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THE UNITED STATES AND THE HUKUANG RAILWAYS:
A CASE STUDY IN OPEN DOOR DIPLOMACY

By

Wen-xian Xu

Graduate of Beijing Foreign Languages Institute, 1977


Presented in partial fulfillment of the requirements for the degree of

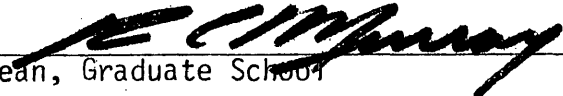
Master of Arts

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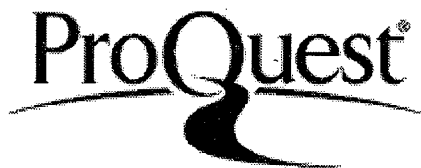


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History

The United States and the Hukuang Railways: A Case Study in Open Door Diplomacy (112 pp.)

Director: Donald S. Spencer *DS*

This thesis is an analysis of President William Howard Taft's dollar diplomacy and the open door in China through American railway ventures in central and southern China from 1909-1913. Documentation for the work consists primarily of the American State Department correspondence on China cited in *Foreign Relations of the United States* (Washington: Government Printing Office, 1901-1905, 1908-1913).

American participation in the Hukuang railway enterprise was part and parcel of a gigantic American overseas commercial and financial expansion during the first two decades of this century. Throughout the negotiations of the loan, the American government under President Taft and Secretary of State Philander Knox took the initiative in promoting American business interests in China. The American banking group was organized by the State Department and used as a semiofficial instrument in securing a foothold in the China market and in carrying out Taft's new economic policy in China. The Open Door Policy was repeatedly invoked by various powers during the negotiations as an effective weapon to justify their claims and protect their interests in the Chinese empire. American entry into the Hukuang project prolonged the loan negotiations, intensified international rivalries in China, and contributed directly to the outbreak of the 1911 Chinese Revolution.

Dedicated to
Ellsworth and Lynn Cragholm,
my American parents.

ACKNOWLEDGMENTS

I express profound gratitude to Dr. Donald S. Spencer, my director, for his painstaking efforts in guiding me through the research and writing of my thesis; to Dr. David M. Emmons, for his valuable criticisms and suggestions concerning the content and style of my thesis; and to Dr. John B. Wang, for kindly acting as a member of my thesis committee. Without their instructions and guidance, this project could never have been completed.


I also am greatly indebted to Ellsworth and Lynn Cragholm who, in the past two years, have shown great concern for me and my career. Their love and care have served as a constant inspiration to me in my graduate studies. Without their generous financial assistance, I never would have had an opportunity to improve myself at the University of Montana. Also special thanks to Lynn who has done so much in the editing and typing of my thesis. Her patience, knowledge, and critical eye have substantially helped improve the quality of my work.

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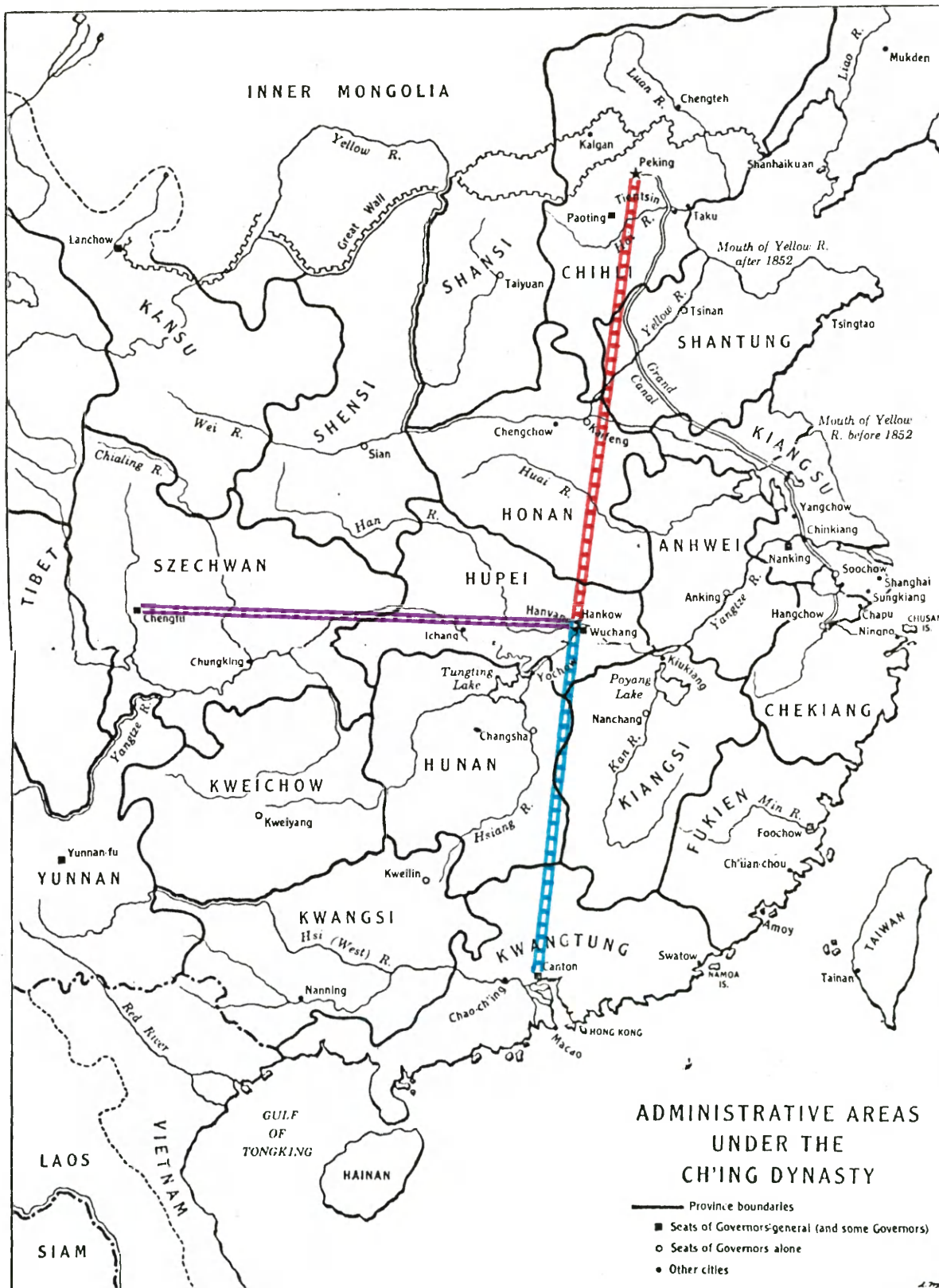
 Peking-Hankow Railway

 Hankow-Canton Railway

 Hankow-Chengtou Railway

Source;

John K. Fairbank, *The United States and China* (4th ed.
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Chapter 1

INTRODUCTION

The Sino-Japanese War of 1894-1895 produced a tremendous political and psychological impact on the Chinese Empire. For the first time in modern times, China was defeated by Japan--a small neighbor which long had been considered inferior to the Great Central Kingdom. That humiliating war clearly revealed the fatal weakness and incompetency of the empire, and inspired a rivalry among imperialist powers competing to expand at China's expense. The powers rushed to the China scene and demanded their shares of the Chinese melon, wasting no time in taking advantage of the expected breakup of China.

The problem-ridden Ch'ing government could find no effective means to resist the demands for special economic and political privileges put forward by these concession hunters. During the few years following China's defeat, each major imperialist power carved out a generous piece of China as its exclusive sphere of influence. China's territorial integrity and political independence were gravely threatened by Russia in Manchuria, by France in southern China, by Germany in Shantung, by Japan in Fukian, and by Great Britain in the Yangtze River Valley.¹

The war also served as an eye opener to many of China's high ranking officials, and particularly members of the intelligentsia, by making them more consciously aware of the incompetency of the

empire and the urgency of the need for reform. Petitions and proposals for economic, military, political, and institutional reforms were submitted to the Imperial Government. Among the various reform programs, railway construction was given priority as one of the chief methods to modernize the country, to develop its interior, to facilitate its defense, and to strengthen the authority of the Imperial Government so that one day the Great Central Kingdom might once again be on its feet, a vital nation capable of competing with the imperialist powers.²

One question, however, remained to be answered: where could China obtain the money needed to build its railways? On the verge of total bankruptcy, the Chinese Imperial Government could not possibly provide the funds to finance the railway projects. There was but one alternative: to borrow money from the powers.

China was reluctant to approach the European powers and Japan for financial aid because past experience had taught the Chinese that these powers surely would make use of the opportunity to acquire more concessions from China and to extract more economic and political privileges. Borrowing money from these powers, the Chinese authorities feared, would further weaken China's position and gradually reduce her to the status of a dependency to the imperialist powers. Besides, any further complication in the already chaotic situation of the empire would probably give rise to widespread popular resentment and unrest and well could contribute to the downfall of the Imperial Government.

Out of this consideration, China granted an important railway concession--the Peking-Hankow line--to the Belgians who presumably were incapable of constituting a major threat to the Chinese Empire.³

But Chinese officials soon discovered that the Belgian corporation was but a front for French and Russian financial interests. "There is ground for believing that this Franco-Belgian-Russian project was but part of an ambitious scheme," Historian Westel W. Willoughby wrote, "under which the Russian sphere in the north would be ultimately united to the French sphere in the south."⁴ That was exactly what the Chinese had tried desperately to avoid. This turn of events helped American bankers in the contest for the rights to construct another important trunk line: the Hankow-Canton railway.

After careful consideration, the Chinese government decided to seek financial assistance from the Americans who so far had not taken advantage of China's difficulties by claiming political accommodations in return for monetary assistance. In the eyes of the Chinese, the United States was less aggressive than the European powers and Japan. Although it had enjoyed, and had no wish to relinquish, the same treaty privileges and extraterritoriality in China as the other powers, the United States had not, so far, made war to force concessions from China. Furthermore, in the field of railway development, the Americans had accumulated valuable experience through the construction of their transcontinental railways.

On 14 April 1898, Wu Ting-fang, the Chinese Minister in Washington, signed a loan contract with A. W. Bash, representative of the American China Development Company. In the contract, the Development Company undertook to finance the Hankow-Canton railway, and to supervise its construction and operate the railway during the 50-year loan period.⁵ The Hankow-Canton project was the first

important concession American bankers had acquired since China had turned to seek foreign loans for the construction of its railways.

After a survey of the projected route during the winter of 1898-1899, the company requested a substantial revision of the loan contract to include several branch lines and absolute American control of the enterprise. Each of the four major branch lines proposed by the company was, by itself, long enough to be an independent railway. Together with the Hankow-Canton line, they would cover two thirds of southern China.

The Chinese government considered the American terms excessive and unacceptable, and was determined not to approve them.⁶ The loan negotiations was deadlocked for a full year. Eventually, the Development Company took the initiative to break the deadlock by stepping back from some of its original proposals. On 13 July 1900, a supplementary agreement was reached which contained none of the major branch lines desired by the company. The company also relinquished its insistence on absolute American control of the line during the loan period.⁷ There was much relief upon the conclusion of the contract, yet it was too early to be optimistic about the future of this enterprise.

The Chinese government granted this important concession to the American China Development Company with the express purpose of avoiding political entanglement with the European powers, whose position and influence already had been too solidly established within the empire. China's concern over its integrity was emphatically specified in Article 17 of the Hankow-Canton contract which provided that

no transfer of rights to any other nation or nationals would be permitted.⁸

The article clearly revealed the Imperial Government's fear of foreign domination and its incompetency to manage its domestic affairs and deal with the powers. The Imperial Government was too weak to challenge the deeply entrenched foreign interests in China. The only game left for it to play was not how to reduce or eliminate foreign spheres of interest in China, but how to maintain the balance of concessions among the powers. Only by playing the powers against each other and by keeping them in constant rivalry would the empire have a chance to survive. Any sharp increase or decrease of the strength and influence of one particular power might well disturb the delicate balance and pose a serious threat to the empire's very existence. That was why China insisted that Article 17 be included in the supplementary agreement as a guarantee that the Americans, not the British or the French or the Russians or others, would control this strategic line.⁹

There is little doubt that the company officials perfectly understood the message carried by this vital provision and the grave political situation of the empire. Yet, consciously or unconsciously, the company ignored this provision and allowed its stock to be marketed in order to make a profit. The Belgians, representing Russian and particularly French interests and seeking to undercut the American project, bought control of the company in the open market.¹⁰

This outright violation of the agreement placed the Chinese government in a difficult position re placating the opposition of the

provincial leaders who demanded the return of railway rights to their hands and feared foreign domination of their economic and political affairs through the construction and operation of this trunk line. They feared not without cause what the Russians and Japanese had done in Manchuria. If the French-Russian interests should now gain hold of the Hankow-Canton railway through the purchase of stock from the American company by their Belgian representatives, China's railway system from its northern to its southern border would be controlled by the French and the Russians. The transaction would gravely disturb the balance of foreign interests in China, establish French-Russian dominance over the economic affairs of a large part of the empire with obvious political consequences, and give rise to more turbulent internal agitation and unrest.

Since the Opium War of 1840 and especially since the Taiping Revolution of 1851, the Manchu government had declined rapidly and had lost much of its control over the provinces. Any further foreign encroachment upon China's rights or concession made to the powers could, at any time, cause violent popular reaction and easily lead to an anti-Manchu revolution. What the American bankers were concerned about was how much money they could make through the sale of the company's stock in the open market. What concerned the Imperial Government was the very existence of the empire. Outraged by the conduct of the company and confronted by enormous pressure from the provinces, the Chinese government decided to cancel the American concession. Other reasons for this drastic measure were due to the

delay and high cost of the construction, mismanagement of the enterprise, and inappropriate use of the funds.¹¹

Although the company had been deeply penetrated by foreign capital, the American government regarded the company as "in good faith American" and had declared that the American government would take the sole responsibility to deal with all diplomatic problems affecting the company and continue to protect the rights of the company.¹² Seeing that the Americans had no intention of admitting their violation of the contract or of taking measures to remedy the situation, Shen Hsuan-huai, Director General of the Hankow-Canton railway, responded by ordering the American depository on 22 June 1904 to refuse further bond deliveries to the company. Construction on the entire line stopped.¹³

This time, American financiers took China's warning seriously. J. P. Morgan and Company, in an effort to save the enterprise, managed to buy back from the Belgians a majority share of the company's stock.¹⁴ Urged by American financial interests, and assured that the company was back in American hands, Secretary of State John Hay started a new round of diplomatic actions on behalf of the company. He declared that the American government would not "tolerate such an act of spoliation," especially since the Americans had regained control of the company after "great sacrifices."¹⁵

Because of strong provincial opposition to the loan, the Manchu government was afraid of taking any step that might intensify the widespread discontent and unrest in the provinces.¹⁶ The Imperial Government could not afford to gamble with the destiny of the empire merely to please the claims of American railway financiers.

Besides, the conduct of the Development Company in the past gave the Chinese reason to doubt its sincerity to carry on the project. The Chinese government had made up its mind to cancel the loan and offered to make reasonable compensation to the company for the termination of the contract.¹⁷

To avoid direct confrontation with the American government, the Chinese legation in Washington quietly approached representatives of the company for a settlement of the dispute. On 3 June 1905, an agreement was reached between the two parties. China agreed to pay \$6,750,000 indemnification to cover the railway properties and the bonds sold by the company.¹⁸ The terms of the settlement were onerous to the Chinese. The indemnity they were compelled to pay, although greatly reduced from the original American claims of \$18,000,000, was still \$3,750,000 in excess of what the Americans had spent.¹⁹

The American Minister in Peking, Mr. W. W. Rockhill, was strongly opposed to the sale of the concession. In his cable to President Theodore Roosevelt, he severely criticized the company and pointed out that, as a result of the transaction, the Hankow-Canton railway project probably would fall into the hands of the European powers which would produce harmful effects on American commercial interests in China. He further stated that the cancellation of the enterprise had shaken belief in American business integrity and that American financiers would not be able to get new concessions for years to come.²⁰ Rockhill reported to the new Secretary of State, Elihu Root, that the company was taking advantage of China's difficulties and China's desire to regain control of the railway by selling the enterprise at an exorbitant price.²¹

Roosevelt also was against the sale of the concession. He promptly intervened and asked the American bankers to stay in the field even though that meant a temporary setback to their best financial interests. In his letter to J. P. Morgan, he guaranteed full governmental support of the bankers and urged Morgan against the cancellation.²² Roosevelt's argument against the cancellation of the concession derived largely from his general conception of American prestige and interests abroad. He was not so much concerned about the company and the project as he was about the honor and credibility of the United States. In his opinion, American interests in China would be endangered if the Chinese were allowed to annul foreign contracts at will. He wanted to show the Chinese that the American government was always ready to protect the American commercial interests abroad. He believed that keeping the concession would pay off in the long run.²³

Nevertheless, a majority of the company's directors and shareholders were apparently satisfied with the handsome profit they could extract from the heavy indemnity, and they were determined to sell. The shareholders of the company voted on 29 August to accept the indemnity agreement of June 1905.²⁴ Seeing that the decision for cancellation was irreversible, Acting Secretary of State Francis B. Loomis notified the Chinese Minister in Washington on behalf of the American government that, because the company had decided to sell the concession, the United States Government would not interfere with the settlement.²⁵ Thus, after continuous bargaining and haggling for seven years and three months, with little accomplishment, the

American China Development Company lost the only important concession obtained by Americans during the *battle of concessions* after 1895.

The cancellation of the Hankow-Canton concession injured American prestige in China. The high price exacted by the American company left substantial ill will among the Chinese toward American capital. Three years later, when the United States again entered the contest for the control of the Hukuang railways, natives of the affected provinces still were resentful of the actions of the American China Development Company. Former Minister to China Rockhill referred to the cancellation of the concession as the "greatest single loss the United States had suffered in China."²⁶ The importance attached to the Hankow-Canton project reflected a growing conviction that if the United States were to have a voice in China, it must have investments there. With investments went trade and influence. Without them, American business interest could never expect to gain a foothold in the China market.

CHAPTER 1 ENDNOTES

¹Grover Clark, *Economic Rivalries in China* (New Haven: Yale University Press, 1932), p. 21.

²For a detailed account of China's reform movements in the late Ch'ing Dynasty, see John K. Fairbank, ed., *The United States and China* (4th ed. Cambridge: Harvard University Press, 1979), pp. 190-217; and D. Twitchett and John K. Fairbank, *The Cambridge History of China*, Vol. 11 (Cambridge: Cambridge University Press, 1980), pp. 274-338.

³Akira Iriye, *Across the Pacific* (New York: Harcourt, Brace and World, Incorporated, 1967), p. 75.

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⁵William W. Rockhill, *Treaties and Conventions with or Concerning China* (Washington: Government Printing Office, 1904), pp. 252-258.

⁶Marilyn Blatt Young, *The Rhetoric of Empire; American China Policy 1895-1901* (Cambridge: Harvard University Press, 1968), pp. 111-112.

⁷Rockhill, *op. cit.*, pp. 259-277.

⁸*Ibid.*

⁹Young, *op. cit.*, p. 112.

¹⁰Howard K. Beale, *Theodore Roosevelt and the Rise of America to World Power* (Baltimore: The Johns Hopkins Press, 1956), p. 201.

¹¹*Foreign Relations of the United States* (Washington: Government Printing Office, 1905), pp. 125-126, Liang to Hay, December 22, 1904; and Inclosure 1, telegram from the Imperial Chinese railway administration, December 19, 1904.

¹²Rockhill, *op. cit.*, pp. 278-279; *Foreign Relations of the United States, op. cit.*, p. 128, Loomis to Liang, January 6, 1905; and p. 129, Coolidge to Prince Ch'ing, January 9, 1905.

¹³Thomas W. Lamont and Henry P. Davison, *The Record of a Useful Life* (New York: The MacMillan Company, 1933), pp. 165, 157.

¹⁴*Foreign Relations of the United States, op. cit.*, p. 127, Hay to Conger, January 5, 1905, telegram.

¹⁵*Ibid.*, p. 130, Hay to Conger, January 26, 1905, telegram.

¹⁶*Ibid.*, p. 131, Coolidge to Hay, February 9, 1905.

¹⁷*Ibid.*, p. 132, Rockhill to Root, August 14, 1905.

¹⁸J. V. A. MacMurray, *Treaties and Agreements with and Concerning China 1894-1919*, Vol. I (New York: Oxford University Press, 1921), pp. 519-520; *Foreign Relations of the United States, op. cit.*, p. 132, Loomis to Rockhill, June 8, 1905, telegram.

¹⁹Willoughby, *op. cit.*, p. 550.

²⁰Paul A. Varg, *Open Door Diplomat: The Life of W. W. Rockhill* (Urbana: University of Illinois Press, 1952), p. 74.

²¹*Ibid.*, p. 75.

²²Phillip C. Jessup, *Elihu Root*, Vol. II (New York: Dodd, Mead and Company, 1938), pp. 51, 432.

²³Iriye, *op. cit.*, p. 109.

²⁴William R. Braisted, "The United States and the American China Development Company," *Far Eastern Quarter*, XI (1952), 164.

²⁵*Foreign Relations of the United States, op. cit.*, p. 135, Loomis to Liang, August 29, 1905, telegram.

²⁶Paul A. Varg, *The Making of a Myth: The United States and China 1897-1912* (East Lansing: Michigan State University Press, 1968), p. 137.

Chapter 2

AMERICAN ENTRY INTO THE HUKUANG LOAN

After the Hankow-Canton railway was redeemed from the Americans by the Imperial Government, the local gentry of the affected provinces agitated for placing the railway business into their hands as a private business and began to raise funds with the intention of building the railways through their efforts. Construction was started in Canton in 1906 and sections of rails were laid in the Kwangtung section of the Hankow-Canton trunk line.¹

The example of the Cantonese in financing and building their railways was enthusiastically followed in other provinces and, before long, a nationwide movement to undertake railway construction through provincial efforts was taking form. Numerous organizations sprang up to raise private capital for the construction of their railways. Public sentiment in favor of independent railway construction was so strong and irresistible that the Imperial Government acquiesced in this nationalistic movement.²

Despite a display of patriotism and public enthusiasm, however, little was accomplished. The Hunan provincial authorities planned to complete the section of the Hankow-Canton line within the Hunan border, but they managed to construct no more than 32 miles of the line between Changsha and Chuchow at a cost of CN\$8,000,000. The Hupeh authorities raised an insufficient sum of CN\$450,000 to build the

section within the Hupeh province and accomplished nothing until the Imperial Government had contracted the Hukuang loan with the powers.³ The capital required for the construction of a major trunk line such as the Hankow-Canton railway was enormous and far beyond the ability of China's financial organizations of the period. The railway projects that had been undertaken proved to be far too ambitious for the financial capacity of the local gentry, and they invariably failed. With the exception of Kwangtung, Kiangsu, Chekiang, none of the other provinces had the means of carrying out even a substantial part of its plans. The dream of constructing the entire line from Canton to Hankow through provincial efforts remained largely unfulfilled. By 1909, it was clear that only the national government could undertake the responsibility of constructing the nation's railway system.⁴

In 1909, Sheng Hsuan-huai, Director General of the Board of Ports and Communications, sent a memorandum to the Throne in which he urged the Imperial Government to nationalize all railway enterprises in China and to take over all railway lines built by private capital.⁵ Director Sheng's aim was to remedy the failure of private capital and to speed up China's railway development through the efforts of the central government. Sheng's petition soon was approved by the Throne. Henceforth, according to the Imperial edict, all trunk lines were to belong to the government and all the railway companies organized in the provinces were at once to revert to the government. The government would complete these railway projects without further delay. Branch lines might still be constructed by local authorities and private enterprises, but all previous permits from the Imperial Government for the building of trunk lines were cancelled.⁶ The

first railway taken over by the Imperial Government was the Hankow-Canton line which the local gentry of Kwangtung, Hunan, and Hupeh had failed to complete after five years of controversy.⁷

The nationalization program was one of the government's few choices and probably was in the best interests of the nation. Again, the problem was financial: where could the government find enough funds to carry out this program? Without sufficient means to fulfill its ambitious goals, the Imperial Government again turned to seeking foreign financial assistance for the construction of its railways.

* * *

The European powers long had coveted the rich economic prospects of railway enterprises in southern China. Even before China's nationalization program was formulated, the powers had begun serious discussions among themselves about financing railway projects in southern China without any previous consultation with the Chinese government.⁸ Despite the frustrations of the American China Development Company, the American government had no intention of leaving the China scene and relinquishing the entire field of investment to the Europeans. Even before the cancellation of the Hankow-Canton concession was made final, the Americans became interested in the construction of another railway trunk line linking Hankow with Szechuan--one of the richest provinces in the empire.

In the summer of 1903, Minister E. H. Conger learned that the Chinese railway administration was planning this line. To prevent competition from other powers, Conger promptly applied to the Chinese government for the rights to construct this line. At about the same time, the British approached the Chinese government for this

concession. They were notified by the Chinese government that, if provincial authorities should fail to raise enough funds for the construction of this line, American and British interests would be consulted as to the rights to finance this railway.⁹

Neither the Americans nor the British made much headway. The provincial authorities still were trying to raise money to construct the line through their efforts. The Imperial Government was cautious and had no wish to intensify the tension between the provinces and the central government. Encouraged by the American legation in Peking, several bids had been made by American syndicates for the Hankow-Szechuan project, but the Chinese government did not give its consent and refused to make any commitment. The American bankers consequently lost much of their interest in the enterprise and turned elsewhere for investment opportunities.¹⁰

The British did not give up easily. British and French bankers met in London in October 1904 to discuss the possibility of organizing a joint company and merging forces to finance and build the Szechuan-Hankow railway. Through the American legation in Peking, they also extended an invitation to American financiers to join the project. On two occasions, 25 July 1905 and 19 September 1905, the British ambassador in Washington inquired at the State Department about whether or not American capitalists desired to participate in this enterprise.¹¹

The State Department urged American financiers to consider the British offer but failed to arouse sufficient American interest in the project. Wishing to reserve American rights to the concession, the State Department informed the British government that, although the

department was not able to supply an immediate reply to the British inquiry, the American government by no means had relinquished the right of American capital to participate in this enterprise.¹³ The British authorities were impatient with the irresolute American answer and urged the Americans to give a definite reply at an early date. On 27 September 1905, in his letter to the British ambassador, Acting Secretary of State Loomis expressed his regret that the State Department still was unable to inform the British government of the intentions of American capitalists in connection with the proposed railway project from Hankow to Szechuan.¹⁴

Since American bankers had not shown any real interest in the enterprise, the British and French interests with their new partner, the German group, decided to proceed with the loan negotiations. The railway negotiations revived in full a spirit of competition among the British, French, and German financial groups. After a long and arduous negotiation, an agreement was reached and initialed by the representatives of the Chinese government and British, French, and German banks in Peking for a loan of £5,500,000 on 6 June 1909. The loan was negotiated for the construction of the Hukuang railways which, according to the contract, comprised the Hupeh section of the Hankow-Szechuan line and the Hupeh and Hunan sections of the Hankow-Canton line. The loan was guaranteed by the Chinese government and was secured by revenues of the projected railways and general likin (a Chinese provincial tax at inland stations on imports or articles in transit) and import taxes of the Huhan and Hupeh provinces. The agreement was to be formally signed when approved by Imperial edict.¹⁵

Through an arrangement between the three banking groups, the Germans surrendered their recently concluded Hankow-Canton loan to the British, the British gave the Hankow-Szechuan loan to the Germans, and the French received a one-third share in both loans and a 5 percent commission on the purchase of railway materials used in the construction.¹⁶

The American State Department had not lost its interest in railway investment in southern China. Late in May 1909, the State Department learned of the negotiations between the three foreign banking groups and the Chinese government through press reports. According to these reports, the loan being negotiated would cover not only the Hankow-Canton project but the Hankow-Szechuan line also.¹⁷ The American government immediately reminded the Chinese and British governments that, by promise made in letters to the American Minister in Peking by the Chinese government in 1903 and 1904, any foreign concession for the Hankow-Szechuan line was first to be offered to British and American companies.¹⁸ By the inclusion of this line in the loan negotiations, American business interests, contrary to the promises made by China, were being excluded from participation in the concession.

On 5 June 1909, one day before the conclusion of the loan agreement between the European bankers and the Chinese government, the American chargé d'affaires in Peking, Henry P. Fletcher, acting under instructions from the State Department, sent a letter to Prince Ch'ing, head of the Chinese Foreign Office, explaining the American position and trying to make the Chinese government reconsider its transaction with the European bankers. In his letter, Fletcher

reasserted that the United States had taken no action which could be construed as a relinquishment of the right of American capital to participate in this enterprise. He requested that Prince Ch'ing notify Viceroy Chang Chih-tung and other officials in charge of the enterprise that the American government insisted that the assurances of 1903 and 1904 be observed, and that American capitalists be consulted and allowed to participate in the loan about to be floated.¹⁹

Washington's deepening interest in financing railway enterprises in China obviously was encouraged by the railway nationalization movement in China and the fruitful opportunities this development would bring about. The construction of railways was the chief means of internal development in China. It would open the way for greater investment of foreign capital and create a larger market for foreign manufactured goods. Being denied the right to participate in the railway loans would mean loss of markets and investment opportunities.

The European financial groups and the Chinese authorities were annoyed by the United States' last minute request. None of them had any intention of letting the Americans participate in the present loan because American financiers never had given an affirmative response to their repeated invitations. Now that the agreement was about to be concluded, after so much time and energy had been spent, neither side wanted to see the United States squeeze in and break the understanding that just had been reached between clashing interests. None of them had the patience to reopen negotiations merely to please American business interests. Despite loud protests from the Americans, the

Imperial Government initialed the Hukuang Loan Agreement with the British, French, and German financial groups on 6 June 1909.²⁰

China had a reason for concluding the agreement as fast as possible. For years, there existed in the Hukuang provinces a "strong opposition to the borrowing of foreign capital" for railway construction.²¹ The Imperial railway nationalization policy had aroused violent protests from the provinces, and a movement to recover railway concessions from the control of foreign powers had spread to several provinces.²² Chinese patriots resented foreign encroachment upon China's railways, resources, territories, and political integrity. This popular resentment had been nourished by more than half a century's foreign intervention in China's domestic affairs, economic and political. Past experience had taught the Chinese that they could not expect any genuine help from the powers to modernize their country. The construction of each railway with foreign capital always had been followed by the extension of the political and economic rights and privileges of one or more powers in China.

The heavyhanded dealings of American financiers and their disrespect for contractual obligations in the case of Hankow-Canton enterprise infuriated the provincial gentry and made them extremely suspicious of foreign capital. Besides, this widespread antiforeignism was mixed with a strong anti-Manchuism. The Imperial Government under the Manchus often was blamed for all the evils and misfortunes China had suffered since the Opium War. It was not an unpopular belief that the Manchus had approached the end of their dynastic cycle and that their rule should be replaced by something new. Foreign loans

and concessions therefore often had been cited as proof of the government's betrayal of national interests.

The fundamental attitude of the Imperial Government toward foreign encroachment was not so much different from that of the provincial gentry. In one respect, the Manchu rulers were as antiforeign as their subjects, but their antiforeignism was exhibited in a fundamentally different way. The Manchu rulers knew very well that, unless the empire was substantially strengthened militarily and industrially, it never would be able to resist foreign encroachment. They changed their tactics from open confrontation to borrowing money and technology from the Western powers for the purpose of building up China's strength. They hoped that China eventually would revive its past grandeur and successfully compete with the powers. This was a new kind of antiforeignism. However impractical this policy might have been, the purpose of the Manchu rulers was not to accommodate the foreign concession hunters but to revitalize the dying empire and eventually overcome foreign encroachment. Under the Ch'ing government, without a drastic revolution to change the dynastic system, this could only be a dream. The *Self-strengthening Movement* at the end of the nineteenth century, and the reform efforts before the 1911 Revolution, were all part of the Imperial Government's grand effort to salvage the tottering empire and eventually resist foreign encroachment and invasion.²³

The haste shown by the Imperial Government to have the contract initialed may be understood when local conditions in southern China are considered because there would be less opportunity for local radicals to agitate if the government, through Viceroy Chang Chih-tung

who enjoyed great prestige and authority among the provincials, pushed ahead its railway plan without hesitation and argument. The agreement with the three banking groups was especially welcome to Chang Chih-tung because it prevented a prolonged period of wrangling over terms. American participation in the loan could only disturb the settlement and start a new round of negotiations which could indefinitely delay and eventually destroy the railway construction program of the Imperial Government due to the unpredictable provincial opposition.

After the signing of the June agreement, not only did Chang Chih-tung object to American intervention, but so did the three foreign groups, because any delay now might invalidate what had been accomplished. The British particularly were resentful of American interference. In a memorandum to the American State Department, Sir Edward Grey, the British Foreign Minister, informed the State Department that London had decided to proceed in the loan negotiations with the Chinese government on the assumption that American capitalists did not desire to participate after their repeated invitations extended to American bankers had not received any favorable response.

Grey pointed out that these negotiations had been a matter of common knowledge and that at no time since their inception had any intimation been received of a desire of American financiers to take part in them. Therefore, declared Grey,

His Majesty's Government would scarcely feel justified in interfering with the arrangements concluded, after such protracted and arduous negotiations and under their auspices, by the British financial group interested in the matter.²⁴

The British government, Grey explained, had no intention of prejudicing any rights or obligations which existed between the United States and the Chinese government; but, insofar as the British financiers were concerned, it was clear that they were entitled to act independently and, indeed, could not be expected, after what they had done to invite American bankers to participate in the loan, to do otherwise.²⁵ Washington was asked by all four governments not to press its claims at so late a date but to be satisfied with future cooperation with the three banking groups.²⁶

Nevertheless, the State Department was determined to get a share in the Hukuang loan for American business interests. The department felt that the British had no right in their memorandum to imply that the United States had relinquished its right to participate in the Hankow-Szechuan project. The department further maintained that the United States never had withdrawn officially from the Szechuan project and that the American rights rested upon China's assurances. The so-called assurances from China were nothing more than an ambiguous reply that British and American financial groups would be consulted in case foreign capital was needed for the construction of the Hankow-Szechuan railway.²⁷

Chargé Fletcher admitted privately that the Conger correspondence was none too favorable to the American cause; but, the Chinese recognized the Conger assurances as valid, thus permitting Fletcher to go on pleading Washington's case.²⁸ To justify its claims, the American government invoked the Open Door Policy to achieve its

end. The State Department instructed its ambassador in London to state to the Foreign Office that

the Government of the United States regards full and frank cooperation as best calculated to maintain the open door and the integrity of China [and that] the formation of a powerful American, British, French and German financial group would further the end.²⁹

China was not against American participation in principle. If the Americans had made their claims earlier in the negotiations, the Imperial Government would no doubt have admitted them into the enterprise. Viceroy Chang Chih-tung informed Fletcher that if American capitalists had come forward during the negotiations he would have had no objections to allowing them to participate, but he thought the matter now had gone too far to be reopened. Viceroy Chang assured Fletcher that other foreign loans would be needed and that American participation in them would be welcomed by China.³⁰ The three foreign financial groups also favored American cooperation in future business but expressed the opinion that it was too late, as well as inexpedient, to try to delay the final signature of the present agreement which was reached after much difficulty. Representatives of the three European groups, according to Fletcher, probably would use every effort to have the Imperial edict issued at once.³¹

Despite assurances made by the Chinese government and the three groups that American bankers would be welcomed in future loan opportunities, the State Department had made up its mind to share in the present loan. In his instruction to Fletcher, Secretary Knox blamed the Chinese for not duly notifying the United States of its intention to float a loan for the Hankow-Szechuan railway. The American government, Secretary Knox asserted,

holds that the fact that negotiations have gone so far and that the representatives at Peking of the foreign groups would have it now considered too late to try to delay final signature of the present agreement does not in any wise absolve China from her plain responsibility to us.³²

Knox further stated that the present assurance that American capital would be granted participation in future loans could scarcely be considered a *quid pro quo* sufficient to warrant a waiver of present undoubted rights. China's failure to meet the just claim of the United States would be, practically, to evade a solemn obligation and show an unfortunate lack of appreciation for the consideration which the United States Government had so long shown the Chinese government and which would not be compatible with China's repeated professions of friendship and good will.³³ Knox announced that an American banking group now was

prepared immediately to enter on such negotiations with the British, French, and German financiers when the Chinese Government has fulfilled its clear duty by informing the representatives of the groups with whom this loan has been tentatively negotiated that American capitalists must be admitted.³⁴

Throughout June and July, Washington kept after Peking while at the same time trying to persuade the three European banking groups to admit American capitalists into the loan through direct contacts with their governments. Under pressure from the American government, the Chinese government decided not to resist further the American claim to a share of the loan. Viceroy Chang Chih-tung notified the American Legation through the Chinese Foreign Office that he was willing to allow American participation in the present loan if the three European banking groups would agree but that he did not wish to take the initiative in persuading the European bankers on behalf of American

interests.³⁵ Secretary Knox directed Ambassador Whitelaw Reid in London to point out to the British government the menace to foreign trade likely to ensue from the lack of proper sympathy between the powers most interested in the preservation of the principle of equality of commercial opportunity, and to add that American participation in the enterprise would strengthen the open door and the integrity of the Chinese empire.³⁶

Under instructions from the State Department, Ambassador David J. Hill presented the American case to the German government. Hill stressed that because some governments had used great pressure to obtain economic advantages in China for their nationals, it could not be to other nations a matter of indifference if their citizens failed to receive due consideration--especially when that had been specifically promised.³⁷ Hill asserted that, in his opinion, the American government was the least aggressive of any of the great powers in demanding, from the oriental countries, special privileges of any kind, never having asked for anything but an open door and a fair field.

On the other hand, Hill did not think that the American government would find it possible to neglect the interests of American capital and enterprise in the Far East by passing over in silence the efforts of other governments to secure special favors for their nationals to the exclusion of Americans. He expressed a wish that the German government would understand the position of the United States.³⁸ Similar American presentations were made to the French government.³⁹

In the 6 June Agreement with the European powers, the Chinese government pledged general likin and provincial revenues as security

for the loan.⁴⁰ Since the United States, by a treaty with China in 1903, had promised to support China in securing an increase in the customs tariff in order that likin might be abolished,⁴¹ the American government found another excuse to force its way into the Hukuang loan. Fletcher warned the Chinese that this vital provision in the agreement could produce serious political consequences. In case China failed to fulfill its treaty obligations or execute its payments according to the loan agreement, the provincial revenues and general likin of Hupeh and Hunan would be controlled by the Europeans.

Fletcher noted that because the loan was to be secured on provincial revenues, it was important that the United States should participate in the enterprise in order that the American government would be in a position to exercise an influence equal to that of the other three powers in any question that should arise, and to enable the United States, at the proper time, to again support China in her endeavor in securing the abolition of likin and the increase of the customs tariff.⁴² Fletcher emphasized that, in view of the constant, unwavering friendship which the United States had shown toward China, the Chinese government should be the first to desire the salutary influence of direct American interest in this great investment.⁴³

To make things easier for the European interests to accept American participation, the Americans proposed to extend the Hankow-Szechuan line to Chengtu so that American bankers could get an equal share in the loan.⁴⁴ The 6 June Agreement covered only the Hupeh section of the Hankow-Szechuan line. If the line could be extended to Chengtu, the loan controversy could be settled without

much difficulty; however, Chinese authorities were opposed to the proposal. Viceroy Chang Chig-tung explained to Fletcher that the American proposal to include the entire Hankow-Szechuan line was impracticable at the present time because the people of Szechuan were opposed to employment of foreign capital and were raising funds from local sources for the construction of the Szechuan portion of the line. Later, it might be possible to employ foreign capital in the construction of the Szechuan portion; at the moment, the natives of that province were convinced that they were able to finance it.⁴⁵

At the insistence of the State Department, the three European groups agreed to accept American participation in principle.⁴⁶ Yet the inclusion of American capital in the loan was not without restrictions. The British Foreign Office explicitly expressed its hope that the United States should not use the opportunity to place obstacles in the way of the issue of an Imperial edict approving the agreement for the construction of the Hukuang railways which already had been signed.⁴⁷ The Imperial German Government, in equally explicit terms, expressed its wish that American bankers should neither delay nor essentially modify the existing agreement with the Chinese government, and should make its conditions as light as possible.⁴⁸ Seeing that the European powers had decided to include American bankers in the enterprise, Chang Chih-tung promised to delay memorializing for an Imperial edict to ratify the loan agreement until time had been given for American financiers to reach an understanding with the European bankers.⁴⁹

The inclusion of American capital in the Hukuang loan apparently was an American success. It was too early, however, for the Americans to congratulate themselves on this diplomatic victory. New problems arose as soon as the four banking groups entered into serious negotiations concerning the share of the loan and specific rights to the construction of the Hukuan railways.

CHAPTER 2 ENDNOTES

¹Chang Kia-Ngau, *China's Struggle for Railroad Development* (New York: The John Day Company, 1943), p. 39.

²*Ibid.*, p. 40.

³*Ibid.*, p. 42.

⁴*Foreign Relations of the United States* (Washington: Government Printing Office, 1909), p. 206, Fletcher to Knox from Peking, October 5, 1909.

⁵Kia-Ngau, *op. cit.*, p. 43.

⁶*Ibid.*, p. 44.

⁷*Ibid.*

⁸Charles Vevier, *The United States and China 1906-1913; A Study of Finance and Diplomacy* (New Brunswick: Rutgers University Press, 1955), p. 97.

⁹*Foreign Relations of the United States, op. cit.*, pp. 144-146, Knox to Rockhill, May 24, 1909; Conger to the Secretary of State, September 27, 1904, enclosed in Huntington Wilson to Reid, June 3, 1909.

¹⁰*Ibid.*, pp. 146-148, Huntington Wilson to Reid, June 3 1909; and Inclosure 1, Conger to the Secretary of State, September 27, 1904; Inclosure 3, Adee to Durand, August 3, 1904; Inclosure 5, Loomis to Durand, September 27, 1905.

¹¹*Ibid.*, p. 145, Knox to Reid, June 2, 1909.

¹²*Ibid.*, pp. 145, 148; Loomis to Durand, September 27, 1905, enclosed in Huntington Wilson to Reid, June 3, 1909.

¹³*Ibid.*, pp. 145, 148, Knox to Reid, June 2, 1909; Huntington Wilson to Rockhill, June 4, 1909.

¹⁴*Ibid.*, p. 148, Loomis to Durand, September 27, 1909.

¹⁵*Ibid.*, p. 149, Fletcher to Knox, June 7, 1909, telegram; J. V. A. MacMurray, *Treaties and Agreements with and Concerning China 1894-1919*, Vol. I (New York: Oxford University Press, 1921), pp. 880-885.

¹⁶MacMurray, *ibid.*

¹⁷*Foreign Relations of the United States, op. cit.*, p. 144, Knox to Rockhill, May 24, 1909, telegram.

¹⁸These letters are reprinted in MacMurray, *op. cit.*, pp. 885-886.

¹⁹*Foreign Relations of the United States, op. cit.*, p. 155, Fletcher to Ch'ing, June 5, 1909.

²⁰*Ibid.*, p. 149, Fletcher to Knox, June 7, 1909.

²¹*Ibid.*, p. 206, Fletcher to Knox, October 5, 1909.

²²Frederick Wakeman, Jr., *The Fall of Imperial China* (New York: The Free Press, 1975), pp. 238-239.

²³John K. Fairbank, *The United States and China* (4th ed. Cambridge: Harvard University Press, 1979), pp. 196-220.

²⁴*Foreign Relations of the United States, op. cit.*, p. 150, memorandum from the British Foreign Office, enclosed in Grey to Reid, June 8, 1909.

²⁵*Ibid.*, p. 149, Grey to Reid, June 8, 1909.

²⁶*Ibid.*, pp. 160-161, Bryce to Knox, June 14, 1909; pp. 150-151, Hill to Knox from Berlin, June 9, 1909; p. 157, Fletcher to Knox, June 10, 1909; pp. 156-157, White to Knox from Paris, June 10, 1909.

²⁷*Ibid.*, p. 156, Prince Ch'ing to Conger, July 18, 1904, enclosed in Fletcher to Knox, June 9, 1909.

²⁸*Ibid.*, p. 148, Huntington Wilson to Rockhill, June 4, 1909; p. 152, Fletcher to Knox, June 9, 1909.

²⁹*Ibid.*, p. 152, Knox to Reid, June 9, 1909.

³⁰*Ibid.*, p. 157, Fletcher to Knox, June 10, 1909.

³¹*Ibid.*

³²*Ibid.*, p. 159, Knox to Fletcher, June 12, 1909, telegram.

³³*Ibid.*

³⁴*Ibid.*

³⁵*Ibid.*, Fletcher to Knox, June 15, 1909, telegram.

³⁶*Ibid.*, Knox to Reid, June 9, 1909, telegram.

³⁷*Ibid.*, Hill to Knox, June 9, 1909.

³⁸*Ibid.*

³⁹*Ibid.*, White to Knox, June 12, 1909, telegram.

⁴⁰*Ibid.*, Fletcher to Knox, June 9, 1909; MacMurray, *loc. cit.*

⁴¹MacMurray, *ibid.*, pp. 423-433.

⁴²*Foreign Relations of the United States, op. cit.*, pp. 159-160, Knox to Fletcher, June 12, 1909, telegram.

⁴³*Ibid.*, p. 160.

⁴⁴*Ibid.*, p. 157, Fletcher to Knox, June 10, 1909, telegram.

⁴⁵*Ibid.*

⁴⁶*Ibid.*, p. 158, Knox to Fletcher, June 12, 1909, telegram.

⁴⁷*Ibid.*, p. 160, Bryce to Knox, June 14, 1909; p. 163, Bryce to Knox, June 22, 1909.

⁴⁸*Ibid.*, p. 163, Hill to Knox, June 22, 1909, telegram.

⁴⁹*Ibid.*, p. 161, Fletcher to Knox, June 15, 1909, telegram.

Chapter 3

RIVALRY AMONG THE FOUR POWERS

Having made considerable progress toward American participation in the Hukuang loan, Washington turned next to New York to search for sufficient financial interests to carry out the government's economic program in China. An American group of New York bankers was hastily organized to participate in the enterprise. Members of the group who signed the articles of organization on 11 June 1909 were J. P. Morgan and Company, the National City Bank, Kuhn, Loeb and Company, the First National Bank, and Edward Henry Harriman. Washington's invitation to the bankers did not promise any immediate reward. It stressed the patriotic responsibility of preserving the China market as an outlet for the products of American industry.¹

In the case of American participation in the Hukuang loan, from the start the initiative came from the State Department. Although it is a usual practice to see private business interests pulling the legs of the American government, trying to influence its policy to meet their needs, it is unusual to see the American government taking the initiative in promoting private business enterprise abroad. During Taft's administration, this role was reversed. The State Department had, in effect, proposed to a group of American financiers the desirability of business investments in China as a matter of American national policy and asked them to form an American banking

group to carry out this policy in China. The group included three or four of the most powerful financial groups in the United States and was used as a semiofficial instrument by the American government,² which now was positively interested in promoting American influence in China by means of American investment. The American government under Taft had formulated this new China policy and began to support it with all the diplomatic resources of the State Department.

According to the terms of the 6 June Agreement, the British and the Germans enjoyed greater rights in regard to chief engineers and auditors than the French, who participated only in the financing of the project and had equal preference in regard to furnishing materials for the railways.³ Mr. Fletcher, unable to provide satisfactory answers to inquiries from representatives of the European groups in Peking as to how far the United States would desire to change the present agreement, sent a telegram to the State Department asking if the American group would be content to participate in the loan on the same footing as the French group, and how much of the loan it would be satisfied with.⁴

In his reply to the inquiry from the American legation in Peking, Secretary Knox informed Mr. Fletcher that the American group was willing to participate in the loan on the French basis, i.e., 25 percent of the total loan on terms identical with those of the French, having equal preference with the French, British, and the Germans in regard to all financial relations as well as to materials.⁵ Because the British, French, and German groups had so nearly reached the conclusion of their negotiations prior to the formation of the American syndicate, Knox stated, the American group would not insist upon rights

in regard to chief engineers and auditors. Mr. Fletcher was directed to inform the three European governments, through their legations in Peking, that in taking this position the American group was influenced by its desire to establish harmonious relations with the British, French, and German bankers in order to secure cordial cooperation in future enterprises, and that the American action in waiving what might be claimed to be its just right should not be regarded as creating a precedent as to the basis for future participation in foreign financial operations in the Chinese Empire. Knox authorized Fletcher to sign the agreement on behalf of the American group in case the three other foreign groups were ready to accept American participation on the basis stated above.⁶

The European groups did not want to give the American group an equal share in the entire loan because the United States had made its claim at the last minute and had disturbed the entire proceedings of the enterprise. The German group proposed that American capital cover one fourth of the Hupeh section of the Hankow-Szechuan line, provided the American group did not participate in supplying chief engineers and materials.⁷ The British and French groups responded favorably to the German proposal. Jointly, the three banking groups informed Prince Ch'ing that they had agreed to assign one quarter of the Hupeh section of the Hankow-Szechuan line as the American share, and that they would not accept the American claim of a 25 percent share of the entire loan.⁸

The Chinese government was most anxious to have the loan concluded, fearing that any further delay might intensify provincial opposition to the Imperial Government's policy of employing foreign

capital for the construction of China's railways. Liang Tun-yen, President of the Board of Foreign Affairs, informed Fletcher that the Chinese government would wait until the American group had settled its differences with the European groups. He expressed a hope, however, that the differences could be speedily adjusted and that the United States would accept the European offer and not insist on an equal right to furnish materials.⁹

The American State Department refused to consider the offer made by the three European groups. It insisted that the American group should receive one fourth of the entire Hukuang loan, including the Hupeh-Hunan section of the Hankow-Canton line and the Hupeh section of the Hankow-Szechuan line.¹⁰ The insistence of the Americans on a 25 percent share offended the representatives of the three groups; they refused to make any concession to accommodate the Americans. The loan negotiations were adjourned indefinitely.¹¹

Representatives of the American group negotiating with the European bankers were practical businessmen who viewed the loan negotiation not as the State Department but through considerations of their business interests. Holding up the proceedings of the loan negotiations by insisting on an absolutely equal share in the enterprise did not make sense to the American bankers. They disapproved of the stubborn position of the State Department and proposed to make some necessary concessions to keep the whole thing going. On 7 July 1909, representatives of the American group communicated to the State Department a preliminary basis of American participation, proposing to break the deadlock by expressing the

willingness of the American group to participate on a basis less than 25 percent of the loan.¹²

The new basis proposed by the American bankers was about 20 percent of the entire loan, only slightly revised from the original American request.¹³ The American government declined to accept the proposal on the ground that any concession would injure America's interests, as well as its honor and prestige, in the Far East. In the opinion of the State Department, it was not a matter of 20 or 25 percent but principle. The principle involved was equal opportunity. To preserve an open door in China and maintain the principle of equal commercial opportunity, the United States, declared the State Department, would on no account accept less than equal participation in the loan.¹⁴

Acting Secretary Huntington Wilson claimed that, according to the assurances made to Minister Conger by the Imperial Government, the American right assured in the whole railway system then contemplated was vastly more than equivalent to 25 percent of all that was definitely involved in the present tentative agreement of the European bankers. He also pointed out that this tentative loan agreement, in the absence of an Imperial sanction, amounted to little more than an application, which, as the Chinese government had stated, conferred no right to anyone. Therefore, there was room to renegotiate and revise the agreement to admit American bankers on equal footing with the European bankers.¹⁵

Wilson warned the American group that the American government would not recede from its position and that if the American group,

which had undertaken to sustain the American policy of equal participation, ignored the national aspect of the transaction or failed to cooperate in the broad purpose in view, the government would seek other instrumentalities to secure proper American recognition. Wilson wanted the American group to clearly understand that the American government was interested in the loan purely for broad national reasons, and that the government held such rights as equal participation for the good of general American interest in China.¹⁶

The position of the State Department stiffened reaction from the European groups and the Chinese government. The European bankers pressed Viceroy Chang Chih-tung and the Chinese Foreign Office to ratify the original 6 June Agreement on the ground that American bankers had been offered reasonable participation and had refused.¹⁷ The Chinese Foreign Office warned the Americans that, although the office had promised to wait until the American group settled with the European bankers, the matter could not be delayed indefinitely. It urged a speedy settlement of their differences.¹⁸ On 13 July, when Fletcher called at the Chinese Foreign Office, Mr. Liang Tun-yen told Fletcher that he thought the Americans ought to be satisfied with one fourth of the loan for the Hupeh section of the Hankow-Szechuan line, and that he considered the American rights to one half of the loan for the Hankow-Szechuan line to be rather vague since the Imperial Government never had made any definite commitment but promised only to consult the Americans in case foreign capital should be needed.¹⁹

Fletcher, in emphatic terms, asserted that the American government regarded China's assurances as positive and unequivocal and

that China had pledged a one-half share in the entire Hankow-Szechuan loan to the United States. He warned Mr. Liang that if any action should now be taken by China inconsistent with her assurances, it would have a most deplorable effect in the United States. Liang was requested not to take any action which would place China in an awkward position and seriously affect the friendly relations of the two governments. Fletcher felt sure that the European financiers would agree to American participation on the basis of 25 percent when they realized that the attitude of China and the United States was firm on this point.²⁰

Meanwhile, Viceroy Chang Chih-tung, who was directly involved in the loan negotiations, was impatient with the delay. He wanted to go ahead and wind up the present loan as it stood.²¹ On 14 July, Prince Ch'ing communicated a long dispatch from Chang Chih-tung to the American government through Fletcher. In his dispatch to the Chinese Foreign Office, Chang pointed out that America, in entering into the discussion at such a late hour, was the cause of delay and that even if the three banking groups were willing to come to an understanding with the American group and make an equal division of the loan, the agreement already was signed and could not be changed.²²

The Viceroy was particularly resentful when he learned that the Americans declined the offer of a one-quarter share of the loan for the Hupeh section of the Hankow-Szechuan railway and demanded another one quarter of the loan for the Hupeh-Hunan section of the Hankow-Canton line to make up the total of 25 percent in the entire loan. He made a strong statement in regard to the American claim:

With regard to the Canton-Hankow Railway I learned that formerly, because the American-China Development Co. secretly sold two-thirds of the capital shares to the Belgian, thus breaking the agreement, a loan was sanctioned by the throne of £1,100,000 to redeem to China all interest in this railway. It is unreasonable now once more to borrow American capital to construct this railway. Moreover, there has been no record since the 31st year of Kuanghsu, the 12th moon (December, 1905), when China had redeemed the Canton-Hankow Railway, that that line has authorized the borrowing of any American capital. Why does America now, without any pretext, still desire to lend funds for the purposes of this railway? Most emphatically, no such course can be considered. At the mere mention of it the literati and people of the three Provinces would rise up in protest against it as absolutely out of the question; unfavorable criticism would rise up like a flood. I, also, would be most unwilling, after this railway has been redeemed from the Americans, to again borrow American capital for its construction.²³

In communicating Chang's dispatch to the American government, Prince Ch'ing expressed the hope of the Chinese government that "stringent orders" would be sent to the American group to come to an immediate agreement with the European groups so that the desire of China to foster the friendly relations between the two countries would not be disappointed.²⁴

Chang Chih-tung's resentment was not without its reasons. The internal position of the Chinese government has grown steadily worse as a result of the wrangling among the powers and the delay of the conclusion of the agreement concerning the Hukuang railways. Due to growing opposition to the Imperial Government's railway policy in the Hukuang provinces, the government could not afford much time playing diplomatic games with the powers. Yet this did not seem to hasten a compromise among the powers. As soon as one group or government seemed ready to end the deadlock, another power renewed it with further demands.

The picture of these foreign banking groups and governments clashing for their selfish economic interests in China was not one to encourage the Chinese hope in foreign cooperation or Peking's reliance on provincial support. Throughout the country, antipathy toward foreigners and provincial opposition to the Imperial Government's railway policy hastened the Chinese government's effort to have the Hukuang loan agreement concluded as early as possible. At the same time, it stiffened Peking's resistance to the American claim of an absolutely equal share in the enterprise. Viceroy Chang's dispatch communicated to the American government was somewhat an ultimatum: the United States must accept a one-quarter share of the loan for the Hupeh section of the Hankow-Szechuan line or receive nothing at all.

The American position was in such danger that on 15 July, 1909, President William H. Taft resorted to the extraordinary procedure of taking a personal part in the struggle by cabling vigorously to Prince Chun, Regent of the Chinese Empire:

I am disturbed at the reports that there is certain prejudiced opposition to your government's arranging for equal participation by American capital in the present railway loan. To your wise judgment it will of course be clear that the wishes of the United States are based, not only upon China's promises of 1903 and 1904, confirmed last month, but also upon broad national and impersonal principals of equity and good policy in which a regard for the best interests of your country has a prominent part. I send this message not doubting that your reflection upon the broad phases of this subject will at once have results satisfactory to both countries. I have caused the legation to give your minister for foreign affairs the fullest information on this subject. I have resorted to this somewhat unusually direct communication with Your Imperial Highness, because of the high importance that I attach to the successful result of our present negotiations. I have an intense personal interest in making the use of American capital in the development of China an instrument for the promotion of the welfare of China, and an increase in her material prosperity without entanglements or creating embarrassments affecting the growth of her independent political power and the preservation of her territorial integrity.²⁵

President Taft's intervention not only ignored Viceroy Chang Chih-tung, who was directly responsible for the railway project, but bypassed the Chinese Foreign Office as well. It is unusual that the President of the United States should have communicated with the head of another government on behalf of private business interests. Obviously, President Taft took this drastic measure in the hope that the authority and prestige of his office would influence the decision of the Prince Regent so that Chang Chih-tung could be pressured from above to wait until a compromise was reached between American and European bankers.

In a following telegram, Secretary Knox instructed Mr. Fletcher to make sure of the delivery and friendly explanation of the President's telegram to the Prince Regent. Reinforcing Taft's telegram, Knox demanded prompt Chinese acceptance of equal American participation in the Hukuang loan and warned the Chinese government that, if the reasonable wishes of the American government should be thwarted, the whole responsibility would rest upon the Chinese government.²⁶ He informed the Chinese government that there was no reason to doubt that, as a result of early meetings in Paris or Berlin, the American group soon would reach an agreement with the European bankers for equal participation in the present loan by American capital, and that it would be inconsistent with the dignity and moral right of the United States and with a policy hitherto friendly on the part of China if the United States were expected for one moment to consider less than equal participation.²⁷ Knox emphasized in his telegram that,

This government greatly deplores a situation in which it seems that individuals in China or elsewhere are able to defeat the

practical operations of the policy of the open door and equal opportunity, and if the objections of bankers of other countries to equal American participation are so insistent as not to be overcome by the wishes of China and of their own Governments, the time has arrived when China should exercise its right to determine the matter by confining her dealings to those who are willing to respect her highest interest. . . . Americans would welcome an opportunity to arrange for the whole loan, if necessary, by reason of further persistency of the individuals who refuse to meet the situation broadly.²⁸

The individuals to whom Secretary Knox referred was no doubt representatives of the European groups, who had been urging China to conclude the agreement as it stood without American participation, and Viceroy Chang Chih-tung, who was growing hostile to the American claim and declared that he would wait only a few days more before sending a memorandum to the Throne for Imperial sanction of the loan agreement with the European groups.²⁹

The telegrams of President Taft and Secretary Knox achieved their intended results. Confronted by the American determination to secure an equal share in the loan, the Prince Regent decided to comply with the wishes of the American government. Orders went out from the Imperial Palace to include the United States in the loan. The ministers of the Chinese Foreign Office were instructed to negotiate with the American chargé d'affaires in Peking so as to come to a suitable decision and take action accordingly.³⁰

Negotiations at Peking about the Hukuang loan were resumed somewhat fitfully after the Prince Regent's cable to President Taft.³¹ This time, the Americans adopted a more flexible attitude to secure equal participation and avoid direct confrontation with the established interests of the European groups in the loan. Even before the American government received a positive response from the Prince Regent,

Fletcher tried to effect a way to break the deadlock. On the afternoon of 15 July, Fletcher called at the Chinese Foreign Office to suggest to Mr. Liang the feasibility of increasing the loan by 12.5 percent and admitting equal American participation without challenging the established interests of the other foreign groups.³²

Fletcher explained that the original offer made by the European bankers was about 12.5 percent of the entire loan so that, if the loan were increased by the difference, an agreement should be possible. He added that, from what he had learned, the amount of the present loan would be insufficient for the construction of the two sections mentioned in the loan agreement. Mr. Liang personally approved the idea and promised to have it presented to Viceroy Chang Chih-tung for his consideration.³³

The State Department approved Fletcher's suggestion and regarded such an arrangement as satisfactory, provided American interests enjoyed absolutely equal rights in every particular. In his telegram to Fletcher, Secretary Knox confirmed the department's approval of his suggestion and instructed Fletcher to understand that "equal rights in every particular" stated in the department's 16 July telegram included all rights with regard to materials, engineers, auditors, and any other benefits which would naturally accompany a 25 percent interest in the loan.³⁴

With the approval of the State Department, Fletcher presented the American proposal to the European groups.³⁵ The proposal was carefully discussed between the European bankers and the Chinese government. After an understanding had been reached, Mr. Hillier of the

Hong Kong and Shanghai Banking Corporation informed Mr. Flether that the bankers had agreed to accept the American proposal in principle, and that the bankers were about to telegraph to their principals to inform them of the development and obtain their approval.³⁶ According to the understanding reached between the bankers, the original loan of £5,500,000 was to be increased by £500,000 to be allotted to the Hupeh section of the Hankow-Szechuan line and, by an arrangement of the the European bankers, the American group would finance £1,500,000 of the loan thus revised.³⁷ By this arrangement, American financiers would be ensured 25 percent of the entire loan without disturbing the European interests.

Mr. Hillier wanted the Americans to understand that no other conditions of the loan agreement should be changed in any respect. He stated that more money would be required in the future for the construction of the Hankow-Canton line and, because the United States had no legal claim whatsoever on the Hankow-Canton line, the American group should be content with one half of any sum which would be needed in the future for the completion of the Hankow-Szechuan line.³⁸

Fletcher related to Mr. Hiller Secretary Knox's instruction that the American government would not retreat from the position that American participation in the present loan, revised as proposed, should be equal in every particular to that of other groups. Mr. Hillier remarked that American bankers now were claiming more than they had claimed before. He promised to confer again with his fellow bankers and to communicate the new American position to their principals in Europe.³⁹

The European bankers and the Chinese government seemed to attach great importance to reaching a settlement on the basis of the original 6 June Agreement, altered only as to the amount of the loan. Chang Chih-tung openly stated that he did not wish to use any American money on the Hankow-Canton line and the European bankers had endeavored to have American participation in the Hukuang loan limited in all respects to the Hankow-Szechuan line.⁴⁰ Fletcher did not think the matter was a serious problem; he offered no objection to having the increased amount of £500,000 allotted to the Hankow-Szechuan line. He advised the State Department to comply with the limitation set by the European bankers and the Chinese government, but he demanded that American participation in the present and future benefits of the agreement absolutely must be equal and just as if American bankers were a party to the original agreement.⁴¹

American insistence on equal rights in every particular again blocked the way to an early conclusion of the loan. Pressed by the internal situation, the Chinese government was anxious to have the loan concluded. Liang Tun-yen, President of the Board of Foreign Affairs, appealed to Minister Rockhill, who was on leave in Washington, to help solve the problem. Liang asked Rockhill to inform President Taft of the difficulties of the Chinese government so that the matter could be settled at an early date.⁴² In his telegram to Rockhill, Liang informed him that the Chinese government already had agreed to increase the loan by £500,000, and that in arranging for the participation of the United States in the loan to be floated, the Chinese government had done its best to accede to

the wishes of the American government. The principle of America's participation in the loan on an equal basis in every particular, in Liang's opinion, was not of great importance. It would only cause further delay and prevent the negotiations from being successfully concluded. Liang pointed out that the United States had put forth its claims at a late hour and that the Chinese government was willing to admit American bankers into the loan and do whatever was possible to gratify the wishes of the American government only because the Chinese government wished to maintain harmonious relations with the United States. Liang hoped that the American government would understand China's difficulties and give up its claim for absolutely equal participation so that an agreement could be reached.⁴³

Despite the appeal of the Chinese government for an early conclusion of the loan, the official proposal of the American government made to the European groups made few concessions on the basis of American participation. The American government insisted that American bankers take one fourth of the loan and, in the same proportions, have and enjoy all the rights, powers, privileges, and discretions granted to and vested in the English, German, and French bankers under the terms of the 6 June Agreement concluded between the European bankers and the Chinese government. Americans and American goods, products, and materials should be entitled to the same privileges and preferences reserved in the agreement to British, German, and French nationals and materials. Besides, the American government proposed that a board of engineers be set up for each of the two railways: that the chairman of each board be the chief engineer;

that an American engineer, to be approved by American bankers, should be a member of each board; that the chairman of the Hupeh-Hunan section be English; that the chairman of the Hupeh section of the Hankow-Szechuan line be German; that an American chief engineer should be chosen for the next section of the Hankow-Szechuan line constructed by foreign capital; and that American bankers were to have their proportionate representation in the purchasing agencies for the railways to be constructed and their proportionate share of all advantages therein.⁴⁴

The proposal of the American government was not received favorably by the Chinese government and the European groups. The Chinese authorities refused to accept the part of the American proposal which related to the appointment of an American chief engineer for the Szechuan section of the Hankow-Szechuan line. Mr. Liang Tun-yen privately informed Fletcher that any reference to the Szechuan extension at this time would evoke a storm of criticism from the people of Szechuan.⁴⁵ The European bankers said that they had no authority to accept the American proposal for the creation of a board of engineers. To do so would necessitate a change in the present loan agreement, which they did not believe Chang Chih-tung or their principals in Europe would accept. Mr. Liang was of the same opinion. It also was thought that the creation of such a board would give rise to many difficulties in practice. Fletcher then asked if the bankers would object to the appointment of American engineers in subordinate capacities. The European bankers replied that they would have no

objections in this respect and promised that such appointments would be made.⁴⁶

When the question of materials was raised, the European bankers proposed that American participation in this respect be limited to one half the preferred materials on the Hankow-Szechuan line. Fletcher pointed out the impracticability of the proposition and insisted that American materials should participate equally on both lines as enjoyed by British, French, and German materials. Fletcher's position was supported by Mr. Liang. Finally, the European representatives agreed to let the Americans have equal rights in furnishing materials for both lines. The understanding reached was incorporated in the alternative proposal.⁴⁷

As to future loans, the European bankers made it clear that they did not wish to let American business interests have anything to do with the Hankow-Canton line, no matter how much money would later be needed for the completion of the line. They would, on the other hand, clearly recognize the American right to furnish one half of any foreign capital borrowed by China for the completion of the Hankow-Szechuan line.⁴⁸ After the fiasco of the American China Development Company, American participation in any loan for the Hankow-Canton railway would encounter serious opposition from the Chinese authorities who tried to avoid local opposition as much as possible. Besides, American participation in the present loan was based on assurances which had reference solely to the Hankow-Szechuan line. In view of these facts, Fletcher agreed to accept the European terms.⁴⁹

The representatives of the three European groups raised the question of additional security in connection with the increase of the loan to £6,000,000. Mr. Liang considered that the security pledged by the Chinese government was sufficient. After a short discussion, the bankers waived the question because it was evident that they could not insist on a change in the agreement in this respect while resisting all other alterations. Further discussion of the details of the interbank agreement was postponed until a definite reply had been received from the American State Department and the European bankers' principals on the alternative proposal.⁵⁰

In the endeavor to secure equal American participation in the Hukuang loan, Mr. Fletcher was more flexible than the American State Department. In his telegram to Secretary Knox, Fletcher expressed his opinion that he did not believe that much practical advantage could be gained from insistence upon a provision for subordinate engineers. He urged the State Department to adopt a more conciliatory attitude to help conclude the loan.⁵¹ Under the promptings of Fletcher, the State Department authorized him to inform the Chinese government that the American government would consent to the arrangement as to chief engineers as set out in Article 17 of the 6 June 1909 Agreement, provided the Chinese government would assure the employment of American engineers by the managing directors. The department made it clear, however, that the American government did not waive equal rights in regard to materials in all lines and branches covered by the contract.⁵²

New problems arose as soon as the old ones were solved. On 27 August, Mr. Fletcher received new instructions from the State Department. Two points were emphasized. First, the United States Government insisted upon an amendment to give the American group an equal voice in the purchasing agencies. Second, Mr. Fletcher was instructed to urge a single agreement including "all alterations and amendments now involved in the substance of the supplementary and amendatory points now accepted by all parties or herein further suggested." Secretary Knox explained that the original agreement had been essentially changed because of the American participation; therefore, the American government saw no reason for isolating, in a supplementary agreement, changes entirely germane to the change in amount as well as to all other provisions of the original agreement.⁵³

On 19 August 1909, Mr. Willard Straight, representative of the American group, arrived in Peking. A conference was held the next day. Present were representatives of the four foreign banking groups and the Chinese government. The European bankers had prepared a draft of an agreement embodying the points on which a common understanding seemed to have been reached. This draft agreement was discussed article by article. No objection was raised to the arrangement of engineering rights and the furnishing of materials for the railways.⁵⁴

In regard to the purchasing agencies, Straight and Fletcher endeavored to secure a provision that one of the agencies should be nominated by the Deutsch-Asiatische Bank and the American group and the other by the English and French groups. This American proposal was not accepted. No changes were made in the original agreement, provided

that the Deutsch-Asiatische Bank would act as the purchasing agent for the Hankow-Szechuan line and a company nominated by the Hong Kong and Shanghai Banking Corporation for the Hankow-Canton line. The arrangement did not give the American group as much voice in the purchases as would be desired in order to see that American materials received due consideration, but it was agreed that all commissions would be pooled and the American group would receive 25 percent of the total commissions.⁵⁵

The American insistence on a single agreement caused objections from the European groups and Chang Chih-tung. Fletcher reported to the State Department that the Peking agent of the German group was taking advantage of the American position to inform the Chinese government that "the Americans do not really want to participate in the loan, but desire to defeat any loan at all." The German agent pointed out that the Americans "no sooner receive concession in regard to one point" then they raised new ones.⁵⁶

Chang Chih-tung, who was very ill, wanted to have the loan concluded while he still could make decisions. He strongly opposed any changes of the original agreement except as to the amount of the loan, but he was willing to sign a supplementary agreement providing for American participation. Mr. Fletcher believed it would not be "politic or expedient to insist further" on American inclusion in the original agreement because "Chang has set himself against any further change in that particular agreement." Rather than risk a crisis and consequent anti-American recriminations, Fletcher reported to the State Department,

he had decided to accept the less simple solution and withdraw the proposal for a single agreement.⁵⁷

As a result of the rival interests, the Chinese were becoming "restive" and were "complaining" about the American action. Fletcher expressed his fear of "the effect on future American enterprises of similar nature if too obdurate a position is taken on this matter of the form of the agreement." He recommended its solution "as soon as possible."⁵⁸ The State Department accepted Fletcher's reasoning and raised no further questions as to the form of the agreement. After all, the United States could gain nothing by insisting on a single agreement. It merely was a matter of the American group being included in the original contract which might be related to American prestige as a power second to no other European power. The compromise on the part of the Americans did not bring the dispute to an end. The engineering rights of the Hankow-Szechuan line soon became another major point of dispute.

* * *

A British proposal came on 8 September 1909 to solve the present loan dispute by dividing, as equally as was practicable, the engineering rights of the whole Hankow-Szechuan line from Hankow to Chengtu among the four powers. This new proposal covered the Szechuan section of the Hankow-Szechuan line from Ichang to Chengtu which was not included in the original 6 June Agreement. If the Chinese government should "object to the making of any definite arrangement at present for the construction of the Szechuan line beyond the Hupeh section," the British proposed, the Chinese government should promise

later to "apply to the four powers for the capital required" for the extension. The British government appealed that each European group should make some sacrifice so as to allow the participation of the American group.⁵⁹

The aim of the British proposal was primarily not to accommodate the Americans but to curtail, if not entirely eliminate, the German interests in the Yangtze railway loans. The British always had been opposed to the extension of German influence into the Yangtze River Valley--the British sphere of interest. British and German capital had fought for the right to construct the Hankow-Canton line. The Germans obtained the concession only because they had offered more liberal terms to the Chinese than the British offered. Although a compromise finally was reached by the transfer of German interests in the Hankow-Canton line to the Hankow-Szechuan line, with the 1909 signing of the Hukuang 6 June Agreement, the British failed to keep the Germans away from their sphere of interest.⁶⁰

The entire Hankow-Szechuan line was about 2,400 kilometers in length of which the Hupeh section from Hankow to Ichang was 800 kilometers and the Szechuan section was 1,600 kilometers. According to the intergroup agreement of the three powers before the 6 June Agreement with the Chinese government, the Germans were to engineer the 800 kilometers of the Hupeh section and the British and French interests were to share the 1,600 kilometers of the Szechuan section.⁶¹ To satisfy the American claim to appoint an engineer on one half of the Szechuan section, the British proposed that, in strict equity, the Germans should surrender 267 kilometers of the Hupeh

section and the Anglo-French interests surrender 533 kilometers of the Szechuan section.⁶²

Well aware of the intentions of the British, the Germans protested that, since the Chinese government never had granted permission to extend the line into Szechuan, the British and French interests would make no sacrifice at all and German bankers alone would sacrifice their right to engineer the entire Hupeh section. According to the views of the German financiers, it would only be fair that, should the Hankow-Szechuan line be divided into four, the Hankow-Canton line also should be divided.⁶³ The British refused to consider any suggestion that the Hankow-Canton line be divided into four. It appeared to the British government that under the arrangement proposed by the Germans, the British group would be making a double sacrifice--one on the Hankow-Szechuan line and one on the Canton-Hankow line--while the Germans would be compensated for their sacrifice on the Hankow-Szechuan line by what they gained at British expense on the Canton-Hankow line, which would be no sacrifice at all.⁶⁴

During September 1909, with Viceroy Chang Chih-tung's death now an early possibility, feverish efforts were made to reach an agreement in the Hukuang loan dispute which already was three and one-half months old. The German group appealed to London to aid in securing an agreement, leaving details for the future. The Peking agents of the four groups did reach an agreement on 24 September; the American State Department promptly approved it the next day.⁶⁵ Fletcher notified the Chinese Foreign Office that the American bankers were ready to close and that they would not bear the responsibility for

further delay in the signature of the agreement.⁶⁶ The agreement of the banking groups was, however, again delayed, this time by the action of the British government which requested that the British representatives delay signing the agreement, insisting on its proposal of dividing the engineering rights of the Hankow-Szechuan line.⁶⁷

On 4 October 1909, Viceroy Chang Chih-tung died in Peking, leaving the Hukuang loan negotiations deadlocked.⁶⁸ The British government's "embargo" on signing a compromise agreement remained effective. The death of Chang Chih-tung gave the British government "an opportunity of reconsidering the whole Yangtze railway loan question and of undertaking the negotiations *de novo*."⁶⁹

The entire matter of the railways in the Hukuang provinces had been in the hands of Chang Chih-tung. The British and German rights in the Hukuang railways rested largely on the assurances of Chang Chih-tung which had never received the definite approval and sanction of the Imperial Government. In a time of emergency, however, the British Hong Kong government had advanced £1,100,000 to the Chinese government for the redemption of the Hankow-Canton Railway loan from the American China Development Company.⁷⁰ To express his gratitude, Chang Chih-tung, on 9 September 1905, via a letter to the British consul at Hankow, Mr. E. H. Fraser, had given assurances to accept British financial aid if foreign capital were required again to build the Hankow-Canton railway.⁷¹ The British therefore seemed to have a moral claim on the Chinese government which would be impossible to evade.

The change of attitude on the part of the British government was due, in Fletcher's opinion, largely to the influence of Mr. Valentine Chirol who criticized in the *Times* the action of his government for surrendering to the Germans and for failing to cooperate with American interests.⁷² There was a strong inclination in certain influential British quarters to try to curtail and gradually eliminate German interests in the Yangtze River Valley.⁷³ Viceroy Chang Chih-tung's death was seized upon as a favorable opportunity to effect such a change. The British government intended to support an absolutely equal American participation in the Hankow-Szechuan line in every respect as an effective means of decreasing German financial interests in the Yangtze region--the British sphere of influence.⁷⁴

The American legation in Peking, annoyed by the British government's last minute change of attitude, had no intention of siding with the British in their unilateral action to build up their strength in the Yangtze River Valley. The course the British were about to take, Fletcher understood very well, would lead to a sharp conflict between German and British interests and, if the Germans were forced out of the Yangtze region, they certainly would insist upon compensation via loans in Shangtung and elsewhere, thus the "sphere of influence" policy would be revived in another form. Fletcher therefore advised the State Department that conclusion of the present agreement or, better, an agreement frankly providing for the equal treatment of all parties "is far preferable to a reopening of the whole question, when special local rights and interests will be insisted upon." He urged the State Department to send strong

representations to pressure the British government for an early settlement of the Hukuang loan.⁷⁵

The American State Department was in full agreement with Fletcher's analysis of the situation. Acting Secretary of State Huntington Wilson instructed Ambassador Whitelaw Reid to inform the British government that the United States Government "would be constrained to feel keen disappointment" if the Government of Great Britain should continue to disregard the agreement reached by the four banking groups and cause further delay in the conclusion of the Hukuang loan.⁷⁶

Viceroy Chang Chih-Tung's death also created substantial difficulties for the Chinese Imperial Government. People in the Hukuang provinces long had been opposed to the borrowing of foreign capital to build China's railways. Nevertheless, during the lifetime of Chang Chih-tung this opposition would have amounted to little more than talk because, having so long been viceroy of the Hukuang provinces, his influence and prestige had been sufficient to overcome the opposition of the local gentry. The Imperial Government had, for a long time, relied on Chang Chih-tung to pacify the Hukuang provinces. The death of Chang Chi-tung removed the one man from public life who might have been able to prevent a bitter clash between Peking and these provinces in which the slogan of "no foreign financial control" had been employed widely as an effective weapon with which to attack the central government.

Delay in finding a quick solution for the Hukuang loan gave provincial antiforeign and antirailway centralization forces a chance

to stir up feelings against foreign influence and against the authority of the Imperial Government. Although the Imperial Government well knew that the provincial gentry were financially incapable of undertaking the construction of these railways, and had no intention of allowing the opposition forces to interfere with the consummation of this important enterprise, it was woefully weak and might, now that Chang Chih-tung's influence in the Yangtze region was withdrawn, hesitate to adopt the strong line with these provinces.

Representatives of the four groups recognized the danger of delay and tried, accordingly, to break the deadlock. The British government denied that its action had delayed the negotiations. Nevertheless, seeing that there was no way to curtail German interests without support from the United States, the British agreed to back down. A new proposal was made in which the Germans were requested to surrender only the Hsiangyang-Kuangshui section, estimated at 200 kilometers, as a contribution of some 600 kilometers imposed upon the Anglo-French interests by the American claim to one half of the Ichang-Chengtou extension.⁷⁷

Fletcher was encouraged by this sign of compromise and proposed to the Germans on 26 October that an American engineer be appointed for the Hsiangyang-Kuangshui section of 200 kilometers to cooperate with and be subject to general direction of the German chief engineer.⁷⁸ The American proposal was accepted by the German Foreign Office and the German bankers were authorized to sign the agreement with the Chinese at once.⁷⁹ Since the American proposal was substantially in harmony with the conciliatory proposal offered by the British, the

British government decided to comply with the wishes of the American and German governments for an early settlement. An understanding was reached between the American, British, and German interests.⁸⁰

By the new arrangement, the entire Hankow-Szechuan line would be divided among the powers as follows: first section, 500 kilometers, French chief engineer; second section, 600 kilometers, American chief engineer; and third section, 500 kilometers, English chief engineer. The Germans were to retain the entire 800 kilometers of the Hupeh section, provided that the 200 kilometers from Hsiangyang to Kuangshui be constructed under an American engineer subordinate to the German chief engineer, and that the American engineer for the Hsiangyang-Kuangshui section should not interfere with judgment of the German chief engineer regarding the purchase of materials.⁸¹

French interests had not been consulted during the entire proceeding of the arrangement. Now that the three groups were ready to sign the final agreement with the Chinese government, the French government regarded the arrangement as unsatisfactory and raised objections to the division of engineering rights of the Ichang-Chengtu extension.⁸² The three governments urged the French government to instruct its bank representatives to sign the original and supplementary agreements as they stood, leaving the details of possible future extension to be settled later by private arrangement.⁸³ Secretary Knox warned the French government that, in view of the increasing opposition in China's provinces, the United States government believed it would be for all concerned a misfortune of the most far-reaching consequence if the French government failed now to instruct its

bankers to complete the arrangement without further delay.⁸⁴ Yet the French government refused to comply. It declared that as soon as it obtained, in the Hankow-Canton and Hankow-Szechuan lines, a share equal to the share of other powers, it would be ready to sign the loan agreement.⁸⁵

The French government pointed out that the projected Hukuang railways comprised about 3,200 kilometers, 800 for each participant, and that the American and German groups each had received its legitimate share, which represented a quarter of the enterprise, whereas the British reserved 1,400 kilometers, 900 on the Hankow-Canton line and 500 on the Hankow-Chengtou line, proposing to the French to be content with an eventual 500 kilometers on the Szechuan line. The French government thus regarded the proposed division of engineering rights as unacceptable to France. As soon as the French group was ensured a share equal to that of its partners, the French government expounded, there would be no further opposition. Should it be otherwise, the French government was determined not to sign.⁸⁶

To hasten the conclusion of the Hukuang loan, the British Foreign Office instructed representatives of the British group to sacrifice in favor of the French demand for additional mileage so that the French and German sections could be equal in length.⁸⁷ According to the information received by the American State Department, France would withdraw its objection to the signing of the Hukuang loan agreement if the French group received engineering rights on an additional 100 kilometers of the Chengtu extension.⁸⁸ Secretary Knox instructed that if this report was well founded, the United States

Government was willing to "share equally with Great Britain in making such sacrifices of engineering rights" on condition that the original and supplementary agreements were signed without further delay. The Secretary also wished to make it clear that the surrender by the United States of such engineering privileges should not be mistaken as a compromise on its other rights insofar as the Hukuang loan was concerned.⁸⁹

The British intended to make no sacrifice at all. On 3 January 1910, the British Foreign Minister F. A. Campbell made a new proposal to divide the entire Hankow-Szechuan line into four equal engineering sections. Each group was to receive 600 kilometers.⁹⁰ France and Germany raised no objections to the British proposal.⁹¹ By the new British proposal, the French were to gain 100 kilometers of engineering rights, thus putting them on an equal footing with the three other groups. German interests were not affected because their chief engineer still would have the entire 800 kilometers of the Hupeh section under his supervision. The British also gained 100 kilometers on the Szechuan line so that their engineering rights would be increased to the total of 1,500 kilometers on both lines. The American group was to be the only loser in the new arrangement. The American share in the Chengtu extension was to be reduced from 600 to 400 kilometers and, according to the agreement between the American and German interests, the American group could provide only a subengineer for the section from Hsiangyang to Kuangshui. The actual mileage under the American chief engineer therefore would be 400 kilometers. Secretary Knox declared that the British proposal was "entirely unacceptable" to the American government

because it would cancel the agreement already reached between the United States and Germany which Great Britain had approved.⁹²

Since the death of Chang Chih-tung, no progress in the Hukuang loan negotiations were made at Peking. The American State Department had learned through newspapers and from commercial houses that the Szechuanese already had begun construction of the line from Ichang to Wanhsien, a section of the Szechuan line,⁹³ which suggested that the provincial authorities still were trying to build the line through their efforts despite the nationalization program of the Imperial Government. The American State Department, in its negotiations with the other powers concerned, held it to be unwise to imperil the success of the present loan for the sake of an agreement as to engineering rights upon a line for the financing of which a concession might never be obtained.⁹⁴

The French government informed the British government that the division of the Hankow-Szechuan line was "not unacceptable" to the French government which provided that the principle of equality between the French and British groups be extended to the Hankow-Canton line by the appointment of a French subengineer.⁹⁵ The American State Department still insisted on its proposal that the American group yield in favor of the French group 100 kilometers of engineering rights on the Szechuan extension provided that the British should satisfy the French group's desire to have a French subengineer on the Hankow-Canton line. It urged the acceptance of the American proposal as the "most feasible and equitable."⁹⁶ The American proposal was received favorably by the French government because it could gain more from the American

proposal than from the British. The proposal also appeared acceptable to the German interests.⁹⁷

The fundamental difference in the position assumed by Great Britain, and that of the other three powers, was that while the latter regarded engineering rights on the Hankow-Canton line as an integral part of the Hukuang loan arrangement, Great Britain insisted upon treating that section as separate and reserved to herself. To restrict this principle of division into four equal parts to the Szechuan line alone, as proposed by the British, seemed unjust to the American State Department. The department failed to follow the reasoning by which the British group contended that the Canton-Hankow line, while included as an integral part of the Hukuang agreement in respect to financing, supply of materials, and all other important respects, was excluded from the scope of the agreement in engineering rights alone.⁹⁸

Ambassador Reid, in his note to the British Foreign Office, emphasized that the Hankow-Canton line, being an integral part of the Hukuang agreement, should be considered in connection with the equal division of engineering rights among the four groups.⁹⁹

The British government was strongly against the appointment of a French subengineer to the Hankow-Canton line. It stated that neither the American nor the French group could reasonably claim engineering rights on the Hankow-Canton line because, by the 19 May 1909 arrangement made between the British, French, and German groups, the chief engineer of this line was clearly specified to be British and because the American government, being a latecomer in the field, had agreed to waive its rights as to chief engineers and reserve them only on future extensions.¹⁰⁰

The British government admitted that the Hankow-Canton line undoubtedly formed an integral part of the entire loan agreement. Nevertheless, British officials claimed, British financial interests were entitled to a privileged position insofar as the Hankow-Canton section was concerned because British financial interests alone had advanced the funds required to enable China to redeem the concession of this line from the original American holders and, thus, obtained the preference to this line from the Chinese government in case foreign capital should again be required for the construction of this line. Moreover, the British Foreign Office pointed out, the preference claimed by the British now was confined to a mere question of engineering rights, absolute equality as finance and materials were regarded having already been conceded.¹⁰¹

In his letter to Reid, the British Foreign Minister told the American ambassador that he was aware that the Germans had given the American group only 200 kilometers of subengineering rights. The 200 kilometers, however, were part of a line already conceded by China and, therefore, were more valuable than a concession of an extension which was "merely problematical." To show that it was not the British government's intent to satisfy its selfish interests, the British Foreign Minister offered to change sections with the American group if American bankers were not satisfied with the arrangement. The minister expressed his earnest hope that the American government should accept the British government's viewpoint. He asserted that American consent to the British proposal would greatly facilitate

an agreement between the four groups which, in view of recent events in the Yangtze region, was "daily becoming more urgent."¹⁰²

Seeing that it would be difficult to pressure the British government to change its position, and that further delay could affect the conclusion of the entire loan agreement, the American government withdrew its objections and decided to accept the British proposal. Ambassador Reid, under instructions from the State Department, informed the British government that, while still dissenting from the principle of equal division of the Hankow-Szechuan line, the United States Government was disposed to accept 400 kilometers of chief engineering rights on the extension to Chengtu and 200 kilometers of subengineering rights with Germany on the Hupeh section, provided that such acceptance would close the negotiations.¹⁰³ The British government expressed pleasure with the decision reached by the United States.¹⁰⁴

The conciliatory attitude of the United States largely was precipitated by the internal situation of the Chinese Empire. Two chief factors were enough to worry the Imperial Government: increasing domestic outcries against policies of the Imperial Government and growing imperialist rivalry within the empire. The Manchu government could find no trustworthy aid to discourage domestic discontent or to remove the danger of foreign domination. Chang Chih-tung was dead, the Hukuang loan was in cold storage awaiting agreement among the powers who were contending for a bigger share for their business interests, and provincial criticism was increasing.

If Peking urged haste in concluding railway loans such as the Hukuang loan of 6 June 1909, nothing but long, drawn-out negotiations ensued between the rival powers. If Peking favored one foreign government or group, opposition was bound to develop at home or abroad. What would China's fate be as a result? Judging from past experiences, the imperialist powers would try to strengthen but not abandon their privileged positions in China. Even the United States was joining the European powers in the fight for concessions and privileges in China. From the active role played by the Americans in the Hukuang loan dispute, the Chinese government discovered a new force competing with the established European interests in search of concessions in China.

The Hukuang negotiations were complicated by the action of the Szechuanese who had taken the Szechuan extension into their hands and had started construction. If provincial enterprise should build a line from Ichang westward toward Wanhsien, as reported,¹⁰⁵ the four banking groups would not be able to include this extension in their proposed agreement with Peking. On the other hand, if the powers were to insist on the inclusion of the Chengtu extension in the agreement, the Chinese government would be placed in a quandry: it would be obliged to incur greater provincial hostility by supporting foreign demands or to refuse the inclusion, thereby antagonizing the four powers capable of lending the much needed funds for China's development and reforms. It would be a difficult choice for the Imperial Government. The Szechuanese plan to build a railway without the assistance of Peking or foreign loans was but a sample of the agitation spreading through China at that time.¹⁰⁶ It was no easy

matter for the government to persuade the provincial gentry to accept its railway concentration program.

By the end of January 1910, the Chinese government, under the guidance of the young Prince Regent, was facing impending crises. Provincial liberals demanded more political rights and quicker reforms. The reform problems in turn reinforced a constantly increasing struggle between the Imperial Government and provincial authorities.¹⁰⁷ What made matters worse, these reforms implied a foreign democratic influence in China, weakening rather than strengthening an already crumbling Imperial administration at a time when actual authority was greatly needed to sustain the central authority.

The railway loans embittered Peking's relations with the provinces which opposed national control as well as foreign funds and supervision. With the Hukuang loan in a state of deadlock, the four foreign banking groups still were competing for advantages with total disregard for any effect on Chinese opinion. The prestige of the Ch'ing government and its administrative integrity had been seriously impaired by imperialist rivalries in the empire. With the provinces demanding more freedom from the Throne, with the powers insisting on Peking's approval of their rival claims, and with no outstanding leader visible in China to guide the young Prince Regent through the crises, the beginning of a new year did not bring much hope and joy to the empire, but seemed to anticipate a year full of trouble, more ominous than the year that had just passed.

Conflicts among the powers injured the prestige of the Chinese Imperial Government and posed a potential threat to the administrative integrity of China. Popular sentiment turned even more against the

Manchu authorities who were blamed, on the one hand, for yielding to foreign pressure and, on the other, for not granting enough rights to the provinces. Rioting and destruction of foreign property in Changsha, capital of Hunan province, incidentally exemplified a growing provincial hostility to the Peking government and foreign activities in China.¹⁰⁸ The Prince Regent had reason to fear foreign complications in the Yangtze region and sent orders "to take all precautions against further troubles, as the people in Hunan province are turbulent and pugnacious."¹⁰⁹ An Imperial edict dealing with the Changsha situation was issued on 21 April at Peking.¹¹⁰ Yet the next day, "serious disturbances" affecting missions in Hunan, the destruction of business houses at Changsha, the evacuation of foreigners, and the arrival of foreign warships at Changsha were reported.¹¹¹

International rivalry in connection with Chinese railway loans and China's internal unrest led the Prince Regent's government to feel resentful and to threaten calling off all pending negotiations. So apprehensive was the Peking government over the protracted delay in concluding the Hukuang loan negotiations and over popular opposition, especially in Szechuan, to foreign loans and control, that Willard Straight, representative of the American group, cabled J. P. Morgan and Company that China wanted to drop the whole business.¹¹² Yet the division of engineering rights on the Szechuan line seemed to be a stumbling block to the foreign banking groups who quarreled over the size of their respective shares of the line.

The compromise made by the American government to accept the British proposal helped to bring the exhausting intergroup negotiations concerning the Hukuang loan to a conclusion. Menaced by the imminent danger of losing the entire enterprise, the four foreign groups finally compromised their differences at Paris and prepared to present an identical note to the Chinese government demanding Imperial sanction of the original and its supplementary agreements, as approved by the four foreign groups and their governments.¹¹³ A quadruple agreement was signed at Paris on 23 May 1910 by representatives of the British, French, German, and American banking groups and, as a result, a four-power Consortium was formed.¹¹⁴

Peking's objection to the inclusion of the Szechuan extension in the contract seemed to carry little weight at the negotiations of the foreign powers. The extension was included in the intergroup agreement, and bankers of the four groups were determined to secure that extension from the Chinese government despite ominous rumblings in the two Hukuang provinces and especially in Szechuan against using any foreign capital for China's railways.¹¹⁵

The agreement of 23 May 1910 provided for a £6,000,000 loan to be shared with any supplementary loan to be issued in connection with the Hukuang railways equally among the four groups. All orders for materials were to be divided equally among the four groups. In regard to the long-disputed engineering rights, it was agreed that the chief engineer for the Hankow-Canton line was to be appointed by the British and that a German chief engineer should be provided for the Hupeh section of the Hankow-Szechuan line, a length of about 800 kilometers.

The German group, however, was to appoint an American subengineer for about 200 kilometers of the Hupeh section from Hsiangyang to Kuangshui. In regard to the proposed extension of the Hankow-Szechuan line from Ichang to Chentu, a total length of about 1,600 kilometers, the chief engineer of the first 400 kilometers was to be American, a British chief engineer for the next 600 kilometers, and a French chief engineer for the remaining 600 kilometers of the line.¹¹⁶

The four groups also accepted a new British proposal before signing the intergroup agreement whereby it was agreed that if the Szechuan extension should prove to be less than 1,600 kilometers in length, the engineering rights of each group would be reduced proportionately; if the extension should prove to be over 1,600 kilometers and under 2,200 kilometers, the engineering rights would be proportioned equally among the American, British, and French groups; and if the extension should exceed 2,200 kilometers, the appointment of chief engineers of the surplus over 2,200 kilometers should be divided equally, as nearly as possible, among the four groups.¹¹⁷

With the conclusion of the intergroup agreement, the long, drawn-out loan dispute among the four groups finally was brought to a temporary truce. Now the task of the four groups and their governments was to concert their efforts in pressing the Chinese government for ratification of the original and supplementary agreements endorsed by the foreign bankers.

CHAPTER 3 ENDNOTES

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⁵*Ibid.*, p. 162, Knox to Fletcher, June 16, 1909, telegram.

⁶*Ibid.*, pp. 162-163.

⁷*Ibid.*, p. 168, Hill to Knox, June 29, 1909, telegram.

⁸*Ibid.*, p. 177, Prince Ch'ing to Fletcher, July 14, 1909, enclosed in Fletcher to Knox, July 14, 1909.

⁹*Ibid.*, p. 166, Fletcher to Knox, June 24, 1909, telegram.

¹⁰*Ibid.*, p. 166, Huntington Wilson to Hill, June 25, 1909, telegram.

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¹³*Ibid.*

¹⁴*Ibid.*

¹⁵*Ibid.*, pp. 170-171.

¹⁶*Ibid.*, p. 171.

¹⁷*Ibid.*, p. 173, Fletcher to Knox, July 14, 1909.

¹⁸*Ibid.*, p. 171, Fletcher to Knox, July 13, 1909, telegram.

¹⁹*Ibid.*, p. 173, Fletcher to Knox, July 14, 1909.

²⁰*Ibid.*, p. 174.

²¹*Ibid.*.

²²*Ibid.*, p. 177, Prince Ch'ing to Fletcher, July 14, 1909, enclosed in Fletcher to Knox, July 14, 1909.

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²⁴*Ibid.*, p. 178.

²⁵*Ibid.*, p. 178, President Taft to Prince Chun, July 15, 1909, telegram.

²⁶*Ibid.*, p. 179, Knox to Fletcher, July 15, 1909, telegram.

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²⁸*Ibid.*

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³¹*Ibid.*

³²*Ibid.*, p. 181, Fletcher to Knox, July 23, 1909.

³³*Ibid.*

³⁴*Ibid.*, p. 180, Knox to Fletcher, July 16, 1909, telegram; p. 181, Knox to Fletcher, July 20, 1909, telegram.

³⁵*Ibid.*, p. 182, Fletcher to Knox, July 23, 1909.

³⁶*Ibid.*

³⁷*Ibid.*

³⁸*Ibid.*

³⁹*Ibid.*

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⁴¹*Ibid.*

⁴²*Ibid.*, p. 187, Liang Tun-yen to Rockhill, July 24, 1909, telegram, enclosed in Ou Shou-tchun to Rockhill, July 24, 1909.

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⁴⁷*Ibid.*, p. 191.

⁴⁸*Ibid.*

⁴⁹*Ibid.*

⁵⁰*Ibid.*

⁵¹*Ibid.*

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⁵⁶*Ibid.*, p. 198.

⁵⁷*Ibid.*, p. 197.

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⁵⁹*Ibid.*, p. 202, Bryce to Knox, September 8, 1909.

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⁶⁴*Ibid.*

⁶⁵*Ibid.*, p. 203, Fletcher to Knox, October 5, 1909.

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⁶⁷*Ibid.*

⁶⁸*Ibid.*, p. 203.

⁶⁹*Ibid.*, p. 204.

⁷⁰*Ibid.*

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⁷³*Ibid.*

⁷⁴*Ibid.*

⁷⁵*Ibid.*, pp. 205-206.

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⁷⁸*Ibid.*, p. 209, Fletcher to Knox, October 27, 1909; p. 210, Knox to Reid, November 11, 1909, telegram.

⁷⁹*Ibid.*, p. 212, Knox to Reid, November 17, 1909, telegram.

⁸⁰*Ibid.*, p. 213, Knox to Hitt, December 9, 1909, telegram.

⁸¹*Ibid.*, p. 210, Knox to Reid, November 11, 1909, telegram.

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¹⁰⁶Meribeth E. Cameron, *The Reform Movement in China, 1898-1912* (Stanford: Stanford University Press, 1931), p. 164.

¹⁰⁷*Foreign Relations of the United States, op. cit.*, 1910, pp. 329-330, Fletcher to Knox, February 1, 1910.

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¹¹⁵*Ibid.*, 1912, pp. 87-88, Hukuang Railway Loan; 1910, pp. 280-283, Bacon to Knox, May 27, 1910; MacMurray, *op. cit.*, pp. 886-887.

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Chapter 4

CONCLUSION OF THE LOAN AND AMERICAN WITHDRAWAL FROM THE CONSORTIUM

Between 23 May and the end of June 1910, the governments of the United States, Great Britain, France, and Germany had given their official approval to the intergroup agreement.¹ On 13 July, an identical note was presented to the Chinese Foreign Office by the English, German, French, and American legations notifying the Chinese Foreign Office of their governments' acceptance of the intergroup agreement and urging an Imperial sanction of the 6 June Agreement and its supplementary agreement without delay. This was claimed to be "in accordance with the expressed wishes of the Chinese Government."² The British and American governments, in supplementary notes on the same date, reminded the Chinese government of the 1903 and 1904 promises in regard to the Hankow-Szechuan line.³

After the death of Chang Chih-tung, the Hukuang loan negotiations had been turned over to the Board of Posts and Communications for a settlement with the foreign banking groups.⁴ The Chinese Foreign Office informed the foreign bankers of this change and negotiations resumed between presidents of this board and the foreign bankers early in October 1910. The Chinese representatives notified the foreign bankers that China was not ready to close the negotiations on the exact terms presented by the four banking groups because the agreement had been worked out exclusively among the

bankers without consulting the Chinese authorities concerned. They argued that the original agreement of 6 June 1909 could not be taken as final but as a draft open to modification. The basis for this argument was that the 6 June Agreement had been initialed only. It had received neither the approval of the Board of Finance nor the sanction of the Throne. Further negotiations were necessary because "the state of popular feelings was such in Hunan and Hupeh that the agreement in its present form could not be concluded without risking serious local trouble." It therefore was necessary to modify some of the objectionable terms.⁵

Representatives of the banking groups believed that the presidents of the board exaggerated the danger of local trouble in order to obtain easier conditions, that China should be able to carry out the original terms without risking serious disturbances, and that she should be pressed to do so by the four governments. If, however, their governments were not inclined to take this view, the bankers suggested that their legations invite the Chinese government to state the desired modifications in order to find a mutual basis for understanding, at the same time upholding the inviolability of the initialed agreement. In the opinion of the foreign bankers, the validity of the initialed agreement had to be maintained. Should it be otherwise, the negotiations would not rest on solid ground.⁶

Minister W. J. Calhoun, Rockhill's successor in Peking, concluded in his telegram to the Secretary of State that, because the present complications and delay had been attributed to the action of the United States in demanding its participation the year before, the

State Department should continue its policy of concerted action with the other three powers even if it did not seem that a contractual value could properly be attached to the initialed agreement.⁷

The State Department was more cautious than Minister Calhoun. On 7 October, Acting Secretary of State Alvey A. Adee informed Mr. Calhoun that the steadfast policy of the department had been to demand a just share in any contemplated loan for a Hankow-Szechuan railway but not to force a loan on China. Mr. Calhoun was instructed to avoid taking the lead in pressing China to ratify the initialed and supplementary agreements but to continue to act in concert with the other Consortium governments to bring about an amicable and early adjustment of the matter.⁸ This conciliatory attitude to the Chinese government was further stressed a few days later when Washington approved a Chinese request for "local settlement" at Hankow of the Changsha riot claims.⁹

The news of the quadruple agreement gave rise to a storm of protest among the gentry and intelligentsia of the affected provinces who always had objected to the Imperial Government's supervision of the projected Hukuang railways and Peking's intention to use foreign funds for the construction of the entire system. Trouble already had occurred even two months before the intergroup agreement was signed. The Changsha riot was a major incident in the general unrest in the Hukuang provinces and Szechuan; indeed, those troubles carried the potential for a major antiforeign crusade.

The general unrest in Szechuan, Hunan, and Hupeh over the Hukuang loan delayed the negotiations between the Chinese government

and the four Consortium banking groups for several more months. The issue between these provinces and the Imperial Government was the control of the Hukuang railways. The Imperial Government decided not to make any further compromise to provincial agitation because it would further weaken the authority of the Imperial Government and totally destroy its prestige and credibility. Besides, no compromise on the part of the Imperial Government at this stage could quench the hostility of the provincials whose aim now was the termination of Manchu rule.

Government policies, whatever their nature, were bound to encounter strong opposition from the provinces. The policy most likely to give the tottering regime a chance to survive was to strengthen its authority by firm-handed action. In an Imperial edict of May 1911, the Throne reasserted its determination to nationalize all the nation's major railways:

The Government must have, in all directions extending to the borders of the empire, great trunk lines in order to carry on government effectively, and to maintain centralized authority. Hitherto the methods have been ill-conceived, and there has been no fixed plan, with the result that the railway administration of the whole country has fallen into confusion. There has been no distinction between trunk and branch lines and no estimate of the powers of the people. Requests on paper to act hastily have been granted. Commercial railway enterprises have been carried on for many years. In Kuangtung shares have been withdrawn, and only a small section of railway has been built. In Szechuan there has been misappropriation of funds and fruitless attempts to recover. In Hunan and Hupeh offices have been opened for many years, capital has been vainly wasted to the exhaustion of the people's resources. If this period of waste continues longer, the burdens of the people will be the heavier and both Government and people will suffer injury. How can we contemplate the consequences of such mistakes? We now clearly proclaim to the whole Empire that the trunk railway lines are to belong to the Government.¹⁰

The Imperial Government's decision to continue its policy of railway concentration and employment of foreign capital later proved to be a contributing cause to the rapid spread of the revolution after the Wuchang outbreak in the fall of 1911.

The new Chinese National Assembly, convoked in the fall of 1910 as part of the political reform, was entitled to pass all government loans. The assembly represented the sentiment of the Hukuang provinces and Szechuan being opposed to the Hukuang loan which, the assembly members understood, would strengthen the Peking government at the expense of local authorities. Sheng Hsuan-huai, Minister of Communications who now was in charge of the Hukuang loan negotiations, therefore avoided the assembly and confined his dealings exclusively with the four-power Consortium on the ground that he was completing an obligation entered into prior to the National Assembly's existence. The government's disrespect for this newly created national legislative body intensified the tension between the central government and the provincials and quickened the process toward a showdown in a revolutionary outbreak.¹¹

With "conditions of unrest prevalent throughout the Yangtze basin,"¹² the Consortium powers continued to increase their pressure on China for the sanction of their recent agreement on the loan. Their request for "imperial sanction of the aforesaid agreements" about the Hukuang loan "to be definitely signed and put into operation for the benefit of the commercial development of China and of her foreign relations"¹³ entirely ignored China's internal problems and changes since June 1909 when Chang Chih-tung was alive.

In an effort to persuade Peking to accept the intergroup agreement, Secretary Knox explained to China's Special Envoy Liang Tun-yen that "the aim of American policy," in the negotiations to secure American participation in the Hukuang loan and other enterprises in China, had been "to secure a sympathetic and practical cooperation of the great powers in maintaining the political integrity of China by making it to the interest of each to support such a policy." He also tried to convince Liang that "where the nations invest their capital, there they are intent on preserving peace and promoting the development of natural resources and the prosperity of the people."¹⁴

When it had become more obvious that, due to provincial opposition and unrest, it was unlikely that the Imperial Government would ratify the original and supplementary agreements as they stood, the Consortium powers agreed to modify their terms. On 18 March 1911, the four Consortium groups met at Brussels to settle their modified Hukuang agreements. A settlement finally seemed possible and fundamentals were approved.¹⁵ Meanwhile, Sheng Hsuan-huai was trying to get easier terms from the Consortium. He insisted, as late as 29 March, on no further yielding to foreign pressure which might arouse a storm of fresh protest. Willard Straight, the American representative, worked strenuously to convert Sheng, and Sheng evidently realized that a firm attitude would mean no loan. On 30 March, after a seven-hour conference, Sheng yielded practically everything to have the loan concluded. The foreign bankers were "delighted."¹⁶

Meanwhile, the political situation of the Chinese Empire daily was growing more dangerous. Rumors of China's probable partition,

protests against Peking's policy of railway concentration and foreign loans, and criticism of the imperial system under the Manchu rulers combined to create a situation which made it difficult for the Prince Regent to approve the pending Hukuang loan contract. On 27 April, a violent uprising occurred in Canton which added to the gravity of conditions. A leading British newspaper at Shanghai pointed out that, while this uprising was not antforeign but basically anti-Manchu, it showed that "no small part of the complaint against the Manchus is the humiliations to which they are declared to have exposed China from abroad."¹⁷ The rebellion was suppressed only after numerous executions, leaving south China in a "dangerous state of mind."¹⁸

Opposition to the government's railway plans aided this antidynastic movement. Various public groups such as the provincial gentry, the native press, and provincial assemblies were warning Peking against the loan. After years of yielding to provincial demands, Peking found it difficult abruptly to take a contrary position and to conclude a loan which had aroused such popular resentment. The foreign bankers could do little but await the decision of the Chinese government.¹⁹

After much delay and strenuous negotiations, China finally agreed to sign and ratify the amended Hukuang loan contract.²⁰ The final agreement for the Hukuang railways was signed on 20 May 1911, and the event was promptly followed by Imperial sanction. The major concession made by the Consortium bankers to Chinese sentiment was exclusion of railway construction in the Kwangtung and Szechuan provinces. But the Chinese government made a promise that the four banking groups would be given first priority if foreign capital

should be required in the future for the construction of railways within these two provinces.²¹

The agreement essentially was similar to the 6 June 1909 Agreement supplemented by the intergroup agreement of 23 May 1910. The final agreement authorized the banks to issue a 5 percent gold loan in the amount of £6,000,000. The interest and principal of the loan, according to the agreement, was to be paid, if possible, from the revenues of the Hukuang railways. Should these revenues not be sufficient, China agreed to make other arrangements for payment of interest and principal. If further foreign loans should be needed for the construction of Hukuang railways, the Consortium groups by this agreement secured the right to issue a supplementary loan, not to exceed £4,000,000, on the same terms as the present loan. Should a greater amount of foreign money be needed, it was to be provided by the Consortium groups on terms to be arranged.²²

In regard to purchasing agents, the final agreement was essentially the same as the 6 June 1909 Agreement except that the final agreement provided that rails and their accessories be purchased from the Hanyang Iron Works in consideration of promoting China's domestic industries. The division of engineering rights, over which the Consortium members had wrangled for so long, was in the final agreement somewhat altered from the provisions of the original and its supplementary agreements because of the changes made during the winter of 1911 in the projected lines. As finally provided, China was to appoint a British chief engineer for the Hupeh-Hunan section of the Hankow-Canton line from Wuchang to Yichang, a German chief engineer

for the Kuangshui-Ichang section of the Hankow-Szechuan line, and an American chief engineer for the section of that line from Ichang to Kueichoufu.²³

The May 1911 Agreement brought the protracted loan negotiations to an end. The chaotic and rapidly changing situation in China did not, however, permit the Imperial Government or the Consortium powers to be optimistic. The settlement of the Hukuang loan was the beginning of greater trouble. It was ironic that the conclusion of the Hukuang loan should help to precipitate the outbreak of the Chinese Revolution.

Following the conclusion of the loan came an immediate upsurge of domestic criticism against the Imperial Government. That this loan was ratified without constitutional procedure through submission to the Advisory Senate soon was seized upon by critics of the Prince Regent. In Szechuan, an active anti-Peking movement was launched to defeat the newly-reasserted railway concentration program. Also, the Imperial decision to take over the lines already constructed by the provinces of Hunan and Hupeh aroused violent outcries against Peking.²⁴

The Imperial Government tried desperately to ward off disasters, but too many grievances, domestic and international, complicated matters thereby preventing a united policy and denying the central government time and scope to deal with each problem separately. In the far off Szechuan province, a provincial railway league convened on 4 August 1911 and adopted a program completely defying the authority of the Imperial Government. The provincial newspapers charged the Manchu government with "selling Szechuan to the foreigners" and condemned

Sheng Hsuan-huai as a "traitor to China." A railway protection association was formed by Szechuan patriots including many of the prominent businessmen and provincial assembly members. When the Viceroy of Szechuan province took action to suppress the anti-Manchu movement, the patriots, by the first week in September, took up arms and initiated an open rebellion against the Manchu dynasty.²⁵

The Szechuan rebellion soon was followed by the Wuchang Uprising of 10 October 1911. Its spirit inspired a nationwide revolution against the Manchu rulers. The corrupt regime was entirely incompetent to resist the tide of the revolution. Four months later, on 12 February 1912, the Hsuan-t'ung Emperor formally abdicated the monarchy, thus putting an end to the dynastic system which had lasted for more than two thousand years in China.²⁶

The outbreak of the Chinese Revolution brought down the Imperial Government. With the disappearance of the central authority, governmental control of the entire country went also, temporarily at least. The chaotic situation made any kind of railway construction practically impossible. Although the authorized loan was issued in 1911, construction did not begin until two years later. The four Consortium groups never fully carried out their plan as specified in the loan agreement with China.²⁷

* * *

After the establishment of the Republic of China, the Chinese government was confronted with almost insuperable difficulties. Its treasury was empty and its resources were drained. Soldiers were underpaid and, in many cases, were without pay at all. The government was desperately in need of money to set its administrative machinery

in full motion. In order to improve the situation, the only choice for the government was to resort to foreign loans. In the middle of February 1912, China approached representatives of the Consortium powers for a large loan to reorganize the Chinese administration.²⁸

In response to the Chinese request, the Consortium made two advances to the Chinese government to meet its emergency need and, at the same time, began negotiations with China for a reorganization loan.²⁹ Meanwhile, the Consortium was enlarged into a six-power Consortium through the admission of Russia and Japan.³⁰ At Paris, the banking groups of the six powers concluded a formal agreement for equal participation in the loan under discussion. The reorganization loan negotiations henceforth began to be almost wholly occupied with discussions of the terms of supervision or control between China and the six powers.³¹

The reorganization loan was different from any of the previous loans because it was not to be used for a definite program but for general administrative purposes. Too much control by foreign creditors over the reorganization work of the Chinese government certainly would lead to infringement upon China's administrative integrity. One of the conditions attached to the loan by the Consortium powers clearly specified that, for a period of five years, China should appoint the groups' financial agents to assist the administration in its work of reorganization.³² It was natural that the Chinese government found it hard to accept the terms of the Consortium. Strong internal opposition made the Peking government shrink from accepting them and, as a result, the negotiations came to a deadlock.

Because the loan negotiations were being obstructed by the powers for political reasons, representatives of the American group, impatient with the delay in the conclusion of the loan and finding it impossible to oppose the action of the other members of the Consortium, suggested that the American group withdraw from the loan negotiations.³³ The American Minister in Peking, William J. Calhoun, reported to the State Department that, in his opinion, "it is no longer a question of friendly international cooperation to help China but a combination of big powers with common interests to accomplish their own selfish political aims."³⁴ The President and the State Department were opposed to American withdrawal from the Consortium on the ground that any sudden change of attitude on the part of the American group would embarrass the government and injure American prestige and interests in China. After conferring with the President, the American group decided not to make any decision on the matter until the next administration had declared its policy toward the Consortium.³⁵

In the midst of this situation, a new administration came to power in the United States with Woodrow Wilson as President and William Jennings Bryan as Secretary of State. Upon inauguration of the new President, the American group immediately asked the State Department if the policy of the new administration toward the international Consortium was to be the same as that of its predecessor. The bankers stated that they had participated in the Consortium upon the solicitation of the State Department, had spent much time and money in acting as an instrument of the American Far Eastern policy, and that they would not continue their efforts unless the government renewed its request and

gave the American group its full support.³⁶ As Bryan recalled it, the American group insisted on government assurance that no other American financiers would be permitted to enter the loan and that the American group would control future loans. The group also demanded that the loan was to be secured by control of Chinese government revenues, and that, if necessary, the government would use force in cooperation with other powers to compel China to live up to the terms of the contract.³⁷

President Wilson and almost all his associates were against continued participation in an enterprise which they believed would establish a monopoly of loans for a small group of bankers to the exclusion of many others and, above all, interfere with China's freedom and independence. Differing substantially from President Taft's dollar diplomacy, Wilson did not like to advance American political interests by encouraging a group of financiers to participate in an international competition for special profits and rights.³⁸

The President decided to withdraw American support from the Consortium. He issued a statement on 18 March 1913 which marked a radical change in American foreign policy and occupied a significant page in the annals of Sino-American relations:

The representatives of the bankers through whom the administration was approached declared that they would continue to seek their share of the loan under the proposed agreements only if expressly requested to do so by the Government. The administration has declined to make such request, because it did not approve the conditions of the loan or the implications of responsibility on its own part which it was plainly told would be involved in the request.

The conditions of the loan seem to us to touch very nearly the administrative independence of China itself, and this administration does not feel that it ought, even by implication, to be a party to those conditions. The responsibility on its part which would be implied in requesting the bankers to undertake the loan might conceivably go the length in some unhappy contingency of forcible interference in the financial, and even the political, affairs of

that great oriental State, just now awakening to a consciousness of its power and of its obligations to its people. The conditions include not only the pledging of particular taxes, some of them antiquated and burdensome, to secure the loan, but also the administration of those taxes by foreign agents. The responsibility on the part of our Government implied in the encouragement of a loan thus secured and administered is plain enough and is obnoxious to the principles upon which the government of our people rests.

.
 The Government of the United States is earnestly desirous of promoting the most extended and intimate trade relationship between this country and the Chinese Republic. The present administration will urge and support the legislative measures necessary to give American merchants, manufacturers, contractors, and engineers the banking and other financial facilities which they now lack and without which they are at a serious disadvantage as compared with their industrial and commercial rivals. This is its duty. This is the main material interest of its citizens in the development of China. Our interests are those of the open door--a door of friendship and mutual advantage. This is the only door we care to enter.³⁹

In a telephone conversation with the State Department, representatives of the American group were told to consider Wilson's statement as the government's reply to the group's request as to its future conduct in the loan negotiations.⁴⁰ Upon learning the decision of the government, the American group immediately notified the Secretary of State that it was withdrawing from the six-power Consortium in regard to the Reorganization Loan.⁴¹ It notified the other five groups that it would remain bound by the sextuple agreement of 18 June 1912 until its termination.⁴² A statement was issued to the press on the same day:

As the American group has been ready to serve the Administration in the past, irrespective of the heavy risks involved, so it was disposed to serve the present Administration if so requested. But differing to the policy now declared, the group has withdrawn entirely from the Chinese loan negotiations and has so advised the European and Japanese banking groups.⁴³

The American group took this occasion to notify the State Department of the commitments to which it already was a party. The important commitments were the Hukuang Loan Agreement, a one-fourth share in the Currency Reform Loan advance, and a one-sixth share in the Reorganization Loan advance.⁴⁴ In regard to commitments such as the Hukuang agreement and the currency reform loan, which the American group already had undertaken, it delegated the International Banking Corporation to act for it in China.⁴⁵

Although £6,000,000 of the authorized Hukuang railways loan was issued on 15 June 1911, construction was delayed by the Chinese Revolution until the fall of 1913. On 12 September 1913, China issued final and detailed regulations for the transfer and expenditure of loan funds and for carrying out the construction and purchase of materials. These regulations were accepted by the Consortium banks.⁴⁶ This marked the commencement of the Hukuang railway project. By 1927, however, only 286 miles of the British section from Wuchang to Changsha had been constructed, and about 75 miles of the German section from Hankow toward Ichang. On the so-called American section, no construction had been done.⁴⁷ With the withdrawal of the American interests from the Consortium, the United States, for a short time at least, ended its effort in China and left the field of investment in China.

CHAPTER 4 ENDNOTES

¹*Foreign Relations of the United States* (Washington: Government Printing Office, 1910), p. 283, Hill to Knox, June 3, 1910; p. 285, Schoen to Hill, May 28, 1910; p. 285, Reid to Knox, June 8, 1910; p. 286, Knox to Reid, June 21, 1910, telegram; p. 287, Reid to Knox, June 29, 1910; p. 287, Campbell to Reid, June 25, 1910; p. 288, Reid to Campbell, June 29, 1910.

²*Ibid.*, p. 288, Calhoun to Knox, August 3, 1910; p. 287, Knox to Calhoun, June 28, 1910, telegram.

³*Ibid.*, pp. 288-289, Calhoun to Knox, August 3, 1910; p. 289, Calhoun to Prince Ching, July 13, 1910.

⁴*Ibid.*, p. 290, Prince Ching to Calhoun, enclosed in Calhoun to Knox, August 3, 1910.

⁵*Ibid.*, p. 291, Calhoun to Knox, October 5, 1910, telegram.

⁶*Ibid.*

⁷*Ibid.*

⁸*Ibid.*

⁹*Ibid.*, pp. 351-352, Calhoun to Knox, October 15, 1910; p. 352, Adeo to Calhoun, October 15, 16, 22, 1910.

¹⁰J. V. A. MacMurray, *Treaties and Agreements with and Concerning China 1894-1919*, Vol. I (New York: Oxford University Press, 1921), pp. 896-897.

¹¹Willard Straight, "China's Loan Negotiations," *Recent Development in China*, ed. George H. Blakeslee (New York: G. E. Stechert and Company, 1913), p. 135.

¹²*Foreign Relations of the United States, op. cit.*, p. 350, Calhoun to Knox, June 16, 1910.

¹³*Ibid.*, pp. 288-289, Calhoun to Knox, August 3, 1910.

¹⁴*Ibid.*, 1919, p. 93, notes from Knox to Liang, January 18, 1912.

¹⁵Herbert Croly, *Willard Straight* (New York: The MacMillan Company, 1924), p. 397.

¹⁶*Ibid.*, pp. 399-401.

¹⁷Editorial, *New York Herald*, May 3, 1911, pp. 332-333.

¹⁸Meribeth E. Cameron, *The Reform Movement in China, 1898-1912* (Stanford: Stanford University Press, 1931), p. 193.

¹⁹*Ibid.*

²⁰*Foreign Relations of the United States, op. cit.*, 1912, p. 87, Hukuang Railway Loan.

²¹*Ibid.*, pp. 87-88; Croly, *op. cit.*, p. 407; MacMurray, *op. cit.*, pp. 866-879.

²²*Foreign Relations of the United States, op. cit.*, 1912, pp. 87-88, Hukuang Railway Loan; MacMurray, *op. cit.*, pp. 866-879.

²³MacMurray, *ibid.*

²⁴Cameron, *op. cit.*, p. 194.

²⁵*Ibid.*, pp. 194-195; Frederic Wakeman, Jr., *The Fall of Imperial China* (New York: The Free Press, 1975), pp. 247-248.

²⁶Frederick Wakeman, Jr., *The Fall of Imperial China* (New York: The Free Press, 1975), pp. 248-251.

²⁷Li Tien-yi, *Woodrow Wilson's China Policy 1913-1917* (New York: University of Kansas City Press-Twayne Publishers, 1952), p. 26.

²⁸Straight, *op. cit.*, p. 137.

²⁹*Foreign Relations of the United States, op. cit.*, 1912, p. 120, Yuan Shih-k'ai to the representatives of the Consortium, March 9, 1912.

³⁰Frederick V. Field, *American Participation in the China Consortiums* (Chicago: University of Chicago Press, 1931), pp. 101-109.

³¹For details of the reorganization loan negotiations, see *Foreign Relations of the United States, op. cit.*, 1912, pp. 112-150; 1913, pp. 143-192.

³²Straight, *op. cit.*, pp. 143-144.

³³Tien-yi, *op. cit.*, p. 32.

³⁴*Foreign Relations of the United States, op. cit.*, 1913, p. 164, Calhoun to Knox, February 21, 1913.

³⁵Tien-yi, *op. cit.*, p. 33.

³⁶Field, *op. cit.*, p. 111.

³⁷Tien-yi, *op. cit.*, p. 36, quoting William J. Bryan, *Memoirs*, p. 362.

³⁸Josephus Daniels, *The Wilson Era: Years of Peace, 1910-1917* (Chapel Hill: The University of North Carolina Press, 1944), p. 158.

³⁹*Foreign Relations of the United States, op. cit.*, 1913, pp. 170-171, Adee to American diplomatic officers, March 19, 1913.

⁴⁰*Ibid.*, p. 171, Straight to Bryan, March 19, 1913.

⁴¹*Ibid.*

⁴²MacMurray, *op. cit.*, p. 1025.

⁴³Field, *op. cit.*, p. 116.

⁴⁴*Foreign Relations of the United States, op. cit.*, 1913, pp. 171-172, Straight to Bryan, March 19, 1913.

⁴⁵*Ibid.*, p. 173, the American group to Morgan, Grenfell and Company, March 19, 1913.

⁴⁶MacMurray, *op. cit.*, pp. 889-892.

⁴⁷Westel W. Willoughby, *Foreign Rights and Interests in China*, Vol. II (Baltimore: The Johns Hopkins Press, 1920), pp. 1077-1078.

Chapter 5

CONCLUSION

By the end of the nineteenth century, the United States loomed as the greatest industrial nation on earth and enjoyed the greatest prosperity it ever had witnessed since the founding of the republic. But prosperity brought a series of new problems. America's rise to world power largely was the consequence of its unique geographic position, abundant natural resources, and the dynamic energy of its people. Throughout the nineteenth century, the American people had devoted themselves to internal development and continental expansion with little entanglement with the outside world. By the turn of the century, American continental expansion had been brought to an abrupt end by the Great Pacific. The completion of western settlement and the close of the frontier, together with the widespread agrarian distress of the 1890s,¹ created great anxiety among the people and compelled them to look for new ways to solve their problems.

The tremendous growth of American industry after the Civil War spawned, perhaps inevitably, a huge surplus of domestic manufacturing which was becoming increasingly difficult for the nation to absorb.² More and more people had come to see the importance of acquiring new overseas markets and the necessity of discarding the traditional isolationist foreign policy inherited from the Founding Fathers. Immediate economic need prepared people to accept an

expansionist policy as a tool to sustain the nation's strength and prosperity.

The Spanish-American War of 1898 marked a significant turning point in American foreign policy. With the annexation of Puerto Rico, establishment of a protectorate over Cuba, and the seizure of Panama, complete American control was established over the Caribbean. The occupation of Hawaii, Guam, Samoa, and the Philippines extended the new American frontier across the Pacific to the Far East. The United States suddenly had become a full-fledged world power with possessions and colonies in the Caribbean and the Pacific. Overseas expansion marked a complete breakdown of America's physical isolation of early days. Success brought joy to the people and muted the protest of the antiimperialist crusaders.³

What was more significant, however, was that the occupation of the Philippines had brought America so close to the legendary China market. The American dream of a great China market, rich and limitless, was as old as the American nation. Since Daniel Webster's days, some American diplomatists predicted that American trade with the Far East would eventually exceed its trade with Europe.⁴ The Spanish-American War revived and deepened American interest in the Far Eastern trade. An enthusiastic senator proclaimed, that exciting summer of 1898,

The booming guns of Dewey's battleships sounded a new note on the Pacific shores, a note that has echoed and reechoed around the world, and that note is that we are on the Pacific, that we are there to stay, and that we are there to protect our rights, promote our interests, and get our shares of the trade and commerce of the opulent Orient.⁵

Developments in the Far East were not, however, favorable to American commercial expansion in that region. The gate of the Chinese

Empire was forced open by British soldiers and gunboats. From the Opium War of 1840 onward, China gradually was reduced to the status of a semicolon through the unequal treaties imposed on China by the imperialist powers.⁶ The Sino-Japanese War of 1894-1895 revealed the fatal weakness of the empire and brought a flood of speculators and concessionaires to the China scene. The Treaty Powers and Japan, competing with each other, busily carved out great portions of China as their exclusive spheres of interest within which they claimed to enjoy preferential rights in the granting by China of railway and other industrial concessions. By the turn of the century, China faced the imminent danger of being partitioned by the imperialist powers.

American interests in China, which had grown out of the trade with Canton initiated at the close of the eighteenth century,⁷ were safeguarded by the most favored nation principle incorporated in the first American-Chinese treaty--the Treaty of Wanghia of 1844--and by the rights and privileges embodied 14 years later in the Treaty of Tientsin.⁸ Except for a brief experience in the joint military operation to suppress the Boxer Uprising, the United States never had made war on China. Neither had it sought outright territorial concessions from China. Nevertheless, the United States did not hesitate to insist on its right to share whatever privileges England, France, and other Treaty Powers might wring from the impotent Chinese government by a force of arms. It was not averse to enjoying the fruits of European imperialism.

The United States was a latecomer to the China scene. When it decided to claim interests in the empire, the European powers and

Japan already had consolidated their strongholds in China. There was little room left for American interests to expand. At a time when world markets were most needed, and just as the acquisition of the Philippines provided a base for American financial and commercial expansion in the Far East, American businessmen saw the doors swinging shut in China. The exclusive spheres of interest blocked the way for American businessmen to fulfill their economic ambitions in the China market.

Unless the United States promptly did something to protect its interests, American businessmen, financiers, and government leaders felt, it might find itself completely excluded from the potential China market. The historic interest in Pacific expansion and in the China market soon convinced them that the opportunity to strengthen America's position in the Far East by taking the Philippines was an opportunity that must not be neglected. Something had to be done to prevent the potential markets in the Far East from falling under the control or domination of the European trade rivals and Japan. The situation created a demand for a more vigorous Far Eastern policy and the demand for prompt American action as a world power. In 1898, that meant imperialism.

Although the greatest industrial power among the nations, the United States was not yet strong enough to compete with the European powers militarily. Besides, American public sentiment, except for a brief period during the Spanish-American War, was strongly against overseas territorial acquisition and the use of force in international relations. Something new had to be worked out to meet the urgent need for American commercial and financial expansion.

Out of this need for overseas commercial expansion came the first formal expression of a policy which had its roots in the Treaty of Wanghia in 1844: the Open Door Notes. In response to the need for overseas commercial expansion and mounting imperialist economic rivalry in China, John Hay's articulation of the Open Door Policy was designed to secure and preserve access to the China market for American business interests. It was derived from the conviction that, in fair and square competition, the overwhelming economic power of the United States eventually would triumph over European and Japanese business interests in China.

The Open Door Policy consisted of two basic principles: the equality of commercial opportunity to all powers in China and the preservation of China's territorial and administrative integrity. Both principles were invoked to serve the American purpose of commercial expansion. Without the assurance of equality of opportunity, the United States could not possibly promote its own business interests in China, especially not in those economically important areas that already had been marked out by the other powers as their spheres of influence. If China were carved up among the powers and ceased to be an independent state, the United States never would be able to enter the China market.

The affirmation of the Open Door Policy was not deemed inconsistent with the establishment of spheres of influence, neither had it prevented the creation of special interests. The United States Government had no intention of challenging the established interests of the powers. The primary concern of the American government was to

secure its share of the China market, not protect the rights and interests of the Chinese Empire. Indeed, John Hay's first round of Open Door Notes to the powers concerned solely the equality of commercial opportunity, accepted the existing spheres of influence in China, and mentioned nothing about the empire's territorial and political integrity. The latter principle was added to the Open Door Policy with an awareness that China's existence as a sovereign state would serve the best interests of the United States.

In plain words, an open door in China meant that she should welcome the imperialist powers with open arms when they descended to grab her resources and promote their personal interests. The principle of equality meant that everybody should have a share. Any power, having once established a sphere of interest in China, should continue to enjoy its privileges without disturbing the privileges of other nations which had no spheres of interest in China. The preservation of China's integrity meant that China should not be divided into separate colonies but be preserved for collective exploration and enjoyment. The policy was extremely hardheaded and practical. In urging the powers to accept the Open Door Policy, the American government acted in the best interests of the United States to safeguard the country's commercial interests in China at a time when these interests appeared to be seriously threatened by the rival schemes of the European powers and Japan.

President William Howard Taft came to office at the beginning of one of the greatest eras of expansion of American foreign investment in history.⁹ Unlike his predecessor, Theodore Roosevelt, whose major

concern was America's military strength and political influence, Taft was more interested in American commercial expansion. He declared that his policy was one of "substituting dollars for bullets," and that it was the policy of the United States to "extend all proper support to every legitimate and beneficial American enterprise abroad."¹⁰

Taft's Secretary of State, Philander Knox, also was an enthusiastic proponent of overseas economic expansion and a disciple of Taft's dollar diplomacy. In a long State Department memorandum of September 1909, Knox pointed out that

the nations that finance the great Chinese railways and other enterprises will be foremost in the affairs of China and the participation of American capital in these investments give the voice of the United States more authority in political controversies in that country.

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So long as the United States holds the Philippines, the dominatin of China by other nations to our exclusion would be fraught with danger and it is unthinkable that this country should be squeezed out of any combination exercising an influence at Peking. . . . Our interests in Asiatic waters require the prevention of the establishment of predominant interests and influences at Peking on the part of other powers and that American prestige in China be undiminished.¹¹

From the beginning of their administration, Knox and Taft took the initiative in promoting American financial interests in China. For four years they endeavored to pump American capital into China. Their tactics were to demand the admission of American capital, on terms of equal participation, into every foreign loan floated by China. American railway ventures in central and southern China were but part of this grand campaign to secure a foothold in the China market for American business and financial interests. The Hukuang loan was one of

the most important loans the United States had intruded into during Taft's administration.

After the cancellation of the Hankow-Canton concession, the provincials tried, with little success, to construct the railways through their efforts. The capital required for the construction of China's railways was enormous and far beyond the ability of China's financial organizations of that time. Despite strong provincial opposition, the Chinese government again assumed the responsibility of constructing the nation's railways through its railway nationalization program and turned to seek foreign financial assistance.

The original Hukuang loan agreement was initialed on 6 June 1909 between the Chinese government and representatives of the British, French, and German banking groups. During their intergroup negotiations, the three European groups had, on two occasions, extended an invitation to American Bankers to share in the loan. Despite the solicitations of the State Department, American financiers failed to show much interest in the enterprise. The three European banking groups undertook negotiations with China on the assumption that American capitalists did not want to participate.

The State Department did not like to see this great project fall entirely into the hands of European financiers. When the loan negotiations were about to be concluded, the State Department declared that the promises made by the Chinese government to Minister Conger in 1903 and 1904 gave the United States a 50 percent share of the Hankow-Szechuan line, and that an American banking group was ready to participate in the Hukuang project. The European powers and the

Chinese government, annoyed by America's belated claim, concluded the loan with little attention paid to American protests.

By invoking the Open Door Policy in an effort to block imperial sanction of the agreement, the American State Department succeeded in persuading the powers and China to accept American participation in principle. The consequential negotiations were extremely complicated and strenuous. The American government refused to accept the European offer of a one-fourth share in the Hankow-Szechuan loan and demanded a 25 percent share of the entire loan with absolute equality in every particular. The uncompromising position of the United States enraged the powers and China; they decided to close the loan as it stood.

Facing the imminent danger of American interests being excluded entirely from the enterprise, President Taft intervened personally by taking the extraordinary measure of communicating directly to the Prince Regent of China on behalf of private American business interests. Under pressure from the United States, the Chinese Imperial Government agreed to wait until the United States had settled its differences with the European powers. Clashing interests created numerous problems and delayed the loan for almost a year. As a result, the loan was not concluded until May 1911.

The loan negotiations had been carried on against the backdrop of an impending Chinese Revolution. The unpopularity of the Hukuang loan, the fierce competition among the banking groups and their governments, and the endless delay of the project combined to stiffen provincial opposition and lead to the outbreak of the Revolution. Fighting began in the Szechuan province with a popular uprising against

the Hukuang railway program which soon developed into a nationwide revolution against the imperial system under the Manchus. The Revolution had become more anti-Manchu than antiforeign; but, to an extent, the Manchu rulers were scapegoats for the foreign money lenders and concessionaires because their selfish claims and disputes, after all, had intensified provincial opposition and hostility toward the Imperial Government.

The initiative to force American entry into the Hukuang loan came almost entirely from the American government. It was the State Department, not Wall Street, that hastily organized the American group to serve as a semiofficial instrument in carrying out the policy of the government and led the American group during the entire proceeding of the negotiations. Taft's dollar diplomacy had far from fulfilled its pronounced objectives. It had not stimulated international cooperation but, rather, intensified international competition. The policy impaired rather than strengthened China's integrity and in a sense contributed directly to the disintegration of the Chinese Empire. During the negotiations, more than once the Open Door Policy was invoked by different groups to defend their positions and to justify their claims. Ironically, the Open Door Policy, with its professed purpose of maintaining China's sovereignty, now had become an effective weapon in international rivalry in China and created chaos, disorder, and misfortune for that land and its government.

After the upheaval of the revolution, the new Chinese government was confronted with enormous difficulties, financial and administrative. To avoid utter collapse, the government under

General Yuan Shih-kai negotiated a large Reorganization Loan with the International Consortium, which had been enlarged from its original four members to a six-member Consortium with the participation of Russia and Japan. Very harsh terms were attached to the loan. The powers bluntly requested to participate in the reorganization of the Chinese government. By taking advantage of the chaotic situation in China, the Consortium powers again threatened its independence.

Upon the inauguration of Woodrow Wilson, the American group in the Consortium immediately asked the new administration for full governmental support of the Consortium. Wilson and his associates considered the terms of the Reorganization Loan as subversive to China's administrative integrity and withdrew American support from the Consortium. With this drastic change of policy, the American bankers had no choice but to withdraw from the Consortium, thus temporarily ending American economic activity in China.

American withdrawal from the Consortium did not help to strengthen China's integrity. Other Consortium powers tightened rather than loosened their control over China's financial and political affairs. American influence in that country suffered a general decline and the position of the United States in China daily became less tenable. This development was inconsistent with the American policy of overseas commercial expansion formulated at the turn of the century. Under such circumstances, Wilson drastically revised his China policy during his second term. America reentered the China market through the organization of the new Consortium.¹²

CHAPTER 5 ENDNOTES

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³Robert J. Beisner, *Twelve Against Empire* (New York: McGraw-Hill, 1968), see conclusion, pp. 215-239.

⁴Whitney Griswold, *The Far Eastern Policy of the United States* (New Haven: Yale University Press, 1962), p. 133.

⁵Foster Rhea Dulles, *China and America: The Story of Their Relations Since 1784* (New York: Kennikat Press, 1976), p. 101.

⁶John K. Fairbank, ed., *The Cambridge History of China*, Vol. 10 (Cambridge: Cambridge University Press, 1978), pp. 213-263.

⁷John K. Fairbank and Edwin O. Reischauer, *China: Tradition and Transformation* (Boston: Houghton Mifflin Company, 1978), pp. 271-277.

⁸Herbert H. Gowen and Josef Washington Hall, *An Outline History of China* (New York: D. Appleton and Company, 1927), pp. 255-257; E. R. Hughes, *The Invasion of China by the Western World* (New York: The MacMillan Company, 1938), pp. 26-28.

⁹Griswold, *loc. cit.*

¹⁰*Foreign Relations of the United States* (Washington: Government Printing Office, 1912), pp. vii-xxvii, Taft's Annual Message to Congress, December 3, 1912.

¹¹Griswold, *op. cit.*, pp. 144-145, citing the State Department Memorandum, The Chinese Loan, September 30, 1909, Knox papers.

¹²Li Tien-yi, *Woodrow Wilson's China Policy 1913-1917* (New York: University of Kansas City Press-Twayne Publishers, 1952), p. 213.

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