, 1945 President Truman sent George Marshall to China to negotiate a peaceful settlement to the civil war. According to John Carter Vincent, the Director of the Office of Far Eastern Affairs in the Department of State, the purpose of the mission was to seek "a political settlement that would result in a cessation of civil strife and make possible a revival of economic activity." It was the view of American State Department officials that political stability was a prerequisite for a profitable economic relationship between the United States
and China. This position was, of course, ardently supported by businessmen as well. For example, one *Business Week* editorial commended Marshall for his efforts and reaffirmed the importance of the businessmen interested in trade with the Far East.\(^\text{21}\) Although the Marshall Mission achieved some initial successes, it was terminated in January of 1947, because both parties refused to compromise and settle their disputes at the negotiating table. Instead, by the fall of 1946, it appeared that the differences between the Communists and the Kuomintang would be settled on the battlefield.\(^\text{22}\)

Generally, the Civil War further weakened the domestic economy, thus retarding the growth of a profitable China market. Chiang Kai-shek, through his futile attempts to execute a massive counter-revolutionary military offensive, accelerated the existing rampant inflation and diverted money from programs essential to industrialization. The failure to implement his plan for industrialization added to the social dislocation and disillusionment of the Chinese population at large. This applied particularly to the peasants, for whom an improvement in the standard of living was essential for them to become consumers of American commodities. It was ironical for businessmen that this situation was realized when the unrestricted Open Door policy was removed by the Communists. American businessmen failed to
understand that approximately 80% of China's population were peasants who had little or no savings to buy American products. Other sectors of the society such as the intellectuals, civil servants, and small shopkeepers found themselves in a similar position as the peasants, because of the high rate of taxation. The small percentage of the population that could afford to buy American imports were Kuomintang officials and wealthy businessmen. Their demands were limited to luxury goods rather than the mass consumer commodities for which American businessmen hoped to find a market.

With the increase in Communist controlled territory, there was a corresponding decrease in the size of the China market. Of course, the Communists had engaged in limited trade with American businessmen but the real problem lay in the disruption of normal trading patterns within China. Traditionally, the functioning of the Chinese economic system depended on the maintenance of a viable communication system between the agricultural hinterland and the commercial centers on the coast. When the flow of commodities was interrupted, two undesirable effects were produced. First the manufacturing centers were forced to import foodstuffs and coal which seriously drained the already meager foreign exchange reserves and increased the enormous balance of trade deficit. Second, vital raw
materials such as tungsten and antimony located in Communist controlled territory were not available for export and this further complicated the balance of trade problem. The hinterland became increasingly self-sufficient and its market potential to the primary industrial centers, as well as to foreign manufacturers, decreased accordingly.

Not only did the Civil War restrict the geographic size of the China market, it also reduced the volume of trade, partly because of the rampant inflation. The inflation in China, the longest of any country in the twentieth century, occurred over a period of twelve years, from 1937 to 1949. During the war, the government attempted monetary controls but prices did not remain stable. Taking wholesale prices in 1937 as being the equivalent of 100, they had multiplied to 158,362 by 1945. The inability to control inflation during the war was the result of Japanese economic blockade, the collapse of inefficient market organizations, and the ineptitude of the Chiang Kai-shek government. Government outlays increased astronomically during the war but no attempt was made to offset the consequences of these high expenditures by higher taxation. The United States attempted a partial solution by infusing massive quantities of foreign exchange into the Chinese economy; but this was less than successful.24

In the postwar period most economic observers agreed
that it was the continuation of the Civil War which accelerated the already high rate of inflation. This inflation in turn produced a number of undesirable effects, one of them being the restriction of trade with the United States. One reason for this was the constant devaluation of the Chinese dollar in relation to the American. As a result, it was difficult to market American commodities because of their high retail costs. Second, the productive capacity of Chinese primary and secondary industries was seriously curtailed so that there were no surpluses available for export. Exports of Chinese raw materials and low priced manufactured commodities were essential to accumulate the foreign exchange necessary for trade. Finally, the uncontrolled inflation wiped out the savings of the Chinese middle class because most of the people in that category, such as teachers and civil servants, were on fixed incomes. The United States has managed to develop a lucrative foreign trade with other countries having governments as conservative as China's because the middle class, small as it may be, has remained economically viable. Spain and Brazil are two of many examples of where the middle class has been an outlet for American surplus production in the postwar period.

Throughout 1947 and 1948, the inflation further accelerated and the prospects for economic stability in the future were dim. The inflation became so serious that the
Kuomintang resorted to drastic measures to control it. Stringent currency controls were enacted along with a sharp reduction in imports in 1947 and 1948. There were substantial cutbacks in all areas from manufactured goods to raw materials, and these cutbacks were mostly those items imported from the United States. In 1948 imports of crude oil decreased 38% over the previous year, pulp and paper imports were reduced 7.7%, and raw cotton imported were down 26%. The controls were largely futile because the rate of inflation continued to increase during the period in which they were supposed to take effect. Given 1937 as being the equivalent to one, wholesale prices in Shanghai climbed to 3,724 in 1946. More than two yeaters later in August of 1948, wholesale prices reached 4,721,000.

The unstable economic conditions often produced labor unrest such as occurred in Shanghai in 1947 and 1948. This city, the most westernized in China, was the center for commerce where approximately 70 percent of the country's exports and 80 percent of the import trade was conducted. Shanghai was also the center for American economic activities such as banking and offered attractive investment opportunities, so it was important that labor relations remained stable. Compared to those in other urban areas, workers in Shanghai had a relatively high standard of living, but the period of rapid inflation after the Second World War produced
an atmosphere of apprehension and uncertainty. Shanghai was one urban metropolis where the industrial proletariat was well organized into unions and was committed to keeping wage levels in line with inflation. Strikes would frequently paralyse the commercial activity at the waterfront, resulting in enormous tieups for American exporters. One business journal in 1946 prophetically warned of impending labor strife if conditions were not changed.

Unless fundamental conditions change in Shanghai the latent civil war mood will one day break out into real fighting and cause an economic breakdown. The signs are ominous indeed. Labour in Shanghai is well organized and class conscious. The proletariat may, if the right moment arrives, sweep the larger part of the people with into a revolutionary bid for power.28

Some Chinese businessmen foresaw what the deteriorating political and economic situation would lead to and began moving to Hong Kong and safer places overseas. American businessmen were soon to follow.

By 1947, it was becoming increasingly clear to American businessmen that the China market was either a myth or that widespread reforms were needed in the Kuomintang along with the termination of the civil war. In February of 1947, The China Weekly Review reported:

For the past few weeks the problems of China's commercial intercourse with foreign nations, not to mention the problems regarding her internal
economic situation, have been pressing upon all of us. Reports of official corruption and inefficiency, reports of discrimination against foreign businessmen and reports of foreign economic imperialism have been rampant.  

Also in February of 1947, the *Far Eastern Economic Review* observed that

American traders cry out against the inefficiencies and corruptions so prevalent to-day in China, they protest against and they resent the steady deterioration of trading opportunities with China.  

At the end of 1947, Bernard Davids in an article for *Banking* gave an equally pessimistic account of developments in China.

The open door in China is closing. Today, after doing business for almost a century in one of the world's best markets, the American businessman finds himself discriminated against, handicapped and harassed. He might just as well fall in behind his army and join in the withdrawal from China.  

Davids found it difficult to understand why American businessmen should be treated so unfavorably since

American economic penetration into the Pacific has little political implication connected with it and is of so benevolent a nature that it may be criticized for being more sympathetic to the interests of the natives than to Americans.
In a study prepared for the IPR, Gunther Stein, a specialist on economic problems in the Far East, confirmed the widespread disillusionment and dissatisfaction among American businessmen who had anticipated a lucrative trade with China. In his research on American economic relations with the Far East from 1946 to 1947, Stein interviewed a representative cross section of American traders, manufacturers, bankers, insurance and shipping executives from three main areas, New York, the Middle West and the West coast. From his interviews, Stein concluded that two points of view were prevalent among businessmen. In the minority were those who were optimistic about the China market while in the majority were those who were skeptical about the Kuomintang's ability to reform the economy and increase productivity along with purchasing power. Stein also found that most businessmen had many serious complaints about a wide variety of issues. Businessmen were generally appalled at the corruption of the police and other administrative organizations. They were further annoyed by the reluctance of the Chinese government to settle prewar dollar obligations to American firms.

High on the list of grievances was the role government sponsored corporations would have in the postwar economy. The existence of corporations controlled by the Chinese government immeasurably obstructed the operations of private
American corporations. American businessmen soon began to realize that the abolition of extra-territoriality in 1943 did not have a positive effect on Chiang Kai-shek's attitude towards economic policy. Instead, the Generalissimo favored the existing "privileged family monopolies" over Chinese merchants as well as American.\textsuperscript{36} Up to 1947, American businessmen in general defended the Kuomintang's failure to bring about economic and political reforms because of the destruction by the Japanese and the civil war. Many now believed that Chiang favored those groups in the Kuomintang that wanted to establish "feudal control of China."\textsuperscript{37} Even those businessmen who were optimistic now put their hope in a "truly reformed and revived China.... very far into an indefinite future."\textsuperscript{38}

American businessmen were not only upset about the way the civil war was going, they were equally annoyed with the emerging Chinese nationalism and government control of the economy, as the Stein article and others suggest. During the Second World War they had recognized that with the abolition of extra-territoriality in China, new arrangements would have to be made regarding the rights and privileges of economic enterprises. A new formula was to be worked out in a Commercial Treaty which was eventually signed in 1946. For the most part, the new guidelines established for the operation of foreign businesses in China were accepted and many corporate officials were looking forward
to a prosperous economic relationship with China. What was overlooked, however, was the nature of the rising nationalist sentiment and the direction that it would take. Chiang sought to protect the privileged position of Chinese industrialists and financiers connected with the Kuomintang and practiced what foreign businessmen considered unethical and impractical economic policies. In short, corruption, severe regulation, political favoritism and bureaucratic infighting characterized Chiang's peculiar approach to modernization.

Two American historians have described Chiang Kai-shek's attempt to synthesize Chinese feudalism with modern capitalist institutions as a form of "gangsterism". The concept of gangsterism is appropriate to the extent that it applies to a situation where organizations exist but do not operate with any reference to established law or constitutional authority. In the Chinese context, a clique within the Kuomintang controlled the state apparatus, but did not legitimize their policies within a constitutional framework. They did not make policy with regards to the interests of the Chinese state and they did not even rule in the interests of the business class. Furthermore, the interests of American businessmen were either ignored or consciously undermined. Professor Chen Han-seng, a former professor of History at the National University of Peking, explained the operation of the Chinese government in the following passage:
Government monopoly in China, however, is quite different. It benefits only those bureaucrats who manage the state business, and only preserves private ownership to the extent that the private fortunes of government officials and their families are involved. The control rests exclusively with a few influential government functionaries. Rather than a greater socialization of production, government monopoly here inevitably intensifies the bureaucratization of so-called state owned businesses, scattering and impairing the forces of reproduction. 40

Within the Kuomintang ruling clique, there were five groups, each controlling a key sector of the economy. The first group, headed by Chen Li-fu and Chen Kuo-fu, controlled the newly created China Silk Corporation and had interests in the Farmer's Bank and the Industrial and Mining Bank. Chen Yi, the governor of Taiwan after the Second World War, was a prominent official in what was known as the "Political Science Clique." Its activities were connected with banking and the media. A third group, under the leadership of H.H. Kung, Minister of Finance during the war with Japan, was involved with bond and gold speculations, foreign exchange manipulations, and smuggling. T.V. Soong, President of the Executive Yuan until 1947, headed a fourth group which controlled the China Textile Reconstruction Corporation, Nanyang Tobacco Corporation, and the Kumsan Trading Corporation. The fifth group, under the leadership of Chiang Kai-shek, controlled the national
railway network, the China Steamship Navigation Company, and the National Resources Commission. Together, these families controlled a sizeable percentage of China's economic activity, and after the Second World War, their influence was continuously expanding, much to the dismay of American corporate officials.

American businessmen were expressly concerned with the encroachment of China's "Holy Family" in the export-import field and in the creation of national corporations which were competing against American businesses. In the import-export business, the difficulties encountered were so great that the Far East American Council and the National Foreign Trade Council complained to the State Department that the "Holy Family" was receiving preferential treatment on imports. For example, the Chinese government made it troublesome for American companies to obtain import licenses while Chinese companies had no difficulty. Under these pressures, Westinghouse International transferred its China distributor agency from William Hunt & Company to T.V. Soong's Fu Chung Corporation. Similarly, the Willys Motor Company transferred its jeep dealership to the same Chinese company, used by Westinghouse. These Chinese companies were also importing large quantities of foreign goods unhampered by foreign exchange regulations, quota import
licence requirements and other restrictions. Imports such as automobiles, radios and refrigerators, which were classified as luxuries, were strictly banned under import controls while the official trading corporations continued to import them. Often substantial profits were realized by import agents selling luxury goods on the black market. Most businessmen agreed that state controlled trading companies offered unfair competition to private enterprises and complained bitterly to the State Department about these practices.43

Another complaint received by the State Department from businessmen concerned the China Petroleum Company created by the Nationalist government to produce, refine, transport, import, and sell petroleum products in China.44 Given this wide range of economic activities, the Chinese company would have a virtual monopoly at the expense of foreign firms such as Standard Vacuum Oil, Shell, and Caltex. In a conference held with State Department officials, representatives from the Standard Vacuum Oil Company explained that the American government should convince the Kuomintang to reverse its policy of Nationalization because "private U.S. enterprise could under no circumstances compete with a Chinese government petroleum company."45 Because American oil companies were planning to spend approximately 100 million dollars to rehabilitate prewar distribution facilities, they had
to be assured of two conditions. It was imperative, first, that there be no competition from the Chinese government and, second, that American oil companies be allowed 51% ownership. In a memorandum to Leighton Stuart, Secretary of State Byrnes instructed the American ambassador to make it explicit to the Kuomintang that the "United States regrets any Chinese economic policies which discourage sound inflow of private capital on reasonable terms..." The State Department, however, found itself in a difficult position because it was suspected that aid given by the United States government was being used by the Chinese to finance state owned corporations.

In the summer of 1946, officials from Stanvac, Caltex, and Shell China, met with Wong Wen-hao, vice-president of the Executive Yuan and Chairman of the Board of the Chinese Petroleum Corporation. American oil representatives were particularly interested in the position of the Chinese government on the formation of a joint company with the C.P.C. to develop the oil fields on Taiwan. After discussing the issue of foreign influence in the C.P.C. with T.V. Soong, Wong Wen-hao informed American businessmen that "it was not contemplated that there would be any occasion to form a joint company with foreign interests." Dr. Wong explained that, for political reasons, the Chinese government would not permit the participation of foreign companies in the
development of the Taiwan oil fields. It was also emphasized to the oil company officials that "the Chinese Government is in the oil business to stay not only in exploration, production and refining, but in marketing as well." After hearing the position of the Chinese government on postwar economic development, American businessmen concluded that it was only in the remote areas of China, where the risks were high, that their capital and services were desired. Under these conditions, the economic prospects for American oil companies and other commercial enterprises affected by nationalized Chinese companies were severely limited.

While the continuation of the civil war and the economic policies of the Chiang Kai-shek regime were the most important factors in the demise of the China market, the trading practices of American businessmen in China should not be overlooked. At the end of the war with Japan, the economic influence of other great powers in East Asia was considerably reduced and the United States emerged as the dominant economic influence. American businessmen had a virtual monopoly of China's import trade, which rose to a high of 57% in 1946. This kind of situation could have been enormously profitable for American commerce if proper trading practices had been employed. However, because of the difficulties in finding markets for large surpluses during the reconversion period, some businessmen used China
as a dumping ground for cheap and sometimes useless commodities. American GIs, who had stayed behind in China to make some easy money, would often set up "fly-by-night" import companies and make profits as high as two and three hundred percent.\textsuperscript{50} These sharp business practices soon brought a hostile reaction from the Chinese press and domestic businessmen whose markets were drastically curtailed.

Two outlets were used to dump surplus commodities on the China market. Cheap items like watches, perfumes, and household goods were unloaded directly while surplus agricultural equipment was distributed indirectly through the UNRRA. Agricultural surpluses in particular could not be adapted to the semi-feudal agricultural system of China. One notable example of the impracticality of some of the goods delivered to China was cited by a UNRRA official on a tour of machinery depots across the country. After observing "huge piles of rusting, rotting, equipment" he then noticed "a monstrous machine with wheels as big as a room" and was asked by a Chinese official what it was. Being somewhat annoyed that the American couldn't answer the question, he then asked, "How can anyone in China be expected to put such a thing to good use.\textsuperscript{51} This particular piece of machinery as well as a variety of construction equipment requiring highly skilled American technical operators were indiscriminately dumped into China. Although the reaction
from the Chinese was not one of gratitude, this policy was not as serious as the dumping practices of American businessmen.

Not all businessmen practiced dumping, and those in official organizations such as CACCI tried to curtail the excesses of a few. Nevertheless, the problem continued to grow worse. CACCI officials were aware that the dumping of American goods was ruining Chinese domestic industries and this, in turn, contributed to the growing anti-foreign sentiment, especially in the urban areas. Furthermore, the unloading of surplus commodities was partly responsible for the new import quotas implemented by the Kuomintang in 1947 and 1948. These new regulations resulted in a decline of American commercial imports from a high of $297 million in 1946 to $101 million in 1948. J.R. Kaim, a close observer of the economic conditions of the Far East, concisely explained the demise of the China market in terms highly critical of American businessmen.

Flooded with American products often not of the highest quality—the market was ruined, step by step. Speculation in American goods became prevalent. American exporters must shoulder much of the blame for spoiling their own markets in China by the indiscriminate dumping of inferior products, which inevitably fell into the hands of speculators and hoarders.52

He went on to point out that, if American traders had not
been so anxious to realize quick profits, "the opportunities for American trade were brilliant indeed."  

In 1948 the Kuomintang endeavored to carry out limited political and economic reform in response to the renewed Communist offensive and pressure from the United States. The Kuomintang wished to mollify the United States because a new China aid bill was before Congress where a mood of skepticism prevailed about the ability of the Chiang regime to use financial assistance constructively. Token political reform was carried out with the promotion of the liberal minded Sun Fo to the position of Premier of the Executive Yuan. Hoping that the American Congress would quickly pass the aid bill; Sun Fo promised a relaxation of government controls and better treatment of American businessmen and investors. With regards to economic policy, currency reform was initiated, which Kuomintang financial wizards thought would slow down the run away inflation and bring about stability. But, as the Far Eastern Trader reported, businessmen remained pessimistic and viewed Sun's offer as being nothing but an opportunistic political gesture. Chinese as well as American businessmen believed reforms were for long range programs, and that, whatever the reforms dealt with, the existing rules, controls, and restrictions would prevail. It was not surprising, therefore, that a number of American companies moved their
Far East headquarters from Shanghai to Hong Kong and, as the Communist armies approached, the exodus accelerated.

Throughout 1948, military and economic developments reaffirmed the mood of despair and hopelessness of American businessmen. Militarily, 1948 was the decisive year which marked the turning point in the civil war. Chiang's armies lost a series of key battles, culminating in the defeat at Soochow. After the fall of the Kuomintang's main base in central China, the Communists controlled a larger percentage of China than the Nationalists, in terms of area and population. Along with the military defeats came a number of economic setbacks. The currency reforms did not stabilize the inflation and, by December 1948, wholesale prices in Nanking, then the capital, had risen to 8,740,600 from a base of 1 in 1937. Foreign exchange reserves were non-existent and most of the government budget was financed by deficit spending. In a review of the economic situation in China in 1948, the United States Commerce Department concluded that

Economic conditions at the end of 1948 gave very little reason for optimism regarding private foreign trade in 1949. As in 1947, the National Government was forced to exercise a great amount of control over foreign trade in an attempt to balance its international payments position by reducing imports and encouraging exports. By the end of the year, financial and monetary reforms of August 1948 had begun to give way under the
impact of an unbalanced budget made necessary by the civil war, and inflation was in full swing....59

With the declining prospects for trade and investment in China, American businessmen examined the alternatives. Theoretically there were three possibilities open to corporate officials. First, they could expand domestic markets, especially those on the West Coast, where many businesses that formerly traded with China were located. The second option was to redirect their search for profitable economic opportunities and establish new markets in other Asian countries. The third alternative was to explore the potential for trade with the Communists since, by 1948, it was clear that Kuomintang's days in power were numbered. Of course, businessmen had considered these alternatives before the impending collapse of the Kuomintang was realized, but after 1947, the search for new economic opportunities assumed an even higher priority.

Of the three possibilities, the expansion of domestic markets was the most unlikely. For a short time after the Second World War, the American economy was expanding because of the high demand for consumer goods, the rapid technological growth during the war, and the heavy export of goods and services at an annual record rate of $20 billion compared with imports of only $8 billion.60 Even though the United States preserved a favorable balance of trade,
the initial stimulating effects of the expanded domestic market subsided, so that, by the end of the decade, the country was experiencing a mild recession. Because of a high level of unemployment and a decline in consumer demand, the domestic market decreased substantially; and it was only after the outbreak of the Korean War that the performance of the American economy improved because of the enormous outlays for defense by the Truman Administration.

Defense spending has undoubtedly been an important factor in explaining the stability and periods of economic growth characteristic of the American economy since the Second World War.\(^6\) For example, in 1949, after a year of recession, the GNP was $256.5 billion; military expenditures were $13.3 billion; and unemployment was 5.9 million. When the Korean War ended in 1953, the GNP had risen to $364.6 billion; the military budget climbed to $48.7 billion; and unemployment fell to 2.9 million.\(^6\) There is certainly no evidence to suggest that, after losing the China market in 1949, businessmen pressured the government to expand the military sector in order to expand domestic markets. Nor for that matter did the Truman Administration want to increase the military budget before the Korean War broke out, in part due to the accelerating postwar inflation.\(^6\) What is of significance, however, is that defense spending supplemented by a growing foreign trade with non-communist Pacific Rim
countries brought unprecedented growth in terms of population and industry to the United States, particularly the west, and the loss of the China market was but a distant memory. 64

Since American businessmen affected by the loss of the China market did not foresee the growth of the Military-Industrial-Complex and its consequent stimulation of the economy, they began to develop further markets in other East Asian countries. The Far East Trader, a widely circulated newsletter published in San Francisco, noticed a dramatic change in the attitude of the business community toward the China market in 1948. Reflecting the views of businessmen, the newsletter noted in an editorial that there would be less coverage of China and more of Japan, Philippines, Hong Kong, Siam, Singapore and India. 65 There was good reason for businessmen to shift their attention to other Pacific Rim countries because of their expanding markets and favorable political climate. In 1952 American trade with the Far East amounted to $2.1 billion, in 1962 it rose to $4 billion, and by 1972 was over $6 billion. 66 Throughout the 1960's the Pacific Rim was the fastest growing trading area primarily due to military spending in South-East Asia.

After their experience in China, American businessmen became increasingly sensitive to the importance of political
stability as a prerequisite for a profitable economic relationship. Immediately after the war with Japan, most of Asia was engulfed in political turmoil which was a manifestation of the emerging national consciousness developing in reaction to European and Japanese imperialism. American businessmen were reluctant to invest or to establish long term trading relations with countries in the midst of social revolution such as existed in Laos, Vietnam, China and, to a lesser extent, the Philippines and Malaysia. Nevertheless, by the early 1970s, countries such as Thailand, Burma, and the Philippines had implemented effective counter-insurgency programs and political stability became the order of the day. Businessmen were quick to take advantage of this situation, for example, in the Philippines, where American investment rose from $188 million in 1953 to over $700 million in 1970. Under the Laurel-Langley Trade Treaty signed in 1955, American exporters have realized a significant market with trade between the countries totalling $835 million.

Probably the most successful market for American capital and surplus production in East Asia was Japan. Only two years had passed since the end of the war in the Pacific before it became evident that Japan's industrial economy would be restored in order to establish an anti-communist outpost in the Far East for strategic as well as
political reasons. Noting this new development along with their experiences in China, American businessmen by 1947 came to see Japan as a country offering unlimited economic opportunity. The Japanese had always interested American businessmen and, before the Second World War, the country of the rising sun led the other East Asian nations in terms of investments and trade with the United States. American industrial products from manufactured goods to scrap iron were in high demand and the capital requirements of a rapidly expanding economy were considerable. Low wages and a highly disciplined industrial working class meant reduced production costs and offered profitable investment opportunities for bankers and financiers in Japanese industry.

In the postwar period under the authoritarian occupation administration of General MacArthur, Japan proved to be economically and politically superior to China as an area for trade and investment. In 1947, trade restrictions were removed and American imports came to $429 million or almost twice that for China in that same year. In the following year, production controls on war related industries and anti-trust programs were removed, while union activity was discouraged by the occupation authorities. With the reinstatement of former businessmen and officials who were associated with the wartime Japanese fascist ruling elite, it became apparent that Japan provided excellent opportunities for American businessmen.
received privileged treatment from the occupation authorities and so came to dominate the foreign trade of Japan. Of the 1,027 foreign traders in Japan in 1949, 495 were Americans while the British came second with 176. For most of the postwar period, Japan came to be the largest market in the Far East for American iron ore, coking coal, scrap iron, raw cotton and wheat. Only recently, with the increasing competition from Japan for world markets and the unfavorable balance of trade with the United States, have commercial relations between the two countries become strained.

American businessmen were quite flexible and pragmatic in their search for markets and even considered the third alternative of trading with the Communists. As early as 1947, American traders were engaging in commercial transactions with the Communists in North China through the port of Cheefoo. Chinese bristles, camel wool, and embroideries were exchanged for a variety of American manufactured goods. Trade with the Communists continued until the end of the civil war in 1949 and actually expanded during that period while they realized that economic relations with the Kuomintang were becoming increasingly difficult, businessmen remained ambivalent about the future intentions of the Communists. Gunther Stein, in his study of corporate attitudes across the United States, noted that most businessmen
were impressed with the sound economic reforms carried out by the Chinese Communists but were skeptical about the long range goals. Many corporate officials believed that the Communists would go further than primitive democratic economic reform and would eventually align themselves with the Soviet Union. The apprehension of businessmen later proved to be unfounded for the alliance with the Soviet Union was one of necessity rather than one based on ideological affinity.

Part of the mistrust of the Communists stemmed from the virulent anti-American propaganda emanating from the radical press and pamphlets distributed at anti-foreign protest demonstrations. There was more than a grain of truth in the Chinese propaganda since the United States allocated over three billion dollars in aid to the Kuomintang which was used for military as well as civil purposes.

It should be pointed out, however, that Communist criticism was not an absolute condemnation of the United States, but, as one seasoned observer of the Chinese political economy noted, it was directed at "the U.S. Government and its China policy, not at individuals." As far as the anti-capitalist content of the Chinese propaganda was concerned, it was more rhetoric than a statement of policy. The term "agrarian reformers" used by some of the more informed State Department officials was an accurate
description of the Chinese Communists at that particular stage in their development. The most radical aspect of the Communist program was the elimination of the landlord system in the rural areas. In the urban areas, Kuomintang bureaucrats were removed from power and business monopolies were dissolved but private investments in industry, for the time being at least, were tolerated. According to Mao, the Communist Party’s industrial policy was directed "at the development of production, prosperity to the economy, equal treatment to the public, and profit to labor and capital." Mao’s comments on the importance of industrialization and the role of private capital were consistent with his earlier remarks made to John Service, the State Department official, during his visit to Yanan in 1944. At that historic meeting, Mao emphasized to Service that

China’s greatest post-war need is economic development. She lacks the capitalistic foundation necessary to carry this out alone. Her own living standards are so low that they cannot be further depressed to provide the needed capital.

America and China complement each other economically; they will not compete. China does not have the requirements of a heavy industry of major size. She cannot hope to meet the United States in its highly specialized manufactures. America needs an export market for her heavy industry and these specialized manufactures. She also needs an outlet for capital investment.

China needs to build up light industries to supply her own market and raise the living
standards of her own people....
America is not only the most suitable
country to assist this economic
development of China; she is also
the only country fully able to par-
ticipate.81

Mao was, of course, trying to encourage the United States
to send military aid to the beleaguered Communists and his
generous offer must be seen in that context. Nevertheless,
on a number of occasions between 1944 and 1949, the Com-
munists reaffirmed their tolerance of foreign businessmen
who complied with government regulations. The Communists
also let it be known their desire to participate in mutually
beneficial trade relationships and promised sizeable mar-
kets for foreign industrial products.

There is no evidence to suggest that businessmen were
aware of Mao's position on foreign trade and capital invest-
ments as indicated to John Service in 1944; but there were
several reports in 1948 and 1949 that led them to believe
that commercial intercourse with the Communists was con-
ceivable. In January of 1948, the Far Eastern Economic
Economic Review published a summary of Mao's statement of
the Chinese Communist Party's position on economic issues.
Mao reiterated that

The New Democratic Revolution is only to
eliminate feudalism and monopoly capital-
ism, the landlord class and the bureau-
cratic bourgeoisie (big bourgeoisie),
not capitalism in general and not the petty
bourgeoisie and the middle bourgeoisie. Owing to the backwardness of China's economy, it will still be necessary to permit the existence for a long period of the capitalist economy represented by the broad petty and middle bourgeoisie even after the nation-wide victory of the revolution.82

Mao also underscored the necessity of foreign capital and technical expertise to facilitate China's modernization.83 On March 15, 1949 the Chinese Communists introduced new regulations governing trade with foreign nations. Specific regulations covered import duties, procedures for obtaining trade permits, and penalties imposed for smuggling.84 J.H. Keswick, Director of Jardine, Matheson Company, an American trading Company with an office in Shanghai, even welcomed the new commercial legislation with considerable enthusiasm. Keswick felt that the Communists were quite realistic in their approach to trade reform and that economic relations with China would be stimulated.85

The anxiety of businessmen concerning Chinese Communist ideology mentioned in the Stein survey had subsided by 1949. To be sure, businessmen were still somewhat wary of long term political developments in the Chinese People's Republic but believed business conditions could not be any worse under the Communists than with the Kuomintang.86 The Chinese revolutionaries did not put American traders on a black list, even after the many years of American political
and economic support for the Kuomintang. Instead, whoever wanted to trade was welcome, provided they agreed to the rather difficult conditions of shipment and payment beforehand. The Communists were not prepared to offer American businessmen the favorable terms of trade that the liberal reform faction of the Kuomintang was ready to give but unfortunately the alternatives that remained open were quite limited. Right up to 1949, the Kuomintang remained firmly entrenched in its feudal past and it was only after considerable pressure from the American government and after the retreat to Taiwan that economic relations improved. As far as relations between American businessmen and the Chinese Communists were concerned, both sides remained open and flexible until 1949. At that time to rephrase a popular Mao quotation, "Politics took Command."

In 1949 Secretary of State Dean Acheson officially announced the beginning of the United States Far Eastern program for counter-revolution in his well known letter of transmittal. According to Acheson, the Chinese Revolution was connected with the imperatives of "Soviet Russian imperialism" but he was confident that "ultimately the profound civilization and the democratic individualism in China will reassert themselves and she will throw off the foreign yoke." To facilitate the restoration of a counter-revolutionary political economy Acheson suggested that the
United States "encourage all developments in China which now and in the future work toward this end." Politically the United States attempted to isolate China by not granting diplomatic recognition and by restricting its entry into the United Nations. The containment policy also affected economic relations, and what this meant to American businessmen was that commercial intercourse with the Chinese People's Republic would be suspended with the imposition of an economic blockade.

The trade embargo levied against the People's Republic of China was applied gradually, commencing early in 1949. At that time American sales were "licensed with great care" so as "to deny those goods which would increase the strength of the Communist armed forces." Later in 1949, after Mao's announcement proclaiming the creation of the Chinese People's Republic, the American government extended trade controls to about 100 additional strategic items. When the connection between the revolution in China and the Mecca of world Communism in Moscow was established in the minds of American State Department officials, it did not take long before controls on exports to China to become co-extensive with controls on shipments to the Soviet Union and Eastern Europe. New restrictions were imposed in March 1950 and three weeks after the outbreak of the Korean War, all shipments of what were considered strategic items were terminated. In December
of 1950 all trade between the two countries was cut off after the Chinese officially entered the conflict. Any American citizen or company doing business with China after 1950 was liable to be prosecuted under the Trading with the Enemy Act of 1917, a deterrent which proved to be effective for twenty years.

For the most part, American businessmen complied with the new trade regulations and did not complain about the loss of the China market as they did when the Chiang Kai-shek regime hastened its demise. Not one business journal or trade organization discussed the effect of the "loss of China" on the American economy or the prospects for trade in the future. This was not surprising because the Foreign Commerce Weekly reported that American foreign trade was at an all time high in 1951, the first year the total blockade of China became effective. On the other hand, total American trade and investments in China amounted to considerably less than 5% of the total and was rapidly declining, a situation that was comparable to the Soviet-American economic relationship in 1917. Generally, business journals accepted the Truman Administration's position that trade restrictions were essential to national security. To be sure, this was a somewhat unusual attitude for American businessmen to take, given the history of relations between the corporate elite and political elite on foreign policy.
issues. But taking into consideration the fact that the China market would be restricted, and that other markets were found, it becomes easy to see how exigencies of the Cold War took precedence over any short term financial gain. In short, foreign trade, instead of being an end of policy, now became an instrument of policy, at least as far as American relations with China were concerned.

In summary, the transformation of businessmen's perceptions of China based on mythical assumptions to a more realistic and balanced analysis was quite dramatic. For the most part, the change in outlook was essentially a reaction to the political and economic policies of the Kuomintang. Politically, the Chiang Kai-shek regime refused to recognize the Communists as a legitimate party and considered a negotiated settlement with them out of the question. Instead of compromise, Chiang favored a military solution to his internal problems, and this led to the outbreak of hostilities in the latter half of 1946. Chiang's conduct in the economic sphere was also a significant factor. Officially, he espoused a program of reform and industrialization in which American commercial and financial interests could participate. In fact the opposite proved to be the case, since American businessmen were excluded from any meaningful role in China's development by the passing of stringent import quotas and unfair duties as well as
strict regulations concerning the ownership of domestic corporations.\(^94\)

Additional factors related to the crisis in the Chinese political economy were a spiralling inflation, disruption of commerce between urban and rural areas, and the flight of domestic capital to more secure locations.\(^95\) To compound the difficulties for American businessmen, UNRRA funds to China were terminated which reduced American exports to that country by one-third. Relations with the Chinese deteriorated with the rise of anti-foreign sentiments in the urban areas and one reason for this as pointed out earlier was the practice of dumping cheap American commodities which drastically curtailed the growth and production of domestic industries. The combined implications of these factors, generally went unnoticed by businessmen until 1947.

Ultimately the political and economic upheaval which was primarily responsible for the failure of the China market to become a reality, must be viewed in the historical context of the twentieth century. Contradictions within the Chinese political economy had been sharpening for over five decades and the above mentioned factors added fuel to an already raging revolutionary fire. Unfortunately businessmen were caught in the final stages of the Chinese holocaust only one year after the defeat of Japan. On a more positive note businessmen had other options open but more importantly they
didn't have that much to lose except perhaps the historic myth of the China market.
FOOTNOTES


5 Ibid.

6 Ibid.


8 The China Weekly Review, December 18, 1946, 42.


19. Economist, October 20, 1945, 547.


Colin D. Campbell and Gordon C. Tullock, "Hyper-inflation in China, 1937-49," The Journal of Political Economy 62 (June 1954) 238; Yu-Kwei Cheng, Foreign Trade and Industrial Development of China, 159. Estimates on military expenditures vary between two-thirds and three-quarters of the total budget which partly accounts for the high rate of inflation. The enormous expenditures on the military should not be isolated as an independent factor explaining China's social and economic malaise but should be seen as a response to a threat (CCP) to previous social and economic dislocation.


Bernard G. Davids, "Asia's not so open door," Banking, November 1947, 35.

Ibid., 40.


Ibid., 6.

These complaints were passed on to the State Department. See U.S. Department of State, Foreign Relations of the United States, 1946, The Far East: China, 1342-1403.

Stein, 3.

Ibid., 7.
38 Ibid., 8.


45 FRP, Far East: China, 1946, 1375.

46 Ibid., 1380.

47 The Chinese Petroleum Corporation was managed by the National Resources Commission, an agency controlled by the Chiang Kai-shek group.


53 Ibid., 257.

54 See Tang Tsou, America's Failure, A62-469.

55 Far Eastern Trader, December 8, 1948, 280.


58 Joyce and Gabriel Kolko, The Limits of Power, 272.


64 Historically, China had been an important market for West coast petroleum products, dried fruits, canned fruits,

65Far East Trader, November 17, 1948, 257.
72Far East Trader, June 15, 1949, 85.
73Ho, The Far East in World Trade, 192-94.


83 Ibid. Mao Tse-tung pointed out that "Favourable terms should be offered to induce foreign capital and
technical help to China for the purpose of achieving national industrialization."


85 Far East Trader, July 29, 1949, 98.


87 See J.R. Kaim "Trade Prospects in China, Far Eastern Survey (June 1, 1949), 123. Also Far Eastern Economic Review, March 23, 1949, 501. Hong Kong businessmen realized there were difficulties with shipping and currency exchange but felt that enormous profits could be made. Moreover, it was believed that there would be sizeable increase in the volume of trade.


91 All the major business journals examined were listed in the Public Affairs Index and the Social Science Index. The annual convention of the National Foreign Trade Council were consulted from 1949 through 1950 which produced no reference to the market potential of the People's Republic
of China. Only one article on the China market was found in a small Communist publication. See Victor Perlo, "Can we do business with China," New World Review VIII (September, 1951), 37-41.

92Foreign Commerce Weekly, April 28, 1952, 3-7.


94See Tang Tsou, America's Failure, 122-23. According to Tang Tsou, contradictions between program and practice had plagued the Kuomintang since 1927.

CONCLUSION

One can look back over a half of a century from 1899 to 1949 and describe the China market as being little more than a myth or an illusion, given the reality of the political economy of that country. Although some China watchers, particularly those officials in the State Department with first hand experience in the Far East, had always maintained reservations about the economic potential of China, most businessmen did not. They did not at least from 1943 to 1946, a period when wild speculation about the lucrative profits to be found in the Orient was rampant.

Two conclusions can therefore be drawn about the behavior of businessmen at this time. Businessmen either did not consult any critical reports about the Kuomintang or they simply dismissed information that would have led to a more realistic assessment of the China market. Certainly further research is needed to establish more clearly how much information businessmen had about the negative aspects of Kuomintang's foreign economic policies and the general economic and political situation in China. On the other hand, however, it can be demonstrated that there were a number of good reasons why American businessmen did want...
increased trade and capital investments in China until at least 1946.

Briefly, the reasons for the initial optimism of businessmen are as follows. First, businessmen had received assurances from American political officials that the United States government was committed to the stabilization of the Chinese government. The Roosevelt Administration had demonstrated its interest in the economic future of China by sending the Nelson mission in 1944 to evaluate Kuomintang economic policies during the war and to make recommendations for the future. Later in 1945, President Truman sent Edwin Locke, the noted New York Banker, on a similar fact-finding tour. Further confidence was instilled in businessmen when General Marshall departed for China in the winter of 1945 to avert civil war by opening negotiations between the Kuomintang and the Communists. The American government's support for the Kuomintang remained relatively constant until 1948 when the decision to abandon Chiang Kai-shek was made. It had been demonstrated by that time, however, that the interest of businessmen in the China market had waned considerably.

Another reason for the optimism of businessmen can be found in the initiatives taken by the Chinese government to convince Americans that economic and political reforms were being made. Politically, Americans had a favorable impression of the Kuomintang in part due to the skillful
public relations program launched by Madame Chiang Kai-shek during her visit to the United States in 1943. Generally, Madame Chiang presented the Kuomintang as being the defender of freedom, democracy, and constitutional government hoping that after the war both countries would work closely to maintain these ideals. Not only would there be close cooperation between the two countries on political issues but there would be a mutually beneficial economic association as well. Chiang Kai-shek's repeated promises to implement a national program of reconstruction after the war, using American surplus capital and commodities were, needless to say, somewhat deceptive. With regard to Chinese foreign economic policy, internationalism and cooperation were emphasized which were a marked contrast to the jingoism and xenophobia found in Chiang's book, China's Destiny.3 As to the domestic political situation, stability and democratic government were presented as the norm rather than the pervasive corruption, nepotism, and bureaucratism. In short, an illusion was created by Kuomintang officials that did not correspond to reality.

Finally, the interest and enthusiasm of businessmen for the China market can be partly explained as a function of the American postwar political economy. After 1943, when it became clear in which direction the war was going, American corporate officials saw foreign economic expansion
as the solution to the problems arising from the changes in the economic landscape.

First, there was a tremendous expansion of the economy and this is reflected in the increase of the national income which rose to a peak of $161 billion in 1945, as against $71 billion in 1939. Gross national production rose from $90 billion in 1939 to $187 billion in 1943 and climbed to $200 billion in 1945. Second, there was a sizeable increase in the export market. During the decade 1929-1939, American exports ranged between $1.6 billion and $3.8 billion annually but in 1945 exports jumped to $14.3 billion. Out of this figure, $2.8 billion represented the regular export trade and $11.5 billion the amount of lend-lease to the allies. It was recognised that, after the phasing out of the lend-lease program, new markets would have to be found or there would be a serious unemployment problem. Third, there was an increase in the labor force due to demobilization and an increase in productivity from automation. If no markets were found for the surplus production, official estimates indicated that the national income would drop by 15% or more after the war and that the unemployment figures in the Spring of 1946 were projected as being as high as five to ten million people. Keeping in mind these changes in the American economic situation and the enormous problems confronting businessmen as a result of these changes, their misperception of the China market certainly becomes more
Although this thesis did not focus on the relationship between the corporate elite and the political elite, some comments on this point should be made in conclusion. Those New Left historians who emphasized the economic factor in the determination of policy should be aware that there are limitations when applied to Sino-American relations after World War Two. As has been demonstrated, the changing attitude of businessmen from 1943 to 1949 was in response to the demands of the postwar domestic political economy, the escalating civil conflict within China, and the availability of genuine market alternatives. Yet, after the Revolution in 1949, the decision to trade and invest in China was not based on a "rational" analysis of the economic potential of China but seemed to be based on ideological and balance of power considerations. Moreover, the decision to break off economic relations was not discussed by businessmen nor was it made by businessmen. Not surprisingly, the termination of trade relations was not in the interest of businessmen. It could be argued that, by 1949, the China market was hopeless and businessmen did not have that much to lose, but, from a position of hindsight, one can see that the China market for Soviet exports during the 1950's was quite substantial, as it was for Japan in the 1960's. In other words, if a decision had been based on a "rational"
economic calculation, businessmen would have been encouraged to trade with the Chinese Communists after 1949.

Turning to the second question posed in the introduction, it is clear that no single factor can be isolated to explain the demise of the China market. Uncontrolled inflation, labor problems, graft and corruption within the Kuomintang, a shortage of foreign currency reserves because of insufficient supply of commodities for export, and the resumption of domestic conflict between the Kuomintang and the Communists are only a few of the reasons why economic relations between China and the United States remained in limbo.

It is misleading, however, to focus entirely on the political and economic disintegration within China as the only cause. In a way, American businessmen had themselves to blame for the failure of the eldorado in the Far East to materialize. No attempt was made to analyse what commodities would be suitable for the Chinese market. Also, the dumping practices employed by some American businessmen increasingly weakened the economic situation as well as contributing to the growing anti-American sentiment.

Finally, when the Chinese government in 1948 sought to obtain further assistance through the China Aid Act, the U.S. Chamber of Commerce in China stated publicly that
This chamber wishes to place itself on record as being opposed to granting further American economic aid to the Nationalist government except on a quid pro basis and on such terms as will guarantee the effective use of such aid in the interests of Sino-American relations, or at least in the interests of China as a whole, rather than for the benefit of "self-interest" groups in the past.5

Two years later American State Department officials connected with the "sellout of China" came under fire from Senator McCarthy, but it is evident that they were not the only ones who were reluctant to support the Nationalist regime.

As to the third question concerning alternatives, there are two reasons why businessmen had little difficulty making adjustments. First, a substitute for the China market was not that difficult to find because American exports of capital and commodities never amounted to more than five percent of the total. Even though China was perceived as being a more significant market than it really was, its failure to materialize did not adversely affect businessmen because markets elsewhere throughout the world proved to be unexpectedly successful. Secondly, businessmen were not ideologically committed to the Chiang Kai-shek regime and therefore to break the somewhat precarious relationship and pursue other options, was not very difficult. If businessmen interested in the China market had any redeeming
virtues, it was that they were quite flexible and pragmatic when it came to searching for alternatives because they were willing to trade with the Chinese Communists. Unlikely as it may seem, the possibility of establishing a partially Open Door in the People's Republic of China in 1949 was reasonably good. After their encounter with the uncooperative Nationalists American businessmen were willing to sell everything but their souls to the red bandits of Yenan.
CONCLUSION

FOOTNOTES


BIBLIOGRAPHY

A. PRIMARY SOURCES

1. Newspapers and Periodicals


Asia and the Americas, 1944-1946.

Banking, 1945-1949.


Contemporary China, 1944-1945.


Foreign Commerce Weekly, 1944-1946.

Fortune, 1943-1945.

Forbes, 1944-1945.


Sales Management, 1944.

2. Articles

Davids, Bernard G. "Asia's Not So Open Door," Banking, XL (November, 1947), 32-44.

Gidlow, Elsa. "Our Post-War Trade with China: How Big is the Potential?" Sales Management, (June 1, 1944), 23-26.


Oppenheim, Stuart Ramsey. "What are the Post-War Marketing Opportunities for the Pacific Coast?" Western Advertising, (November 1943), 37-38, 102.


Rosinger, Lawrence K. "China as a Postwar Market," Foreign Policy Reports, No. 20 (January 1, 1945), 250-263.


Tamagna, Frank M. "Financial Problems in China's War and Postwar Economy," Pacific Affairs, XV (September 1942), 325-344.


Wolcott, Sidney O. "Postwar China Will Beam to Tourists," Foreign Commerce Weekly, No. 20 (July 14, 1945), 6-7.


3. Books


Chih Tsang, China's Postwar Markets, New York, 1945.


Dietrich, Ethel B., Far Eastern Trade of the United States, New York, 1940.

Dulles, Foster Rhea, Behind the Open Door, New York, 1944.


Jenkins, Shirley. Trading With Asia, New York, 1946.


Radius, Walter S. United States Shipping in Trans-Pacific Trade, New York, 1944.


GOVERNMENT DOCUMENTS


U.S. Senate, Committee on Armed Services and the Committee on Foreign Relations. Military Situation in the Far East, Hearings. 82nd Cong., 1st Sess. 5 parts, Washington, D.C., 1951.


BUSINESS ORGANIZATIONS:

PUBLICATIONS


ARTICLES


Israel, Jerry. "For God, for China and for Yale--The Open Door in Action," The American Historical Review, LXXV (February, 1970), 796-807.


SECONDARY WORKS

1. Books


Friedman, Edward and Mark Seldon. *America's Asia*.


**UNPUBLISHED MATERIAL**


