Nazi Germany in China, 1933-1938: An Economic Approach

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ABSTRACT

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Commerce was the backbone of the German economy in 1933. The state of the global economy at this time severely limited Germany's potential for economic growth and stability. This stability was undermined further by international reactions to the policies of the recently installed Nazi government. The weaknesses of the German economy were magnified by the Nazis' programs of domestic works projects and rearmament which required a strong commercial economy. To invigorate the German economy and supply it with raw materials and financial credits, Germany increased its trade relations with the Far East.

China was the focus of Germany's commercial interests in the Far East from 1933-1938. China and Japanese-dominated Manchukuo were attractive to Germany, but the Japanese

required that Germany cease its relations with China to obtain economic privileges in Manchukuo. Also, German representatives who negotiated for economic privileges in Manchukuo were incompetent and not trusted by the German government. China, however, provided a stable market for German exploitation.

Commercial interests dictated Germany's policy in the Far East. Although Germany and Japan shared many geopolitical goals, especially world domination, the affinity between the two nations did not influence German policy in the Orient before 1938. Germany perceived Japan as a possible ally and a counter-balance to Germany's European neighbors. However, the German government did not wish to engage in relations with Japan that might damage its commercial interests in China. When Japan offered Germany a strong commercial market in Manchukuo that surpassed in quality the market offered by China, Germany severed its relations with China and oriented its policy towards Japan.

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Chapter I

Introduction

Europe is central to students of Nazi foreign policy, for the fate of the world from 1933 to 1945 was decided by Germany's stance toward France, Great Britain, and the Soviet Union. Europe is not the exclusive domain of German foreign policy study, however, for Germany possessed relations with, and developed policies towards, other regions of the globe. Study of these relations is important not only for their own sake, but also for the light such studies provide for understanding the Nazi Reich as a whole.

One aspect of German policy which has been ignored to a great extent is Germany's policy towards the Far East. The Far East did not figure greatly in Hitler's plans for world domination, but Germany's Far Eastern policy was an essential part of its abrogation of the Versailles Treaty. From 1933 to 1945, Germany carried on relations with, and spent considerable time attending to, the principal powers in the Orient, China and Japan. From 1933 to 1938, Germany had intense relations with China. From 1938 to 1945, Japan gained preeminence in German Far Eastern policy.

The character of the Second World War has shaped the historiography of German-Far East relations. Given the nebulous alliance between Germany and Japan, studies of 1930's German policy towards the Orient have stressed the growing rapprochement between these two protagonists of that brutal conflagration. German policy is perceived as based on political concerns. The Anti-Comintern Pact, viewed by the immediate postwar world as the foundation of a German-Japanese alliance, is perceived as one step in the growing intimacy between Germany and Japan. Germany's recognition of Manchukuo, in 1938, as well, hints at Germany's response to Japan.[1]

But did political concerns dictate German policy, or are perceptions of German policy skewed by hindsight which applies this "political" thesis to the entire period of Nazi Far Eastern relations? Certainly, given Hitler's military designs and the international climate, political questions dictated Germany's policy towards the Far East in the period 1939-1945. After 1938, Germany gradually experienced an affinity with Japan for Japan was the only nation with which it retained relations in the Far East and with which it shared

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[1]See especially John Fox, Germany and the Far Eastern Crisis, 1933-1938: A Study in Diplomacy and Ideology, Oxford, Clarendon Press, 1982; Johanna Meskill, Hitler & Japan: The Hollow Alliance, (New York: Atherton Press, 1966), 5,7-8, passim; Ernst Presseisen, Germany and Japan, The Hague: Martinus Nijhoff, 1958; Gerhard Weinberg, The Foreign Policy of Hitler's Germany: Diplomatic Revolution in Europe, 1933-1936, (Chicago: University of Chicago Press, 1970), 331-356, passim.

militaristic tendencies. But Germany did not enjoy extremely close relations with Japan prior to 1938. First, German policy was oriented towards China for reasons which will be discussed below. Second, because of German-Chinese trade, Germany often resisted Japan's overtures to the Reich. While political questions became important to German decision making in 1938, Germany's decision to side with Japan was not based on them. In fact, as will become obvious, Germany did not seek relations with Japan, exclusive of relations with China.

From 1933 to 1938, German policy towards the Far East was dictated by economic concerns and oriented towards a strong, and adaptable, Chinese market. Efforts to rebuild the German army and pay for the works program that Adolf Hitler had instituted to employ the German workforce and develop the German economy were impeded by the reality of economic handicaps. The Depression seriously affected the German economy's ability to support ambitious economic programs. Raw materials, negotiable credit, and markets essential to growth were lacking. While these handicaps hindered German economic growth, Nazi policies exacerbated the issue by alienating the world market.

Germany looked to the Far East in an effort to solve the paradox of expanded needs versus constricting resources. The Reich's approach in the Orient was not exclusively Chinese, however. Germany explored, and wanted, economic relations with both Japan and China. But Japan's price for German

economic benefits was too high. For one thing, Japan demanded German recognition of Manchukuo. Recognizing Manchukuo threatened Germany's economic position in China. For another, the economic benefits from Japanese trade were not comparable to those in China.[2]

The importance of these economic benefits drove Germany's policy until 1938 and dictated its political stance in the Far East. The Anti-Comintern Pact, for example, was downplayed by Germany in light of its threatening nature to German-Chinese

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[2]Historically, Germany had relations with China. Frederick Wilhelm established the East Asia Company in 1752 to represent German trade in China which was intermittent and sparse since its development after the Italian missionary Matteo Rici's visit in the sixteenth century. However, this trade was hindered by competition among the various German states. After German unification, German trade with China rivalled, but did not surpass, Chinese trade with other European nations. From 1905 to 1913, for example, German trade with China grew from twenty million Hong Kong taels to forty five million Hong Kong taels. (See Ho Ping-yin, "A Survey of Sino-German Trade," People's Tribune: A Journal of Fact and Opinion About China and Other Countries 4 (1933): 79-97; Kurt Bloch, German Interests and Policies in the Far East, New York: Institute of Pacific Relations, 1940).

The First World War threatened German trade with China, however. Trade declined from 162,000 Hong Kong taels in 1915 to zero by 1918. The European victors of the war retained their privileges in China obtained during the nineteenth century. Germany, however, did not and its goods were subject to tariffs between ten and one-hundred percent. (See Ho Ping-yin; Kurt Bloch; and David Fraser, "Will British, Americans, Japanese or Germans Lead in China?" Trans Pacific 2 (1920): 32-35.)

The Treaty of Versailles, though, indirectly aided resumption of German trade for China found affinity with Germany. Germany lost privilege in China and dealt with the Chinese on equal terms. The Chinese found the Germans admirable and attractive socially and commercially. ("Comments on Current Events, May 1-13 1931, U.S. Military Intelligence Reports: China, 1911-1941 (hereafter cited as Military) Roll 1, Frame 0560).

trade. Additionally, it was not intended as an exclusively German-Japanese agreement. The importance the Chinese market held in Germany insured continued support for China long after the Anti-Comintern Pact.[3] Germany's recognition of Manchukuo in 1938, which carried with it the cessation of ties with China and close relations with Japan, was dictated by economic concerns as well. Germany resisted Japanese demands for Germany's withdrawal of support for China during the Sino-Japanese War. However, as regions of China important to German trade fell to Japanese aggression and it appeared China might fall to either Soviet influence (thus destroying trade) or Japanese domination, Germany sided with Japan.

Approaching Germany's policy towards China with an emphasis on economic issues provides an alternate interpretation of motivations guiding German foreign policy development. This approach also accentuates and clarifies the mechanics and dynamics of German foreign policy creation. The National Socialist state was not a monolithic entity embodying the will of the national leader Adolf Hitler. It was a conglomeration of competing personalities who pursued divergent goals. Until 1938, when the Nazis solidified their control over the apparati of government, the National Socialist party paid sporadic, almost negligible attention to

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[3]Germany was more interested in the Chinese market than in the Chinese government. Interest and concern for Chiang Kai-shek's government existed only because it represented the market and the courting of which was essential to trade maintenance.

issues beyond Europe's borders. As Gerhard Weinberg has aptly noted, institutions and individuals with initiative freely operated in their respective areas of responsibility.[4] From 1933 to 1938, three institutions, the Reichsbank and Hjalmar Schacht, the Reichswehr (the Army), and the Foreign Ministry, made German policy towards the Far East relatively free from Nazi interference. These institutions dictated policy with economic concerns in mind. Even though economic concerns continued to exert influence in decision making after these institutions fell to Nazi domination, their subordination meant a change in policy.

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[4]Weinberg, 120.

Chapter II

The New Plan

Germany's relationship with China in the 1930's was defined (and raised in importance) as part of the German global trade efforts instituted to increase German industrial capacity. Germany had conducted commercial relations with China since the eighteenth century. In 1930's, these relations were expanded by Germany. It instituted practices designed to achieve economic self-sufficiency, maintain domestic works projects, and rearm the German Army. This new and increasingly important development was a product of the National Socialist regime.

The Treaty of Versailles and the Depression strained the German economy and presented the Nazi Reich a scenario full of difficulties. Trade was the backbone of the German economy and it became more important because the Treaty of Versailles stripped territory and colonies from Germany. Concurrently, the Depression slowed trade development. Germany's problems were not insurmountable, however, for while stretched, the Weimar government had at its disposal the financial means to maintain stability. National Socialist policies, however,

undermined any modicum of economic stability for the Nazis embarked upon ambitious programs of rearmament and works projects that depended on increased commerce and gold reserve accumulation. At the same time the German economy was besieged by European boycotts enacted in reaction to Germany's foreign and domestic policies. In an effort to increase trade and access raw materials, the Reich emphasized trade relations with nations that remained willing to do business with Germany. Trade with China was an integral part of these efforts.

Germany's economy depended on foreign commerce for two distinct reasons. First, Germany's ability to support its population depended on access to foreign agricultural goods. At one time, the German plains provided suitable agricultural capacity to support its population. In the twentieth century, however, increased population, coupled with constricting agricultural regions, contributed to insufficient produce. Like those of its European neighbors, Germany's agricultural plains were not capable of satisfying internal demand and maintaining an acceptable standard of living.

German agricultural stability was further undermined by the Treaty of Versailles. It significantly affected Germany's agricultural capability. Redrawing borders and stripping colonies from Germany, the Treaty eradicated significant sources of food and food imports to Germany. The Poznan region, from which Germany derived nearly twenty percent of

its prewar potato yield, was ceded to the new state of Poland resurrected by the Treaty of Versailles.[1]

Germany's economy depended on foreign commerce, secondly, for domestic stability because commercial growth resulted in employment of the German population. Germany's industry relied on the internal coal resources offered by the Ruhr and the ore deposits of Alsace-Lorraine. These regions provided Germany rudimentary resources for steel production since the late nineteenth century. Commerce provided materials and markets necessary for industrial expansion and employment of the substantial German population. It assumed increased importance after the First World War after the Treaty of Versailles granted Alsace-Lorraine to France. Stability of the government clearly then depended on maintaining foreign trade. Trade provided the raw materials and markets necessary for continued employment.[2]

Germany's commercial economy operated relatively well during the postwar economic prosperity. The Treaty of Versailles imposed restrictions on German trade, but commerce expanded during the early years of the Weimar government and led to a consistent German trade surplus. A trade surplus is

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[1]Wilhelm Deist, Manfred Messerschmidt, and Hans-Erich Volkman, Germany and the Second World War, Vol. I Trans. P.S. Falla, Dean S. McMurry, and Ewald Osers, (Oxford: Clarendon Press, 1982), 160.

[2]President of the Reichsbank to State Secretary in the Reich Chancellory, 6 June 1933, Documents on German Foreign Policy, Series C Vol. I (London: Her Majesty's Stationery Office, 1949, Hereafter cited DGFP), 528.

important for it can be converted into foreign negotiable credits, i.e., gold, with which foreign debts can be serviced or goods can be purchased. Germany offset the price of imports with the profits derived from exports. The financial burden of war debts necessitated creation of a surplus, which Germany possessed. During the period of the Weimar government, Germany held a substantial gold reserve and maintained internal industrial production.[3]

The global depression plaguing Europe in the late 1920's and early 1930's shook Germany's economy, for it resulted in a slump in global commerce. Threatened by financial collapse, nations were unable or unwilling to purchase goods on the global market. No longer exporting to a hungry market, German steel production, which had contributed extensively to the Reich's trade surplus, grew increasingly stagnant and after several fluctuations barely achieved a volume of four hundred million Reichsmarks.[4]

The Depression affected Germany's economy, but its impact was not fatal. Exports declined dramatically and negotiable credit constricted, yet Germany maintained a trade surplus. While significantly less than previous years, 1932 figures show a ninety-four-million Reichsmark surplus.[5]

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[3]Deist, 161.

[4]New York Times (hereafter cited as NYT), 26 April 1933, p. 8.

[5]Schacht, DGFP C I, 528.

The introduction of the National Socialist administration and policies, however, greatly affected German economic priorities and threatened the tenuous economic situation. Hitler decided to prime the economic pump through public works projects and rearming the German Army. These burdens strained Germany's finances and necessitated increased foreign trade and accumulation of credit reserves. Though the Reich continued favorable balances of trade into 1933, its surplus declined. By 1933, the surplus fell from the prior year's ninety-four million Reichsmarks to less than forty-four million Reichsmarks.[6] Statistically, a decline in surplus and the resultant decline of foreign credit of over fifty percent is visible. The real impact of the surplus decline can be assumed to have been much worse given the devaluation of German currency during the period in question.

This decline in surplus was exacerbated by international reaction to general Nazi obnoxiousness, Germany's non-committal, almost hostile attitude towards world peace, and existing economic trends. National Socialist foreign policy destabilized Germany's position in the collapsing world market. Hitler's unwise withdrawal of delegates from the League of Nations in October 1933 unleashed anti-German boycotts that further compressed the German market. Both France and Finland, major trading partners of Germany, boycotted German goods, and there were rumors of further

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[6]Ibid.

boycotts by the Americas and Europe.[7] When German goods were not boycotted by governments, they were boycotted by consumers. German officials found their products victimized by anti-German sentiment. Anti-semitic activities and the Nazi position towards the Church also contributed to general disdain for German products. Though certain German goods might possess substantially higher quality and a lower price than competing wares, consumers ignored them and preferred non-German goods.[8]

Economic decline, boycott and selective purchasing practices by foreign consumers sped up the decline in Germany's gold reserves. Under the Nazi regime, gold reserve availability assumed increased importance because of rearmament. Special metals and chemicals necessary for war production, most notably tungsten and nitrates, were not ordinarily available from nations with which Germany maintained pseudo-reciprocal trade relations. These materials had to be purchased with negotiable credits which were rapidly declining. In 1930 the Reichsbank boasted reserves valued at three billion Reichsmarks, but declining trade and increasing debt service reduced reserves to less than RM280,000,000 by May 1933.[9]

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[7]NYT, 10 January 1934, P. 11; NYT, 15 January, 1934, p. 6.

[8]Unsigned Memo, 3 May 1935, DGFP C IV, 121.

[9]Schacht, DGFP C I, 528.

Germany's immediate efforts to halt the growing deluge which threatened to dampen Hitler's programs were characterized by limiting internal consumption and imports while increasing gold reserves. Under the watchful eye of Hjalmar Schacht, President of the Reichsbank, Germany instituted rationing programs to limit German consumption.[10] Dependence on imports, as well, was partially alleviated through substitute materials, especially in the sphere of foodstuffs.[11] Schacht tackled the credit problem to stop the exodus of German gold. Because Germany needed to purchase materials and debt service limited these purchases, Schacht demanded that Germany stop paying its war-reparations plans.[12]

The long-term situation facing Germany in 1934 threatened economic collapse. German gold reserves were declining steadily. Moreover, there was little possibility of reclaiming lost gold reserves and markets given the cold commercial climate German traders faced. Provided that Germany retained a nominal balance, or better yet, a surplus in trade, its economy might have retained stability and validity. The Weimar government, even during the Depression, retained a trade surplus. Under the Nazi government, however,

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[10]NYT, 6 August 1934, p. 11.

[11]NYT, 27 August 1934, p. 6.

[12]Minutes of Department Heads Meeting, 7 June 1934, DGFP C II, 876; NYT 26 August 1934, p. 1.

rearmament and works projects placed increased demand on this economy without increasing its ability to service these demands. This situation contributed to economic crisis.

The Reich's response to the commercial strain was the economic 'New Plan' of Reichsbank President Hjalmar Schacht. In several respects, the New Plan was a radical departure from previous liberal-oriented economic policies pursued by the Weimar government and by the National Socialist government in its infancy. The New Plan implied centralized control of imports and exports by the government to maintain internal production and meet long-term economic goals. It did not constitute a sudden break from Nazi economic programs, however. As early as November 1933, Germany examined the viability of a similar plan. Concerned with rectifying Germany's credit problem, members of the Ministry of Economics advocated abandoning equal treatment of Germany's creditors and providing preferential treatment and payment of debts to those nations which accepted equal or greater values of German exports.[13] In practice, the Ministry of Economics argued the basic premise of the New Plan.

The New Plan regulated, rationalized, and coordinated German trade to effect a consistent trade surplus for Germany. Under the New Plan, imports were restricted to essential foodstuffs and raw materials essential to industry. Moreover,

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[13]Reich Minister of Economics to Schacht, 30 November 1933, DGFP C II, 161.

the value of these purchases from abroad could not exceed the value purchased by a nation from Germany. For example, Germany could not purchase goods from Mexico if the value of these purchases exceeded the value of Mexican purchases from Germany. This system ensured that negotiable credit remained in the Reich to service debts and purchase goods otherwise unavailable through normal reciprocal trade.[14]

The New Plan was implemented through a series of trade agreements, whose character was shaped by the globe's attitude towards Germany. Nations angered or threatened by Nazi programs precluded or limited German trade through boycott. Thus, the Ministry of Economics turned to areas of the globe which previously possessed only peripheral importance to Germany's overall scheme of trade. It undertook a four-month-long series of negotiations to maintain trade relations with Chile, with which German relations had grown strong since January 1934.[15] Egypt and Turkey, as well, entered the New Plan system.[16]

Non-European nations were not the only targets of the New Plan. Prior to the New Plan's inception in November 1934, German trade targeted the Danube basin in which Germany found

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[14]Oskar Kiep, Speech to Shanghai Audience, "The Economic Policy of Germany Under the New Plan," Chinese Economic Journal 18 (February 1936): 214-215.

[15]NYT 23 January 1934, p.6; 7 August 1934, p. 3; 27 December 1934, p. 9.

[16]NYT, 28 December 1934, p. 13.

similarly autocratic regimes.[17] Under the New Plan, emphasis shifted to the continent's borders. Upon Hermann Göring's insistence, Germany concluded a series of trade agreements with Spain under which German products were traded for Spanish cash and raw materials.[18] And the Soviet Union concluded a series of rocky and unstable trade agreements, the last being signed in 1936, under which the Soviet Union purchased German goods with raw materials.[19]

The New Plan initially appeared successful. Germany retained a statistical monthly trade surplus averaging twelve million Reichsmarks. But this figure is an anomaly created by the method of statistical measurement. Trade statistics were compiled at the moment a shipment entered or exited the Reich.[20] German trade increasingly relied upon less industrialized nations (Soviet Union, Latin America, the Middle East) and their often decrepit transportation facilities. Receipt of imports and payments from these regions lagged significantly behind that of their reciprocated German exports. Imports, therefore, appeared less in value than exports.

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[17]Neurath Circular, 17 August 1936, DGFP C V, 901.

[18]Memo by Benzler, Economic Policy Department, 23 February 1937, DGFP D III, 245.

[19]Herbert Göring to Schulenberg, 20 May 1936, DGFP C V, 571.

[20]Circular of the Foreign Ministry, 10 April 1935, DGFP C V, 38.

Although a valid and valiant effort, the New Plan did not achieve its goals and this contributed to German interest in the China market. Schacht's efforts to rationalize consumption (a program continued from the pre-New Plan period) and to expand exports failed and left Germany a deficit of over RM180,000,000 during the first six months of the New Plan.[21] Imports increased considerably, and exports declined. At their apogee in January 1935, imports peaked at RM400,000,000 volume while exports declined and struggled to reach a volume of RM300,000,000.[22]

The failure of the New Plan, in its infancy at least, was the result of a host of problems created both by the political and economic climate of Europe and by the internal policies of Germany. These culminated in renewed economic crisis in 1935. Germany openly disliked the Communist International. This affected its trade relationship with the Soviet Union upon which Germany depended. By 1935 the Soviet Union temporarily limited German imports in response to Hitler's vehement rants against communism. Germany depended on continued receipt of Soviet raw materials for rearmament and works projects. Though rationing and substitute materials limited German consumption and demand, they did not replace them. The Soviet Union was a major source of raw materials, especially petroleum, lumber and metals, for Germany. When it refused

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[21]Ibid.

[22]Ibid.

reciprocal trade with the Reich, Germany was forced to purchase the desperately needed Soviet materials with negotiable credits.[23]

Arms sales were an important and integral part of the New Plan system because they generated profit. But arms sales also contributed to Germany's long-range plans for territorial expansion. Increased demand for arms, whether domestic or foreign, strained war industries and forced armament producers onto a wartime footing. Working at full capacity, armament industries experienced wartime production and suffered the difficulties inherent to stressful demand. Arms firms could then study the efficiency of their production and adjust to problems arising from this 'wartime' production. This practice aided Germany for Germany could practice for future wartime production.

Barriers to armament production efficiency and trade existed in the German Reich's legal code. The War Materials Law of 1929 prohibited the export of war materials by the German government in accordance with the Treaty of Versailles. The Weimar government, which framed the law, sought to allay global suspicion of German support for the retired Reichswehr officer Max Bauer.[24] In the late 1920's, Bauer, a leading conspirator in the Kapp Putsch of 1920 against the German

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[23]Neurath Circular, 17 August 1936, DGFP C V, 901.

[24]John Fox, "Max Bauer: Chiang Kai-shek's First German Military Advisor," Journal of Contemporary History 4 (1970): 21-44.

government, was employed by Chinese leader Chiang Kai-shek as a military advisor and arms broker in violation of the Treaty of Versailles.

During the Nazi regime, however, attitudes towards arms sales changed in light of German rearmament and the economic situation. Under the direct guidance of the Foreign Ministry, war materials disguised as harmless shipments found their way from the Free Export Zone at Stettin to a variety of destinations.[25] The War Material Law forbade German intrigues in the arms market and so circuitous routes on non-German ships characterized these shipments and decreased their efficiency. One shipment of German arms to Italian troops in Abyssinia, for example, traveled from Stettin, to Norway, to Belgium, and then to Abyssinia, changing ships at each port.[26]

The long delivery period, coupled with the risk of exposure, was detrimental to trade. Reichswehr head Werner von Blomberg complained bitterly of the Reich's paradoxical policy. While Germany sold arms in violation of the Treaty of Versailles, the War Materials Law was an anachronism, unsuitable for the present situation. It created inefficiencies and contributed to foreign reluctance to

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[25]Reich Finance Ministry to Foreign Ministry, 28 May 1935, DGFP C IV, 225.

[26]Memo by Frohwein, 6 November 1935, DGFP C IV, 358.

purchase German arms.[27]

By 1935, an economic crisis faced Germany, created by the collision of economic constriction and Nazi policies requiring economic growth. The world market threatened Germany with a decline in trade and, concurrently, a decline in foreign negotiable credit. Under the Weimar regime, this limited growth was far from catastrophic. During the Depression, Germany maintained a sizeable, yet declining, trade surplus. And reparation service, though stressful to the German economy, was within Germany's means. The National Socialist regime and its radical measures, though, magnified the weaknesses of the German economy. It pursued programs which relied on increased trade while pursuing policies that resulted in a constricting market. It was from this skein that Germany became increasingly interested in China.

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[27]Reich Ministry of War to Foreign Ministry, 24 June 1935, DGFP C IV, 358.

Chapter III

Development of Dual Relations

Germany's efforts in the Far East to ameliorate its economic woes were not initially oriented towards China. Until 1935, when German preference for China solidified, Germany pursued a bifurcated economic policy in the Far East. Desperately needing any possible market outlet or source of resources, Germany supported new economic endeavors in both China and Japanese-dominated Manchukuo. In Manchukuo, Germany found a ready outlet for industrial products. In China, it found a source of credit as well as a market for German goods.

Introduction of German control of trade in the Far East was not immediately enacted. Prior to the financial crisis that precipitated the need for market expansion, German businessmen and entrepreneurs pursued private gain. With the onset of crisis, however, the German government became increasingly aware of these efforts and sought to direct them to benefit the Reich. Even though efforts in Manchukuo and China were encouraged by the government, a factionalization of support emerged almost immediately. The Nazis supported commercial efforts in Manchukuo. Armaments manufacturers, the

Foreign Office, and the German Army supported China.

Each effort had its problems. The Manchukuo effort was undermined by Germany's representative. In China, armaments firms suffered first from legislation prohibiting arms sales in China and then from competition among themselves. But the importance of acquiring economic advantages in the Far East overcame these obstacles. The institutions which guided German policy sought every possible means to destroy barriers to trade and by 1935 possessed two equally viable exclusive systems in the Far East.

Ferdinand Heye came to the attention of the Foreign Office by virtue of Hermann Göring. As early as March 1933, Göring recommended to the Economic Ministry's Director Meyer Ferdinand Heye, who was active and experienced in the Far East.[1] The genesis of the relationship between Heye and Göring is difficult to definitively ascertain. It probably arose from the close relationship between industrial elite and government which characterizes the modern state. Heye was the son of a wealthy Düsseldorf industrial family. It is conceivable that relations between the two individuals were initiated by these contacts.[2] Heye's background was certainly attractive to Göring and the Economics Ministry. From 1931 to

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[1]Memo by Meyer, Department IV, 6 March 1933, DGFP C I, 104.

[2]Herbert von Dirksen, Moscow, Tokyo, London: Twenty Years of German Foreign Policy (Norman: University of Oklahoma Press, 1952), 145.

1933 Heye was employed by the Fritz Thyssen firm to negotiate trade agreements with Japanese firms in Manchukuo.[3]

Ferdinand Heyes' plan for the Far East, as accepted by the Ministry of Economics and higher German officials, amounted to extension of German economic power into North China. Utilizing German investment, Heye hoped to create a closed market in Manchukuo oriented towards Germany. Throughout the summer of 1933 Heye struggled to establish banks in Manchukuo which would receive, disburse, and generally supervise the investment of German funds in Manchukuo.[4]

Manchukuo was an obvious choice not only for Heye but for the Reich as well. Manchukuo seemed a panacea for German economic problems. Void of industrial centers or any substantial industrial base, Manchukuo was open to industrial development. More importantly, as an historical supplier of soy products to Germany, it would provide staples of Schacht's substitute economy. Thus, by November 1933, Heye founded the "German-Manchukuo Export Company" which compensated imports of soybeans with exports of German manufactured goods.[5]

Support for Heye's plans came from the Nazis who clung to a romanticized notion of German-Japanese brotherhood. Heye

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[3]Untitled Foreign Ministry communique, N.D., DGFP C, 172.

[4]Meyer, N.D., DGFP C I, 104.

[5]Untitled Foreign Ministry communique, N.D., DGFP C I, 172.

offered solutions to German economic dilemmas. Hermann Göring also threw in his lot with Heye, for his brother-in-law accompanied Heye on his sojourns in the Far East.[6] But the Nazis supported Heye from an intense desire to see the creation of a German-Japanese rapprochement. To the Party, Japan possessed a "heroic tradition" similar to Germany, which manifested itself in a strong military state.[7] And Nazi support also arose from the shared possession of similar, Prussian-like pasts.[8]

The Party did not support Heye solely because of romanticized notions of historical kinship. Heye's plans embodied continuation of the Lebensraum (living space) concept into the Far East. In the final analysis, the plans, as given to the Nazis, saw the development of a German civilian and Party presence in the Far East. This presence was not merely to be a colony, however. Heye wanted to develop racially German communities around the German industries which were to become entrenched in North China. Industry required German engineers, scientists, and workers, and Heye hoped families of these industrial workers would settle in the region and create German-dominated cities over time.[9]

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[6]Dirksen, 145.

[7]Ernst von Weiszäcker, Memoirs, Trans. John Andrews, (Chicago: Henry Regnery Co., 1951), 116.

[8]Dirksen, 142.

[9]Meyer, 6 March 1933, DGFP C I, 104.

This plan appealed to the Party for it already pursued similar aims in the Far East. As early as 1930, the Ausländsorganization, the Party's organ for formulating and instituting policy for German expatriates, supported efforts in both China and Manchukuo. Under a retired German school teacher, the Ausländsorganization tried extending the Party's influence in Hankow, especially around German firms in the region.[10] And in Manchukuo, a certain Herr Hasenörhl and Hanns Gunther von Kirschbauen, German business director in Darien, sought to expand German economic and political influence among German nationals in Darien and Mukden.[11]

Heye's plan appealed to the Nazi leaders, as well, for its financial implications. The Ausländsorganization encouraged Nazi cultural activities in regions abroad. In China, for example, the Ausländsorganization established Hitler Youth organizations which stressed the cultural, racial, and ideological development of German youth living there. But it also harnessed the economic power of German traders, especially wealthy ones, residing in the Far East. During the winter of 1933-34, the Ausländsorganization extracted from German nationals over RM165,000 ($40,000) for the Reich's Winter Help fund.[12]

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[10]Donald McKale, "The Nazi Party in the Far East, Journal of Contemporary History, 2 (1977): 291-311.

[11]Ibid.

[12]Ibid.

While the Nazis supported Heye's efforts, the Foreign Office disagreed with Heye's venture. This lack of support did not come from prejudice against Heye's apparent aims. Some voices within the Foreign Office, most notably Germany's ambassador to Japan, Herbert von Dirksen, vehemently protested the collaboration of Party and private business ventures.[13] He disagreed with the Party's interference with the prerogatives of diplomacy. But on the whole, the Foreign Office initially supported Heye's efforts to expand Germany's economic base. The Foreign Office cooperated with Heye and repeatedly issued instructions to its legations in both China and Japan that he be assisted by every means possible to achieve his goals.[14]

The Foreign Ministry's hesitancy stemmed from mistrust of Heye personally. The Nazis supported Heye for some time, but shortly after he opened negotiations with Japanese representatives in late 1933, the Foreign Ministry's support began to recede. It slowly became apparent to the officers of the Foreign Office that Heye was "...embarking upon an enterprise of a...hazardous scope."[15] He was secretive. Meyer, Director of the Economics Ministry, was interested in the particulars of Heye's venture and was surprised to find

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[13]Dirksen, 145.

[14]Untitled Foreign Ministry communique, N.D., DGFP C I, 172.

[15]Dirksen, 145.

Heye obstinate in his refusal to produce information on his designs in the Far East. The plans he intended to implement, Heye argued, were in the possession of unnamed Mongolian princes with whom he was involved, and who were loath to divulge information regarding economic enterprises.[16]

The Foreign Ministry's mistrust of Heye was not misguided for Heye did not reveal to it the true scope of his intentions. To gain the respect of the Japanese with whom he negotiated, he spread false rumors of Hitler's unequivocal support.[17] Also, the trade arrangement Heye initially established was far removed from that envisioned by his German handlers. Instead of merely bargaining for German trade advantages in Manchukuo, Heye created the basis for a personal empire. Under his agreements with the Japanese, Germany would receive a favorable trade position in Manchukuo in which Manchurian soybeans would be purchased with German goods. But the trade would not occur under a government-established office, but rather through a private company holding a monopoly in the German-Manchukuo trade and controlled by Heye.[18] Additionally, Heye usurped the authority of both the Party and the Foreign Office by tying political imperatives to the establishment of trade. Heye promised his Japanese

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[16]Meyer, 6 March 1933, DGFP C I, 104.

[17]Dirksen to Foreign Ministry, 7 February 1934, DGFP C II, 454.

[18]Dirksen to Foreign Ministry, 14 March 1934, DGFP C II, 611.

counterparts German recognition of Manchukuo and his ascent to the post of First Foreign Minister to Manchukuo after the agreements were ratified by Germany and Japan.[19]

The revelation of Heye's misdeeds unleashed a wave of reaction which threatened his viability as a representative of German interests in Manchukuo. From Japan, Dirksen decried Heye's circumvention of the Embassy and called for his dismissal.[20] International pressure appeared also. The Soviet Union reacted to the political implications of Heye's trade monopoly and the rumored recognition of Manchukuo.[21] This pressure threatened German economic interests, for Heye's recall would leave a void in the Manchukuo market. Heye offered an established negotiation system. He had contacts with high ranking Japanese and was aware of the dynamics of trade in the Far East.

The revelation of Heye's true intentions in Manchukuo did not stop Germany's implementation of his trade agreements. Despite the Foreign Ministry's objections, Heye received a Special Reich Commission in February 1934.[22] By June 1934, he officially announced a provisional agreement with Manchukuo

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[19]Ritter, Director of Economic Development, 23 March 1934, DGFP C II, 666.

[20]Dirksen to Foreign Ministry, 7 February 1934, DGFP C II, 454.

[21]Trautmann to Foreign Ministry, 2 February 1934, DGFP C II, 466.

[22]Neurath to Embassy in Japan, 5 February 1934, DGFP C II, 559.

under which it would provide preferential treatment of German goods not produced there.[23]

The continuation of the Heye mission after he was shown to be unscrupulous and untrustworthy did not constitute official approval of him. Hitler vacillated over conferring a commission to Heye and then did so only grudgingly.[24] Moreover, Heye's activities in Manchukuo were increasingly brought under centralized control to limit his personal gain and to increase the Reich's economic benefits. While granted the commission, Heye's agreements were subject to review by the Reich government before ratification.[25]

Rather, Heye's continuation resulted from the pressure of economics under which German industrial interests operated. Heye was not as important as the market in Manchukuo which offered German industry markets and raw materials. He was only the conduit through which industry tapped the Far East. Hitler, Göring, and the Foreign Ministry were repeatedly petitioned by industry, especially the Fritz Thyssen firm, to maintain Heye's commission and contacts in the Far East.[26] And after his recall in 1935, industry tried to enlist Heye's

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[23]Dirksen to Foreign Ministry, 6 June 1934, DGFP C II, 871.

[24]Neurath to Embassy in Japan, 5 February 1934, DGFP C II, 450.

[25]Deputy Director of the Economics Department, 19 February 1934, DGFP C II, 510.

[26]Director of Economic Department, 27 April 1934, DGFP C II, 785.

associates to reestablish ties with the Manchukuo market.[27]

Ferdinand Heye embodied German economic interest in Manchukuo. Though acting selfishly, he continued to represent and pursue German interests under official sanction until 1935. Heye's eventual failure carried with it the impossibility of reasserting German influence to any great degree in Manchukuo and would eventually force Germany to rely upon the Chinese market and thus would shape German policy in the Far East. Before turning to this development, it is necessary to discuss the alternative to Heye that would become the vessel in which Germany eventually placed its Far East economic hopes.

German economic interests in China from 1933 to 1938 were built upon a foundation laid by yet another individual entrepreneur, Hans Klein. Like Heye, Klein received official sanction for his efforts. Whereas Heye's efforts in Manchukuo developed quickly under the tutelage of the Nazis' sanction, Klein's venture developed slowly and was supported by the Army, the Foreign Ministry, and Hjalmar Schacht's Reichsbank. These interests not only shaped Klein's pursuits, but were inextricably linked with the development of Germany's economic and political policy towards China in the Far East.

Klein, himself, did not constitute the sole economic interest in China. A host of German industrial endeavors had

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[27]Ritter, Economics Department, 21 July 1934, DGFP C III, 210.

existed there for some time. Primarily, but not only, these were arms manufacturers. The firms of Solothurn, Rheinmetall, and Herren Carlowitz, to name but a few, pursued armaments deals with the Chinese government and individual Chinese generals. Initially, the German government was not interested in these efforts. In fact, at times the German government hindered their development. But as the economic crunch closed on Germany, increased support from the government for arms sales characterized Germany's presence in China.

The tremendous number of German companies operating in China resulted in Klein's involvement in Germany's China policy. Servicing these companies' needs created paperwork logjams in the German government. Most important, however, inefficiency characterized these companies' business. The companies often competed with one another and sometimes pursued ends detrimental to the good of the whole. Hans Klein emerged from this tangled web to organize, make efficient, and solidify German economic efforts in China.

German efforts in China in the early 1930's were shaped by the nature of China's political position. Only recently Chiang Kai-shek and his Nationalists had unified their nation and embarked upon their program of reconstructing China. But domestic and foreign policy imperatives required more of the Nationalists under Chiang Kai-shek than merely rebuilding China's political and economic infrastructure. Internally, civil war loomed over the Chiang Kai-shek government.

Externally, the spectre of Japanese aggression hung over China and perpetually threatened Chinese national security.

German business took advantage of these weaknesses through a deluge of armament agreements with the Nanking government. Rheinmetall, Herren Carlowitz Co., a Rheinmetall intermediary company, and Solothurn, a Rheinmetall subsidiary, pursued contracts in China during the summer of 1933 and beyond.[28]

The arms deals concluded with China contributed significantly to the quality of the Chinese Army. Small arms and ammunition were purchased by the Chinese and integrated into a standardized military organization under the watchful eyes of German advisors. Additionally, China received heavy equipment and artillery through these transactions. Solothurn, for example, provided China with 24 150mm howitzers, with ammunition, in May 1934 alone.[29]

Arms sales benefitted China and Germany. The impact of sustained arms demand on German industry has already been mentioned. There were monetary benefits for German industry, for sales to China amounted to considerable funds. Herren Carlowitz, through agreements with T.V. Soong, China's Finance Minister, sold weapons to China in June 1933 alone at a value

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[28]Michelsen, 10 July 1933, DGFP D I, 643; Erdmannsdorff, 26 September 1934, DGFP C III, 427.

[29]Trautmann to Foreign Ministry, 17 May 1934, DGFP C II, 825.

of RM10,000,000.[30] Artillery sales by Solothurn, as well, netted the company RM20,000,000.[31] While each individual transaction represents a small portion of total German trade and income, together, these arms sales generated a substantial sum.

Two barriers hindered the establishment of these arms transactions. The first was the War Material Law 1929, which has already been discussed. It prohibited the German government's participation in arms sales in accordance with the Treaty of Versailles. In the context of China, German firms initially were stymied in developing trade with China. Rheinmetall, which produced arms, was hindered in selling to China because of the War Material Law. Besides Rheinmetall, Solothurn, which produced ordnance that was not prohibited by the Treaty of Versailles, could not act as a conduit for German arms to China. Solothurn tried to sell Rheinmetall-produced artillery to China, but the German government feared that any German company, even if that company did not produce arms, might arouse suspicion that the German government was involved in arms trafficking.[32]

The second barrier was that the Reich government did not allow financial guarantees against losses to German businesses

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[30]Michelsen, 10 July 1933, DGFP C I, 643.

[31]Trautmann to Foreign Ministry, 21 April 1934, DGFP C II, 760.

[32]Erdmannsdorff, 26 September 1934, DGFP C III, 427.

in China. German sales to China were often concluded on a credit basis. China agreed to pay for delivery of products over a certain period. However, often the period required to deliver goods to China was considerably shorter than that allowed China to reimburse firms. A Rheinmetall deal with T.V. Soong, for example, consisted of RM10,000,000 of goods delivered over a period of three years. China was to repay the debt over six years.[33] German business, fearful that China would refuse to pay the remaining balance of debt following receipt of all purchased goods, requested Reich guarantees to cover losses incurred. The Reichsbank would, then, become a loan co-signer.

This scenario was acceptable to the Reich in transactions with other nations. But during the first half of 1933 the apparent instability of the Nanking government precluded German guarantees. The Foreign Ministry increasingly voiced fear that revolution would topple the debtor government and result in credit default. The Reich, then, would be forced to service debts to German firms with resources it could not afford to waste.[34]

The importance certain elements in Germany attached to establishing economic ties with the globe is visible in the swift attempts to brush away restrictions to trade. Although

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[33]Michelsen, 10 July 1933, DGFP C I, 643.

[34]Trautmann to Foreign Ministry, 18 September 1933, DGFP C I, 812.

a new law on war material did not pass until 1935 (when German interest in China solidified under Hans Klein), the German Army and the Economics Department of the Foreign Ministry immediately found ways to circumvent the law or work within existing laws to support arms sales to China. Werner von Blomberg constantly applied pressure to the instruments of power to rescind or alter the War Material Law.[35] As he tried rescinding the Law, the Economics Department concocted elaborate plans to circumvent it. Under the Economics Department's plan, Solothurn would appear to the world as the seller of arms to China. Rheinmetall would supply arms to Solothurn. The Reich government, to this point, would not be implicated as a manipulator of the sale. Moreover, Rheinmetall, having sold the arms to the distributor Solothurn, would itself receive the Reich guarantee against losses incurred if Solothurn did not pay.[36]

Circumvention of barriers did not spell the end of Germany's economic problems in China. In fact, the de facto legitimization of arms sales by virtue of a shift in sentiment unleashed a myriad of problems that threatened not only the efficiency of business, but the entire scope of operations in China. The arms firms, allowed to pursue agreements freely by the summer of 1933, engaged in near cut-throat competition.

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[35]Reich Minister of War to the Foreign Ministry, 24 June 1935, DGFP C IV, 350.

[36]Michelsen, 10 July 1933, DGFP C I, 643.

Solothurn and Rheinmetall, for example, while two divisions of the same company, nevertheless competed with each other for a limited armament demand. And in the Foreign Ministry, fears abounded that competition would jeopardize diplomatic relations with China.[37] Moreover, competition often angered Chiang Kai-shek. In an effort to procure orders, Solothurn approached Oskar Trautmann, German ambassador to China, and pressed him to influence Chiang to sanction Solothurn's efforts.[38]

Hans von Seeckt disentangled the mess of competition and the seemingly endless number of uncoordinated business ventures. He headed the German military mission in China and it was then in his best interest to maintain a steady flowing stream of German arms to his schools for Chinese troops. Inherent in this, as well, was the maintenance of good relations with Chiang. It was Chiang, after all, who was responsible for von Seeckt's presence in China. Thus, when Chiang declared his sincere desire to purchase only German arms, it was in von Seeckt's best interest to insure that supplies continued smoothly.[39] The uncoordinated nature of German arms sales in China impeded this development and thus,

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[37]Trautmann to Foreign Ministry, 21 April 1934, DGFP C II, 760.

[38]Trautmann to Foreign Ministry, 17 May 1934, DGFP C II, 760.

[39]Trautmann to Foreign Ministry, 17 May 1934, DGFP C II, 825.

Seeckt sought organization of efforts under a single office.[40] His choice to do this was Hans Klein.

Available evidence does not provide a direct explanation for Hans Klein's presence in China prior to 1933. In fact, some officials of the Foreign Office were unaware of his existence in China until November 1933.[41] What is positively certain, though, is that Klein operated in China with the blessing and goodwill of the German Army.[42] Klein and a certain Major Preuhad operated trading companies in Central Africa before the First World War. Klein used Preu to maintain contact with the German military mission in China under Hans von Seeckt.[43]

Like Heye's, Klein's efforts were remarkably simple in scope yet large in scale. He utilized contacts with the German Army and German arms producers to sell weapons to Chinese officers in South China. In South China, especially Canton, Klein operated a veritable clearinghouse for the German arms market. In early 1933 he signed a contract with Generals Chen Chi-tang and Li Tsung-jen to establish arms industries in Canton.[44] Under license, Chinese firms

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[40]Legation in China to Foreign Ministry, 29 May 1934, DGFP C II, 856.

[41]Untitled communique, N.D., DGFP C II, 154.

[42]Ibid.

[43]Trautmann to Foreign Ministry, 18 September 1933, DGFP C I, 812.

[44]Ibid.

produced mortars, light infantry weapons, and ammunition.[45]

There was opposition to Klein, but it was not severe. German opposition to Klein's efforts sprang not from political reasons, but from fear that his operation might prove detrimental to other German businesses in China. First, the Canton generals with whom Klein conducted business were at odds with the Nanking government. Officials of the Foreign Ministry and the Nazis opposed his aggrandizement from fear of Chinese retribution against German businesses in central China. The Economics Department hesitated in recognizing Klein for such an act was synonymous with arming Canton against Nanking.[46] The far more numerous business enterprises in north and central China, it was felt, were dependent on Nanking's good will, the withdrawal of which might lead to anti-German activities.[47] Secondly, Germany feared that Klein's support for the Cantonese generals strengthened them against Nanking. Revolution might occur and destabilize all of the markets in China.[48] Despite these apprehensions, however, Klein continued his presence in China.

By 1934, Germany possessed the structures of trade

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[45]Werner von Blomberg to Chiang Kai-shek, 24 March 1936, DGFP C V, 282.

[46]Voss, 31 January 1935, DGFP C III, 893.

[47]Minutes of Inter-Department Conference, 16 February 1934, DGFP C II, 495.

[48]Erdmannsdorff, 26 September 1934, DGFP C III, 427.

necessary for large scale enterprises. Ferdinand Heye provided a window to the Manchukuo market. Concurrently, Hans Klein opened China proper. Granted, German businesses operated in China and Manchukuo well before the arrival of these two individuals. But these efforts were merely those of individual, unconnected firms lacking a cohesive force. Klein and Heye, by virtue of their established trade structures (treaties, contacts with foreign governments, etc.) laid German foundations upon which future trade in both China and Manchukuo might be built.

Chapter IV

The Ascendancy of Hans Klein

The Japanese grew wary of Ferdinand Heye because of his unprofessionalism and their realization he knew little about Manchukuo. As early as March 1934, Japanese officials complained of Heye's methods of business.[1] The knowledge of the Far East that Heye collected during his employment with Fritz Thyssen and which enticed Hermann Göring was far from complete. Heye had little understanding of the minute details that characterized trade with Manchukuo. In discussion with Japanese trade representatives in 1934, for example, Heye showed his ignorance of affairs by promising his Japanese handlers that German trade with Manchukuo would exceed a volume of one million yen annually.[2] His promises were accepted by the Japanese with reservation, for they rarely sold more than Y800,000 to Manchukuo per year.[3] His lack of knowledge contributed to Japanese suspicion and their refusal

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[1]Bülow, 10 March 1934, DGFP C II, 582.

[2]Ibid.

[3]Ibid.

to take him seriously.[4]

Moreover, Japan did not respect Heye. In both Germany and the Far East, Heye had developed, prior to his representing the Reich, the reputation as an unscrupulous character. In the early 1930's, Heye founded Eisenträger & Heye Company in Harbin, China, upon the insistence of a business partner, Ernst Eisenträger. Promising untold profits in the opium trade, Eisenträger urged Heye to invest RM100,000 of his own funds in the company. However, Eisenträger failed to inform Heye that opium trading was illegal and eventually the business failed.[5] In Manchukuo, Heye continued to entertain grandiose schemes. Intermittently during his trade negotiations with the Japanese and Manchukuo representatives, Heye presented himself as a "Herr Fischer" despite Japanese awareness of his true identity.[6]

The Japanese did not trust Heye and protested his presence in Manchukuo. But these protests did not bring about his recall. If Heye had been recalled, one could argue that Germany sought placation of a political ally. The German agenda for the Far East did not include attention to Japanese wishes, however. Instead, Heye's demise came from his interference with other German interests in the Far East and Germany's realization that Heye's agreements were worthless in

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[4]Dirksen to Foreign Ministry, 7 May 1934, DGFP C II, 797.

[5]Meyer, 6 March 1933, DGFP C I, 104.

[6]Dirksen to Foreign Ministry, 7 May 1934, DGFP C II, 797.

the broader economic context.

Heye's operations in the Far East rested on a series of trade agreements with Manchukuo. Despite these agreements, Heye was rebuked by the very structures he pretended to aid. His June 6, 1934 provisional agreement with Manchukuo received scant applause from the Foreign Office. The Reich Agricultural Ministry, whose responsibilities included procuring food and organic substitute products, complained bitterly of Heye's actions.[7]

The reasons for opposition to Heye varied. The German industrialist Fritz Thyssen, whose support for Heye was great, contended that Heye's failure was due to Foreign Ministry machinations.[8] After examining the evidence, it is clear that his dismissal was based on valid concerns. Heye's agreements, for one, interfered with industrial activities in Manchukuo and China. By mid-1934, German efforts in China showed marked promise. Hans Klein's activities became increasingly popular with German industry. But the rumors of German recognition of Manchukuo, spread by Heye, posed a threat to these interests in China. The Ostasiatischer Verein (East-Asian Journal) reported the Shanghai Chamber of Commerce's petition for Heye's removal; Chinese officials and

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[7]Neurath to Dirksen, 21 June 1934, DGFP C III, 53.

[8]Director of Economic Department, 27 April 1934, DGFP C II, 785.

Chinese firms threatened boycott of German business.[9] The implications of Heye's agreements threatened German business in China and Germany was loath to relinquish these interests.

The German government also correctly gauged the relative uselessness of Heye's agreements. Under his plan, Manchukuo soybean purchases by Germany were offset by Manchukuo's purchase of German industrial goods. Manchukuo's industry was underdeveloped and therefore the state appeared a ready market for German goods. However, its need for industrial products was limited. Industrialization in China proceeded slowly because of its large population.[10] Large amounts of cheap labor limited the need for more efficient production means. Based on manpower, then, the Manchukuo economy could not absorb a large amount of machinery.[11] The Foreign Ministry and the other branches of the government realized that Germany could never compete with Japan in Manchukuo commerce. The limited nature of Manchukuo's purchasing power and Japan's proximity to the region assured Japanese economic preeminence in its puppet state.[12]

German concern with Heye's faults did not end German

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[9]Ostasiatischer Verein (Hamburg-Bremen) to Foreign Ministry, 19 March 1934, DGFP C II, 609.

[10]Manchukuo was formerly Manchuria, a North East Region of China.

[11]Foreign Ministry to Dirksen, 6 March 1934, DGFP C II, 559.

[12]Ibid.; Neurath to Rudolf Hess, 21 June 1934, DGFP C III, 56.

economic interest in Manchukuo. During the summer of 1935 several German trade missions visited Manchukuo to obtain economic advantages and soybeans. The mission under Oskar Kiep, the most successful, procured for Germany nominal economic advantages over other non-Japanese nations operating in the Manchukuo market.[13] But these missions were minor within the broader German policy context. They began rather late in comparison to Heye's activities. By 1934-1935, Heye possessed the abstract structures necessary for large scale enterprises (connections with Germany, contacts with Fritz Thyssen, etc.). Kiep's mission, and others, might rival the size of Heye's after some time. In 1935, however, these efforts were in their early stages of development. Germany, strained by economic problems, could not concentrate on raising them to maturity.

The accumulation of concern over Heye's faults did end the possibility of emphasizing the Manchukuo market. Repeated concerns with Heye's irresponsibility, and failure to obtain from Manchukuo a decisively advantageous position in North China, forced Adolf Hitler to withdraw Heye's commission in February 1935.[14] This relatively long period between arousal of concern with Heye to the withdrawal of his commission

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[13]Kurt Bloch, 34; Editor's note, DGFP C IV, 782.

[14]Neurath to Hess, 4 February 1935, DGFP C III, 904; (Concern with Heye's adventures reached a crescendo in Germany and Rudolf Hess was instructed to investigate Heye, with all the power of the German government, in late 1934 and early 1935. What became of him is unknown.)

should not be attributed to hesitancy on Hitler's part. The continued growth in the vehemence of attacks on Heye testifies to this. Rather, this was from the desire to garner results from Heye's activities, if at all possible. Ferdinand Heye upset the Japanese, the German government, and German business. But given the absence of any real alternative to his promises of a market in Manchukuo, what could Germany do? Prospects in China were slim until mid- to late-1934. Cessation of ties with Manchukuo would breed only economic stagnation in the Reich. Only when the Chinese market showed promise, thus providing an alternative to Heye, could Germany turn its back on Heye and his Manchukuo emphasis.

German emphasis on China was built upon a foundation laid by Hans Klein, who provided an alternative to Heye's flimsy operation. Klein's efforts in China by 1935 were far more stable than his compatriot's in Manchukuo. Heye earned Japanese animosity; Klein received the tacit blessing of Chiang Kai-shek. Initially, Klein's relations with Chiang were not especially warm. His arms sales to Cantonese generals seemed threatening to German businesses throughout China. Because Klein refused to stop selling arms to Canton, Chiang placed an embargo on all armament shipments. Only arms deliveries which Chiang personally permitted were allowed into China.[15] Though Chiang allowed shipments to Nanking, the process of sifting through bills of lading certainly slowed

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[15]Meyer, 6 November 1934, DGFP C III, 575.

the delivery (therefore the demand) of German arms to China.

Hans von Seeckt secured Chiang Kai-shek's support for Klein's presence in China. Seeckt used his influence with Chiang and Klein to promote a compromise. During the summer of 1934, Seeckt obtained Chiang's permission to lift the embargo if Klein ceased his operations in Canton.[16] Furthermore, Seeckt urged Klein to expand his operations to include Chiang Kai-shek.[17] Although Klein retained contacts with Canton as late as 1936, Chiang's complaints dropped considerably.[18]

Klein's presence in China was more stable than Heye's in Manchukuo because it offered German businesses several avenues to exploit. In addition to plans for arms sales, Klein completed the Handelsgesellschaft für Industrielle Produkte (Trading Company for Industrial Products; shortened to the form Hapro) agreement of 23 August 1934.[19] The particulars of the negotiations are not known. This was basically a "gentlemen's agreement" promulgated by Klein and Chiang Kai-shek. Under its terms, German firms provided China industrial

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[16]Trautmann to Foreign Ministry, 1 December 1934, DGFP C III, 694.

[17]Voss, 2 February 1935, DGFP C III, 900.

[18]Trautmann to Foreign Ministry, 28 November 1935, DGFP C IV, 864.

[19]Von der Heydn-Rynsch, 19 October 1937, DGFP D I, 768

products and arms in return for raw materials and resources.[20] A credit agreement in 1936, through which Germany provided China RM100,000,000 revolving credit, solidified this foundation.

The importance of the Hapro agreement lies in its inherent solutions to German economic problems. At best, Heye's agreements could solve Germany's problems only partially. Manchukuo merely fulfilled Germany's substitute needs. Through Hapro contracts, China could provide answers relevant to each facet of Germany's economy. Industrial strengthening was serviced by arms sales. These sales, as well as non-military sales, contributed to raw material and food procurement.

Klein's success was not overlooked in Germany. After the development of arms sales to China, Hjalmar Schacht supported increased German economic relations with China. Pinched by economic strain, especially after the Soviet market failed, Schacht was excited about prospects of China as a primary market. In a letter to Li Ming, Director of the Chekiang Industrial Bank, Schacht expressed his hopes that China might provide Germany resources in exchange for German goods.[21] To the Foreign Ministry he outlined his intention of utilizing

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[20]Voss to German Ambassador in China, 13 April 1937, DGFP C VI, 645; "Credit Treaty Supplementary to the Treaty on Exchange of Goods Concluded Between the Chinese Government and Herr Hans Klein on 23 August 1934, 8 April 1936," DGFP C V, 411.

[21]Trautmann to Foreign Ministry, 31 December 1934, DGFP C III, 761.

Klein's system of agreements to fulfill the goals of the New Plan. German businesses would be controlled and their operations coordinated by Klein's single office.[22]

Klein's ascent to the pinnacle of Germany's economic presence in China was not supported by everyone in the German government or business community. Hapro started in 1934. Schacht did not become interested until 1935. Thus, Hapro operated for almost a year under private initiative and many businesses were hurt by the competition. Middlemen in the arms market, or delivery and German shipping firms, complained that they were no longer needed, for Hapro centralized distribution of goods and utilized only a small number of shipping firms and representative agents in China.[23] Klein's organization threatened the existence of German businesses as well. The promise of Reich financial support for Hapro in the form of credit loans undermined private initiatives in China. The China Consortium (Stahlunion, Ferrostahl, Krupp), for instance, feared that their business could not compete with the German government. Germany could provide millions of Reichsmarks credit to China for purchases from Hapro. Therefore, Hapro provided a more appealing business deal to the Chinese government which then purchased from Hapro more than they purchased from private individuals.[24]

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[22]Brinkmann to Ritter, 7 May 1935, DGFP C IV, 136.

[23]Fischer to Erdmannsdorff, 4 August 1936, DGFP C V, 869.

[24]Voss, 31 March 1936, DGFP C V, 348.

Opposition to Klein also arose from concern with Hapro's impact on prices and the financial soundness of the enterprise. The Chinese central government did not possess a unified economic structure in China. The likin tax still survived in some regions.[25] Additionally, the Chinese government could not draw directly on resources from mineral rich areas, but had to purchase them directly from provincial governments before selling to German firms and agents.[26] China now possessed more money because of German loans. Costs for resources were high because provinces were middlemen. Therefore, Germany feared that because China had more funds, it would wastefully purchase resources from the provinces at a very high price and pass this wastage on to Germany.[27]

The importance that Schacht, the army and the Foreign Ministry attached to the promise of the Hapro contracts can be appreciated from their efforts to preclude potential problems and allay the fears of Hapro's detractors. The system of agreements and the method of implementation were reorganized several times during their existence to increase efficiency and limit opposition. Hermann Göring shifted the emphasis of

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[25]The likin tax was a tax applied to goods as they crossed provincial boundaries. A good approximation of the situation it created is the character of certain regions of Germany before their inclusion in the Zollverein.

[26]Voss, 31 March, DGFP C V, 348.

[27]Ibid.

Reich food procurement agencies towards Hapro.[28] He also created two banks, one in Berlin, the other in Shanghai, to sift through the problems of credit transactions and delivery payments.[29] In response to complaints that non-German firms helped institute Hapro, foreign firms were partially excluded from the system of agreements. Non-military goods were carried only by German ships.[30] China's procurement problems were not attacked directly, but indirectly. Germany increased the efficiency of ore mining in China, thus lowering costs, by providing equipment and technological assistance to Chinese firms in mining areas.[31] In 1935, for example, Schacht pushed through the Reichsbank programs which provided China RM32,000,000 for operating mines, RM1,500,000 to build railways and service mines, and a further RM300,000 to investigate the viability of existing, but abandoned, ore mines.[32] Measures to prevent China from raising prices were instituted as China agreed to deliver all goods and resources

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[28]Thomas to Foreign Ministry, 23 January 1937, DGFP C VI, 327.

[29]Unsigned communique, 11 June 1937, DGFP C VI, 876. (This organization was similar to that instituted in Spain by Göring under the New Plan. In Spain, Rowak and Hisma, banks in Germany and Spain respectively, handled transactions).

[30]Fischer to Foreign Minister, 14 September 1936, DGFP C V, 966.

[31]Ibid.

[32]Voss, 2 February 1935, DGFP C III, 900.

at prices ten percent below global levels.[33]

Most important, however, was Hjalmar Schacht's Hapro restructuring. The Reich attended to the China Consortium's complaints for Krupps and Stahlunion carried political weight in Germany. Their fear of government credit support of Hapro was taken seriously by the German government, which depended on these two firms. Pressure for centralization of Hapro and trade in China had been voiced previously by Seeckt and Chiang. Both hoped to increase Hapro's efficiency.[34] In response to further agitation from German business proper, Schacht, with von Seeckt's support, restructured Hapro under one single office to handle transactions, maintain good relations with China, and insure that funds diverted to Hapro were not used in competition with other German businesses.[35]

The instability of other New Plan markets also contributed to Klein's success. The failure of Spanish deliveries, resulting from civil war, encouraged Hermann Göring's interest in Klein's efforts.[36] Freiherr von Neurath, Germany's Foreign Minister, urged support as well, in light of delivery failures elsewhere, and instructed all

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[33]Bülow, 4 May 1936, DGFP C V, 502.

[34]Legation in China to Foreign Ministry, 15 February 1935, DGFP C III, 933.

[35]Ibid; Voss, 31 March 1936, DGFP C V, 348.

[36]Erdmannsdorff, 25 November 1936, DGFP C VI, 105.

embassy staffs to aid Klein in any possible way.[37] The support for Klein reached such a frenzy that von Blomberg, Schacht, and Göring proclaimed uniformly that:

> Anything that antagonizes it [the Chinese market]...must be avoided...[relations with Japan]...would destroy the current operations of Klein in China.[38]

The implementation of the Hapro agreements was varied. The agreements did not set strict delivery schedules.[39] It appears that delivery arrangements were the responsibility of the agencies from which goods were purchased. Non-military goods traveled to and from China by German shipping in accordance with Schacht's reorganization. Military goods, however, possessed no set method of transport. Usually, foreign vessels delivered arms to other foreign-owned companies. One shipment, for instance, included arms carried from Germany by British ships to Dutch trading firms in China.[40] Arms shipments were unique in structure. German military advisors usually trained Chinese formations in the use of equipment. To ease their task and make deliveries simpler, arms shipments were not made in piecemeal fashion. Hapro did not ship rifles, helmets, personal gear, etc. in

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[37]Blomberg to Minister Neurath, 25 March 1936, DGFP C V, 304.

[38]Hjalmar Schacht, qtd. in Weinberg, 340.

[39]Voss to Trautmann, 13 April 1937, DGFP C VI, 645.

[40]Internal Foreign Ministry Memo, 22 October 1937, DGFP D I, 772.

separate shipments. Instead, deliveries were organized to equip whole military formations. A single consignment destined for an artillery battery, for instance, would include not only six field pieces, but also fire-control equipment, helmets, rifles, spare parts and maintenance equipment.[41]

Under Hapro, German business thrived. Certainly not all German business operated under Hapro. Ausführgemeinschaft für Kriegsgerät (Export Consortium for War Material), a voluntary association of industry promoting war material export, and the Otto Wolff & Company did not join Hapro's umbrella or joined late in Germany's presence in China.[42] They did certainly benefit from increased Chinese purchasing power, though. But those businesses operating under Hapro's single office expanded trade in China. Strong economic ties contributed to Chinese use of German firms for developing the Nanchang-Pinghsiang Railway.[43] Though never delivered, Siemens, Krupps, and Vereinigte Stahlwerke received orders and partial payments for constructing in China ferro-wolfram plants and other heavy industries.[44]

Although it was successful, the Hapro system fell short

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[41]Billie K. Walsh, "The German Military Mission in China," Journal of Modern History 46 (September 1974): 506.

[42]Bülow, 30 August 1935, DGFP C IV, 602; Neurath to Hess, 4 February 1935, DGFP C III, 904.

[43]Bloch, 26; Erdmannsdorff, 4 November 1936, DGFP C VI, 17.

[44]Erdmannsdorff, 4 November 1936, DGFP C VI, 17.

of providing Germany a cure for its ills. China's percentage of German trade declined from 1913 to 1933.[45] The Depression contributed to this decline. Klein's trade agreements reversed this trend. From 1933 to 1935, Germany averaged gross exports to China valued at eighty million Reichsmarks annually.[46] Chinese exports to Germany rarely reached an annual average of RM53,000,000.[47] In the arms market, the most dramatic change is evident. In 1936 Hapro alone delivered nearly RM24,000,000 worth of arms to China. These were from arms contracts completed in 1934, that is, during the infancy of Klein's operations. By 1937, however, military contracts exceeded RM82,000,000.[48]

China provided Germany the only possible market for

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[45]Bloch, 27; Ho, 79-97; Trautmann to Bülow, 28 August 1934, DGFP C III, 362.; (Note: Trade figures noted herein are usually approximations; they merely show relations. The reason is, most sources, especially the Foreign Ministry and Kurt Bloch, can not be trusted. Both of these sources provide conflicting figures which are greatly different from one another. Most German Foreign Ministry figures were provided to trade representatives during trade negotiations. It was in the interest of the Germans to deflate their figures for German exports to China and inflate the figures for Chinese exports to Germany. Bloch, on the other hand, wrote with the audience of business in mind. It was his desire that businesses pursue trade in the Far East. Thus, his figures show imports to China outstripping Chinese exports to Germany by a wide margin and thus make the Chinese market appear more attractive.

[46]Bloch, 27; Voss, 31 March 1936, DGFP C V, 348.

[47]Bloch, 27.

[48]Wiehl, 23 April 1938, DGFP D I, 852. (Note: the attentive reader will note that the Sino-Japanese War erupted in July 1937. These arms deals, however, were negotiated prior to the outbreak of hostilities).

certain goods essential to rearming. Rearmament requires metal for forming ammunition, artillery, etc. In 1932, Germany obtained less than three percent of its metal imports from China.[49] This low percentage was a result of the period's character, for in 1932, Weimar Germany needed few metal imports. Moreover, Weimar Germany did not need to look to China because European markets were open to it. But with the boycotts against Germany, and the increased demand for metals created by Nazi Germany's rearmament program, China became increasingly important. By 1937, China produced over twenty-three percent of Germany's metal imports.[50]

China also produced tungsten. Anti-tank weaponry in the 1930's relied upon kinetic energy, for shaped charges were not yet in existence. An anti-tank shell's ability to penetrate armor is directly proportional to the weight, density, and velocity of a shell. The heavier the shell and the faster it is thrown, the more penetration is achieved. But near velocities of 2,700 feet per second, the shock of hitting armor plate shatters the shell. Tungsten, a highly dense metal, allows for firing velocities in excess of 2,700 feet per second.

Germany relied on tungsten which was not indigenous to Europe. It was mined under the auspices of the European Ferro-tungsten Cartel which was dominated by the British and

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[49]Bloch, 29.

[50]Ibid.

the French. Both nations controlled their own mines and limited German access.[51] Thus, Germany had to turn to non-European Cartel mining regions. China was one such region. Historically, China provided Germany tungsten. In 1927, Germany purchased over four billion tons of tungsten from abroad, excluding China. From China, this tonnage exceeded over three billion tons. By 1937, under the duress of rearmament, Germany consumed nearly forty percent of the world's ready supply of tungsten. Nearly eighty percent of this came from China.[52]

China was vital to the plans of the Nazis for Germany's future. It provided German businesses the opportunity to grow and it provided Germany desperately needed resources. China proper was not emphasized as a result of any overt plan, however. Germany sought to obtain economic advantages in Manchukuo and China proper. The emphasis on China arose not from any political motivation, nor did Manchukuo lose its importance due to political considerations. China achieved preeminence from the economic imperatives facing Germany, the growth of promise in the Chinese market, and the decline of promise in the Manchukuo market.

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[51]Ibid., 28.

[52]Ibid.

Chapter V

The German Military Mission

The role the Foreign Ministry and the Reichsbank played in developing German policy has been emphasized to this point. These institutions were important in directing German policy in the Far East, especially China, and commandeering the initiatives of private individuals, especially Hans Klein and Ferdinand Heye, for the Reich's benefit. Both of these instruments of policy development defined and guided German policy well until 1938. But they were not alone in defining German policy. The Foreign Ministry and the Reichsbank were two sides of a triangular relationship which also included the German Army.

The role of the German Army in formulating policy development, also, has been highlighted. Like the Foreign Ministry and the Reichsbank, it supported increased trade with the Far East, especially China, because of rearmament. Hapro and military sales strengthened German industry and arms manufacturers. Like the Foreign Ministry and the Reichsbank, the Army's support for Germany's presence in China was voiced through the Ministry of War which utilized its influence

within the German bureaucracy to maintain smooth trade relations with China.

The Army also used instruments outside of the German bureaucracy to aid trade. Germany had a military mission in China to help Chiang Kai-shek partially restructure and modernize his armed forces. The mission introduced to the Chinese army new methods of command and organization. It also increased the size of existing military training schools and established new ones. Most important, however, the German military mission was a conduit through which German firms obtained many arms contracts. This conduit benefitted China because it supplied China with weapons. It also benefitted Germany because it provided business for German firms.

The German military mission to China in the 1930's was the result of the retired army officer Max Bauer. Bauer came to the attention of Chiang Kai-shek from contacts with a German correspondent of Hearst International, Karl Wiegand.[1] Chiang's interest in Bauer is not clear; it might lie in the latter's military and organizational skills. Bauer was a principal organizer of the Kapp Putsch against the German government in 1920. During the First World War, Bauer was posted to the German General Staff where he collected and distributed artillery resources. His skills were recognized by the academic community and he received an honorary

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[1]American Legation in Peking to the American Chief of Staff, 9 June 1928, (Military, Roll 12, Frame 0710).

doctorate from the University of Berlin for his part in developing seventeen-inch howitzers for the German army.[2]

During Bauer's initial visit to China in the autumn of 1927, he shaped his policy to aid Chiang Kai-shek's military. Politically, China was weak and Bauer was horrified by the state of the Chinese nation. Upon entering Canton, he was informed that revolution had toppled the warlord of Kwangsi, Li Chi-ch'en. After his return to Hong Kong, the Chinese Communists took Canton and founded there a commune.[3]

Max Bauer sensed that China's military could not modernize under the current conditions. To ameliorate these difficulties, he outlined a plan which stressed a comprehensive approach to China's military problems. He hoped to stabilize China before modernizing the Chinese army, and planned a military-police force which would bring domestic stability to China. This force, Bauer envisioned, would be strong, quick, and under energetic commanders who would seize and hold key strategic and administrative strong points.[4] Bauer also wished to establish "model divisions," divisions trained and organized in accordance with Western methods.[5] To stabilize China's infrastructure and partially assure

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[2]John Fox, "Max Bauer," 23, passim; Office of the Military Attache, Belgrade, to the American Chief of Staff, 5 November 1928, (Military, Roll 12, Frame 0707).

[3]Ibid.

[4]Ibid.

[5]Walsh, 502-13.

financial stability, he planned developing heavy industries in China and modernize China's lines of communication. Though Bauer did not profess a thorough reconstruction of China's administration, he planned to standardize China's tax and currency systems.[6]

Bauer's efforts brought increased business to German firms. He urged the Chinese to purchase aircraft from the Junkers Company and use the Julius Berger Consortium to help develop railways.[7] Bauer's influence with Chiang Kai-shek increased after he aided Chiang during the Northern Expedition which partially unified China. Bauer used this influence over Chiang to urge him to purchase German produced machine-guns; one shipment alone amounted to five million dollars' worth.[8]

After Bauer's death in 1928, the German military mission did not achieve considerable success until the 1930's. From 1933 to 1938, the German military mission extended and implemented Bauer's plans for China with the support of the National Socialists. The mission stressed the development of officers and educated them in military science. General Georg Wetzell, who was posted to the mission in 1930, established several technical and military schools in Nanking.[9] This was

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[6]Ibid.

[7]Ibid.

[8]American Legation in Peking to Military Attache, 12 June 1928, (Military, Roll 12, Frame 0704).

[9]Walsh, 506.

expanded in 1933. Chinese officers were trained in artillery, armor (even though the Chinese lacked a substantial armor capability), and logistics as well as their assigned branch of service.[10] Through military academies and training brigades, Chinese officers were given the opportunity to command successive echelons of military formations.[11] For instance, officers assigned to take charge of a company also received training in commanding battalions, brigades, and divisions. The quality and depth of this training was not perfect, but the very experience of commanding higher level echelons was immeasurably important to young officers in a time of crisis.

The implications of this approach are clear. The German military mission provided a broad military education and developed a Chinese officer corps experienced for most eventualities. The officers were trained to command several service branches and several echelons of command and became proficient in a variety of tasks.

The German mission also modernized the Chinese military bureaucracy and the command structures. The Chinese army lacked a substantial military infrastructure or institutions to support the military. Without a systematic method for caring for personnel, recruits often did not appear for

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[10]F.F Liu, A Military History of Modern China, 1924-1949, (Princeton: Princeton University Press, 1956), 84-85, passim; Walsh, 29-30, passim.

[11]Bernard Seps, "German Military Advisers and Chiang Kai-shek," (University of California at Berkeley: Dissertation, 1972), 29.

training or deserted before reaching their assigned posts.[12] Officer corruption plagued the Chinese army also and contributed to low morale. In Western armies, military pay is given to each soldier by an accounting office. The Chinese army did not have an office to oversee finances and pay for soldiers was given to officers in lump sums. A division commander, for example, received from the Nanking government an amount of money sufficient to pay the soldiers under him. However, sometimes the assigned number of soldiers in the unit differed substantially from the actual number of soldiers. The central government was usually unaware of this difference and gave officers more money than actually needed. Instead of returning the excess funds, the officers usually kept the money.[13]

Problems with the military infrastructure remained to plague the Chinese army after the German mission withdrew in 1938. But progress was made by the mission in modernizing China's military structure. In February 1934, Germany organized for China the Ministry of Military Affairs, composed of seven bureaucratic departments including a Quartermaster Corps, a Department of Personnel, and a general accounting and finance office.[14] The Germans also trained staff officers to

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[12]Liu, 137.

[13]Ibid., 151; Seps, 31, passim.

[14]Liu, 64 passim.

fill the posts of these new offices.[15]

These changes did not come about without difficulty. Many Chinese generals resisted change. Georg Wetzell, for example, was the victim of a smear campaign that forced him from China and led to his replacement by Hans von Seeckt.[16] Max Bauer also invited the hatred of several Chinese officers. His desire to centralize the Chinese government threatened the Chinese generals. Bauer's contemporaries claimed that his death from smallpox was due to hot towels infected with the disease by angry Chinese generals.[17]

The results of Germany's reconstruction of China's military institutions were twofold. First, it created a military bureaucracy which increased the efficiency of the Chinese army. Corruption was mitigated by the finance bureau which funneled funds through an accounting office directly to the soldiers. Supply and recruitment systems were improved also. The Quartermaster Corps expedited delivery of ammunition and supplies while improved methods of recruitment

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[15]Liu, 84-85; (The mission's ambitious plans contributed to a steady growth in the mission's size. In 1928, the mission comprised fifteen officers. (American Legation to Peking to Army Chief of Staff, 9 June 1928, (Military, Roll 12, Frame 710-11). By 1935, the number had grown to forty three officers. They were primarily from the infantry, but some were from the artillery, ordnance, and cavalry branches. (List of Advisers, Oberkommando Wehrmacht, 26 April 1938, DGFP D I, 854.)

[16]Dirksen to Foreign Ministry, 30 December 1933, DGFP D I, 291.

[17]American Legation to Peking to Army Chief of Staff, 9 June 1928, (Military, Roll 12, Frame 710-11).

limited desertion.[18] Secondly, bureau creation increased Chiang's ability to command troops. The Generalissimo Chiang Kai-shek, by virtue of his position as government head, oversaw every facet of China's military affairs. The German mission partially decentralized China's command structure and helped delegate responsibility to Chiang's lieutenants. Chiang, therefore, did not need to attend to the minor details of maintaining the army. He could then concentrate on strategic and diplomatic questions.

The German mission also reorganized some of China's fighting formations. The Chinese army had been familiar with the concept of the division since the turn of the century, but the Chinese division was composed of six regiments under a division headquarters.[19] This organization requires too much from the division headquarters because the staff must attend to the logistical as well as the tactical demands of six regiments. German advisers reorganized the Chinese division to consist of two brigades of two regiments each. This decreased the demand on divisional headquarters. Also, two regiments acting in concert under a brigade headquarters is a

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[18]Seps, 32.

[19]This is similar to the German practice during World War One in which companies of a division were numbered sequentially. The companies were not assigned to any particular battalion, but could be moved from battalion headquarters to battalion headquarters. The advantage is that at the point of maximum effort, a battalion could conceivably control nearly one-fourth of the division's infantry company. The German commanders were capable of this. The Chinese commanders were not.

more potent force than three regiments acting independently because coordination and control is more easily achieved.[20]

The German military mission attempted to train as many Chinese units as possible by rotating divisions from the front-line to the rear for training. This practice increased the effectiveness of many divisions because soldiers received tactical training and officers learned to coordinate the division together. The Chinese Army was very large, however, and only a few Chinese divisions received training. Also, some higher-ranking Chinese officers continued to ignore modern doctrine. They perceived areas of operations as a large pie cut into equal pieces.[21] Instead of concentrating units against the enemy and leaving quiet regions of the front weak, these officers assigned to each division an equal amount of front to defend.

The military units that received German training made a significant contribution to the Chinese effort in the first year of the Sino-Japanese War. At Shanghai, for example, German trained Chinese forces, especially the 87th and 88th Divisions, upset Japanese plans for an early victory in July 1937. In April 1938, also, Chinese forces used night attacks to undermine Japanese air superiority and artillery to smash Japanese positions in the battle of Taierchuang. This

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[20]This organization is like the modern use of Combat Groups within a division.

[21]Comment on Current Events, 20 August 1937, (Military).

humiliating defeat for the Japanese resulted in increased pressure for the mission's withdrawal.[22]

The German military mission to China was an important part of German rearmament. As noted above, Germany obtained significant arms contracts from China for German businesses. Hapro depended on Chinese contracts, for instance. German advisers often procured for German firms contracts and licenses for China to produce small arms, artillery and aircraft. China purchased through Hapro small arms and also coastal patrol boats, coastal artillery batteries and even submarines.[23] The military mission was, in many respects, a sales representative for German business. Though the mission was not designed to implement commercial contracts, German businesses considered the mission their "pioneers" into the Chinese market.[24]

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[22]Walsh, 511; (The contribution of the German military mission to the Chinese victory at Taierchuang is debated by historians. Walsh argues that the mission's influence was instrumental in the victory. It appears that he is correct in this assessment. The German military mission stressed to the Chinese the use of artillery in destroying enemy defenses. Prior to the German mission, artillery was not used en masse by the Chinese. After the mission, the Chinese attempted to use artillery when possible).

[23]Seps, 29; Hermann Göring to Joachim Ribbentrop, 16 June 1937, DGFP C I, 872.

[24]Dirksen to Foreign Ministry, 26 January 1938, DGFP D I, 826.

Chapter VI

Barriers to Trade

Development of Germany's policy which centered on trade with China was not free from interference. Japan brought political and ideological questions to the Far Eastern milieu and threatened the efficiency and existence of German commercial interests in China. It tied German trade in North China to Germany's recognition of the Japanese puppet Manchukuo. It also exacerbated tensions in China when it formed the Anti-Comintern Pact in 1936 with the Nazis. It is essential to note, however, that these two threats to German commercial interests did not change German policy. Germany did not recognize Manchukuo and this decision was based on economic and commercial, not ideological or political, concerns. The Anti-Comintern Pact has been seen by historians as part of a German rapprochement with Japan. Yet it was not intended to be solely German and Japanese in character. Germany desired Chinese participation in the Pact. This desire, too, was based on commercial concerns. Its completion as a bipartite pact was due more to default than from any overt desire from Germany to conclude it with Japan alone.

When the Pact was completed, Germany labored to limit the economic fallout.

Since the nineteenth century, Japan pursued a policy of aggression with its goal the political and economic subjugation of China. During the twentieth century, Japan continued this policy with its presentation to China of the Twenty-One Demands in 1915. During the post-World War One era, this aggressive mindset of Japan continued and Japan's desires for territorial aggrandizement centered on northern China. In 1928, for example, Japanese military extremists assassinated the Manchurian warlord Chang Tso-lin. They hoped the assassination would result in a war leading to Japanese domination of Manchuria. This aspiration was realized in 1931 when Japan staged an incident at Mukden, Manchuria, and used it as a pretext for occupying Manchuria and creating the Manchukuo puppet.

A truce concluded in 1933 between Japan and China after Japan penetrated the Great Wall stopped the fighting between the two nations, but it did not stop Japan's aggression. Japan continued to pursue its designs in China through an intricate web of diplomacy, intrigue, and underhanded acts. In 1935, for instance, Japan tried creating puppet states throughout North China.

The loss of its northern provinces was not mortal to China for the Japanese attack drew global attention to China's plight. The League of Nations intervened in the Sino-Japanese

crisis and concluded in the Lytton Commission Report (1933) that Japan's actions were aggressive. This was evidence to China that the world somewhat supported Chiang Kai-shek's government and that further Japanese aggression would arouse global consternation. The presence of German economic interests in China and global refusal to recognize Japan's legitimacy in Manchukuo was also consolation to Chiang Kai-shek's administration because it implied that the world retained confidence in the Chinese government's stability. Recognition of the Japanese puppet Manchukuo, or the withdrawal of foreign commercial interests from China, however, implied ignorance of China's will to fight and a lack of faith in the Chinese government.

Japan broached to Germany the topic of recognizing Manchukuo in late 1933. A Japanese representative invited Germany's ambassador to Japan, Herbert von Dirksen, to visit Manchukuo and explore the economic viability of the region. If the Reich recognized Manchukuo, the Japanese promised, Germany would receive economic advantages in the Manchukuo market.[1]

Herbert von Dirksen was sympathetic to Japan and requested that Germany orient its policy towards Japan. He urged Germany to recognize Japan's legitimacy in Manchukuo and claimed that it was important to do so because of Germany's

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[1]Dirksen to Foreign Ministry, 20 December 1933, DGFP C II, 251.

European neighbors. Dirksen felt Europe was moving towards recognition and would harvest the benefits of Manchukuo before Germany. Britain transferred its Manchurian Desk in the Foreign Office from the China Service to the Japanese Service, and Belgium also was considering recognition. The French, too, were deeply engaged with Japan in negotiations over recognition. Dirksen felt Germany could gain advantages but only if recognition occurred immediately.[2]

The benefits of recognizing Manchukuo to which Dirksen referred were commercial and political. Manchukuo offered soybeans necessary for foodstuffs and the substitute economy. Under Chinese control, Manchurian soybeans comprised a substantial portion of German purchases from China. In 1913, for example, Germany imported nearly twenty million Reichsmarks of Manchurian soybeans (106,000,000 tons) and in 1929, the German soybean imports from Manchuria increased to over 240,000,000 tons (one-quarter of China's soy production.[3] Dirksen also saw political advantages in recognition. He assumed that Japan would reciprocate Germany's aid to Japan by helping Germany in any future war involving the Soviet Union. In the event of a Russo-German war, Dirksen argued, Japan might prove a valuable ally.[4] Speed in recognizing Manchukuo

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[2]Dirksen to Foreign Ministry, 19 January 1934, DGFP C II, 354.

[3]Bloch, 10; Ho, 79-97.

[4]Dirksen to Erdmannsdorff, 1 January 1936, DGFP C IV, 948.

was essential for already in January 1934, England and Japan were discussing recognition. He felt these negotiations might lead to an Anglo-Japanese alliance and would preclude Japanese support for Germany in the future.[5]

Germany refused to recognize Manchukuo in 1934 partially because it feared the political fallout of recognition. In 1941 Germany went to war against the Soviet Union in the misplaced confidence that Japan would lend to Germany its support. In 1934, though, Nazi Germany was too young and too weak to withstand general European condemnation. Its commerce and economy suffered from Germany's decision to withdraw from the League of Nations, its anti-semitic activities, and its partial rearmament. The Foreign Ministry and the German government feared provoking a global military action because the German army was not ready to contend with it. The Foreign Ministry also feared that the world would believe Germany and Japan were conspiring against world peace.[6] In 1934, this concern was voiced by Russian Minister Maxim Litvinov who urged the globe to be cautious when dealing with Germany and Japan, the world's two "malcontents."[7]

Germany refused to recognize Manchukuo also because Germany did not trust Japan's sincerity. The Foreign Ministry

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[5]Dirksen to Bülow, 19 March 1934, DGFP C II, 640.

[6]Foreign Ministry to Dirksen, 6 March 1934, DGFP C II, 559.

[7]Bülow to Dirksen, 10 January 1934, DGFP C II, 335.

of the 1930's was staffed by men who had assumed their posts during or immediately after the First World War and harbored resentment toward Japan. Oskar Trautmann, German ambassador to China, complained that Japan could not be trusted and cited Japan's seizure of Germany's Shantung colonies during the war. Minister Neurath also opposed recognition of Manchukuo. He felt Japan would placate Germany until recognition of Manchukuo was given, and then ignore Germany.[8] Moreover, Germany sensed Japan would ignore German aspirations in Europe for Japan was constantly engaged in negotiations with France and England over several matters. Besides, in late 1933 and early 1934, Japan noted that it did not consider Germany one of Europe's great powers. The Foreign Ministry, therefore, assumed that Japan would side with France and England against Germany in the armament question.[9]

Germany's mistrust of Japan was not misplaced, for Japan had repeatedly broken promises to Germany. Japan mistreated German businesses and threatened German markets. Japanese firms and government officials disliked foreign firms in Japanese dominated regions and often engaged in market-dumping (selling artificially low-priced goods) on German markets

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[8]Foreign Ministry to Dirksen, 6 March 1934, DGFP C II, 559.

[9]Trautmann to Foreign Ministry, 2 February 1934, DGFP C II, 446; Trautmann to Bülow, 31 March 1934, DGFP C II, 696.

despite agreements to limit the practice.[10] Because Japanese economic obnoxiousness reached a crescendo, eventually Hjalmar Schacht pleaded with the Foreign Ministry for its intervention.[11]

These political, ideological concerns and questions of Japan's trustworthiness influenced Germany's refusal to recognize Manchukuo, but the final decision rested on commercial and economic factors. Germany seriously considered recognizing Manchukuo in February 1934.[12] Even then, though, the decision was dependent on the economic incentives Japan would provide to German, and these were found insufficient. First, Japan's articulation of the benefits in Manchukuo were too vague. Secondly, Germany realized that its soybean needs were already met by agreements implemented by Ferdinand Heye and Oskar Kiep. Thirdly, Manchukuo did not offer possibilities for reciprocal trade because of its limited purchasing power.[13]

The impact that recognition of Manchukuo would have on

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[10]Foreign Ministry to Dirksen, 6 March 1934, DGFP C II, 559.

[11]Trautmann to Bülow, 31 March 1934, DGFP C II, 696; Minutes of Department Heads Meeting, 7 June 1934, DGFP C II, 876.

[12]At this time, Ferdinand Heye's operation in Manchukuo received increasing opposition from the Foreign Ministry. German attempts to fill the foreseeable void created by Heye's possible removal are probably involved in the decision to pursue recognition.

[13]Trautmann to Foreign Ministry, 2 February 1934, DGFP C II, 446.

Germany's commercial interests in China also contributed to Germany's decision not to recognize Manchukuo. Germany's commercial interests in China in early 1934 were weak. It was feared that recognition of Manchukuo would anger Chiang Kai-shek who might then destroy German prospects in China.[14] Only recently, Hans Klein had antagonized the Chinese leader who then instituted an arms embargo that affected German business in China. Moreover, the economic benefits of Manchukuo did not surpass those offered by China. The Foreign Ministry, because of these issues, called for Germany's refusal to recognize Manchukuo after it realized that the assets of recognizing Manchukuo were not sufficient enough to risk losing commercial interests in China.[15]

Germany's refusal to recognize Manchukuo in 1933 and 1934 did not end Japanese interference with German commercial interests. In late spring 1937, Japan increased its efforts to gain German recognition of Manchukuo. In June, Japan implied that it would give privileges in Manchukuo to Germany if Germany recognized Manchukuo. The Japanese government proposed creating a "Manchukuo-German Chamber of Commerce" in Manchukuo. The offer was less than attractive to Germany, however, for Germany felt that linking "Manchukuo" with "German Chamber of Commerce" implied recognition of Manchukuo

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[14]Meyer to Dirksen, 14 April 1934, DGFP C II, 748.

[15]Meyer to Dirksen, DGFP C II, 748.

and threatening commercial interests in China.[16]

The question of recognition of Manchukuo is evidence of the importance that German commercial interests and economic concerns played in German Far Eastern policy. Political and ideological concerns were considered in Germany's decision not to recognize Manchukuo, but they did not play a decisive role. Germany seriously considered recognition, but its final decision not to recognize the Japanese puppet state was based on economic concerns.

The contention that Germany's policy in the Far East was dictated by commercial and economic interests has opponents. The opposing argument centers on the Anti-Comintern Pact as evidence of a German-Japanese political rapprochement. But when discussing the Anti-Comintern Pact, two points must be realized. First, the Anti-Comintern Pact was produced by the Nazis. Secondly, until the winter of 1937-1938, German Far Eastern policy was the prerogative of the Foreign Ministry, the Reichsbank and the German army. This is not to say that the Anti-Comintern Pact was not politically or ideologically motivated. On the contrary, the Pact was anti-Bolshevik in nature and implied an informal alliance against the Soviet Union. This "political" instrument was not created by the legitimate institutions of policy making but by the Nazis. The Party rarely exerted a successful influence in policy development until 1938. It supported Ferdinand Heye's

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[16]Mackensen, 18 June 1937, DGFP C VI, 876.

efforts, but the decision to withdraw Heye was ultimately made by the Reichsbank, the Foreign Ministry and the German army because of his effect on the Chinese market. Even when the Nazis seized the instruments of policy, they did not perceive the pact as a German-Japanese rapprochement. During the Sino-Japanese War, Germany rebuked Japanese efforts to use the Pact to tender German support.

The Anti-Comintern Pact was the tangible manifestation of the Japanese military government's and Adolf Hitler's shared hatred of the Communist International. Signed in November 1936, the Anti-Comintern Pact stated this hatred and articulated means of combating global Bolshevik influence. It laid foundations for collecting and sharing intelligence about Soviet Russia, and secret clauses provided for multi-lateral military action within the borders of the signatory nations against the Comintern.

The Pact was not made by Germany's traditional instruments of foreign policy but by the Nazis. Herbert von Dirksen aided in its formulation, for Japan thanked him for his help in making the Pact a reality.[17] On the whole, however, the Pact was created by the Dienststelle Ribbentrop, an office constructed by Adolf Hitler and Joachim Ribbentrop to pursue Nazi interests and programs that the Foreign Ministry could not be entrusted to handle. The formula for the Pact was created by a Dienststelle employee, a certain

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[17]Meissner to Neurath, 29 June 1937, DGFP C VI, 885.

Herr von Raumer, who believed international cooperation could prove useful against the Comintern. Throughout 1935 and 1936, Joachim Ribbentrop and Japanese military attache Hiroshi Oshima discussed implementing an arrangement of global cooperation against the Comintern.[18]

The Anti-Comintern Pact was not planned to be German and Japanese in character. During its development, Germany pursued a similar arrangement that was proposed by China. In November 1935, Chiang Kai-shek and Chinese Minister President Wang Ching-wei presented the Foreign Ministry a memo detailing a similar arrangement. Under this plan, the Fürholzer-Kriebel Plan, Germany, China, Japan, and other nations would join together to combat the influence of the Communist International.[19]

Chiang's proposal was less in the interest of anti-communism than in the interests of China's national security. Chiang was anti-communist and had crushed the Chinese Communist Party's stronghold in Jianxi in 1934. But it appears that Chiang proposed the plan because he wished to slow Japan's growing militarism and its desire to procure Chinese territory. To insulate China from further Japanese aggression, Chiang proposed as part of the Fürholzer-Kriebel

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[18]Joachim Ribbentrop, The Ribbentrop Memoirs, Trans. Oliver Watson, (London: Ebenezer Baylis, 1957), 74-76.

[19]Memo by Erdmannsdorff, 18 November 1935, DGFP C IV, 829; (The name Füholzer-Kriebel comes from the names of the two German couriers who carried the proposal to Adolf Hitler from Chiang Kai-shek.)

Plan, German mediation of the Sino-Japanese conflict and its help in cultivating friendly relations between Japan and China.[20]

Germany showed interest in Chiang's proposal. Hitler and Joachim Ribbentrop, in Germany, and the Japanese government, approved this plan created by Chiang Kai-shek and brokered by the German Foreign Ministry. All of the parties to the agreement considered expanding it to include other nations, especially Britain. The most emphatic support came from the Foreign Ministry which felt it important to implement the agreement so that Chiang Kai-shek would not be upset and threaten German commercial interests in China.[21]

Germany's implementation of the Anti-Comintern Pact instead of the Fürholzer-Kriebel Plan is not evidence of German support for Japan. The Anti-Comintern Pact was promulgated almost by default for it was quicker and easier to finish than was the Fürholzer-Kriebel Plan. Hiroshi Oshima enjoyed the full confidence of the Japanese military government and could act on its behalf. Also, Oshima was aware that decisions on ideological matters rested with the Party and so he dealt with Party members directly.[22] Chiang Kai-shek's proposal passed from China, to the Foreign

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[20]Ibid.

[21]Ibid.

[22]Carl Boyd, "The Berlin-Tokyo Axis and the Japanese Military Initiative," Modern Asian Studies 15 (1981): 311-338.

Ministry, to Berlin, and then back to Chiang while Oshima dealt directly with Hitler.

Germany did not expect China to accept the Pact's Japanese character without reservation. In March 1935, for example, German officials voiced concern that rumors of the agreement might affect Germany's commercial interests in China and the military mission because China felt the Pact was a German-Japanese alliance.[23] The Pact was not an alliance, however, and both Oshima and Ribbentrop saw it merely as a device to collate information about the International and combat it.[24] As well, Germany repeatedly stressed to its legations that the Anti-Comintern Pact was not to be construed as an alliance or an instrument of foreign policy.[25]

Japan's military government perceived the Anti-Comintern Pact as a tool to undermine German support for China. In 1937, during the Sino-Japanese War, Japan defended its aggression in China as compatible with the concepts set forth in the Anti-Comintern Pact. It argued its attack on China was a fight against Bolshevism.[26] The Pact clearly stated that its goal was to fight communism in signatory nations, but the Japanese official statement regarding the Pact expressed the

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[23]Bülow, 7 March 1935, DGFP C III, 988.

[24]Boyd, 313, passim.

[25]State Secretary Circular, 25 November 1936, DGFP C VI, 102.

[26]See Chapter VII, pp. 83-85.

necessity of fighting communism first in China (which was not a signatory nation), then in Manchukuo, and lastly in Japan.[27]

The Japanese position threatened Germany's economic and commercial interests in China. Shortly after the Anti-Comintern Pact was publicly announced, Chinese Minister Kung and Cheng Tien Fang lobbied the Foreign Ministry and Hans Klein. They voiced their concern of the Pact's implications and believed that it was a reversal in Germany's position toward China.[28] This fear was unfounded, however, for Germany did not relish relinquishing its trade with China. Instead, Germany found Japan's interpretation of the Anti-Comintern Pact threatening. The Japanese official statement hinted that Japan was laying the groundwork for renewed aggression against China. German industry would harvest a cornucopia of contracts from China if hostilities recommenced, but renewed fighting might also threaten non-military sales to, and raw material shipments from, China. Japan's statement regarding the Anti-Comintern Pact signalled to Germany that Sino-Japanese detente was not possible and the Reich feared for its commerce in China.[29]

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[27]Trautmann to Foreign Ministry, 28 November 1936, DGFP C VI, 121.

[28]Erdmannsdorff, 25 November 1936, DGFP C VI, 105.; Neurath, 3 December 1936, DGFP C VI, 140.

[29]Political Report, 27 January 1937, DGFP C VI, 341; Erdmannsdorff, 25 November 1936, DGFP C VI, 105.

Chapter VII

The Shift in Emphasis

Germany's fear that the Japanese position regarding the Anti-Comintern Pact was a progressive step towards war became a reality in July 1937 when the Sino-Japanese War erupted following an incident at the Marco Polo Bridge in Peking. The resumption of hostilities placed Germany in a precarious position. On the one hand, Germany was a signatory to the Anti-Comintern Pact which Japan used to legitimize its aggression. On the other hand, Germany was closely linked to, and depended upon, China, which was Japan's victim. To maintain its position, Germany desperately tried to douse the flames of war and bring stability to the Far East and its commercial relations with China.

Germany's failure to halt the Sino-Japanese War contributed to the severing of German commercial ties with China. The halt of commercial ties with China, however, was not due solely to political or ideological issues. Political-ideological imperatives exerted influence on Germany's stance towards China and Japan during the Sino-Japanese War after the Nazis seized the institutions of foreign policy creation. The

infusion of political and ideological interests into policy making did not, however, decide the fate of Germany's commercial interests in China nor the position of Germany toward China. It shifted Germany's favor toward Japan and offered one more reason for supporting Japan. Economic and commercial questions, however, still decided policy. Only after Japan gained regions of China vital to German business and it appeared that Hapro was doomed because of eventual Chinese defeat, did Germany release itself from the Chinese market and move towards Manchukuo.

Initially, Germany adopted a neutral position regarding the Sino-Japanese War. This position, it contended, was not different from the position it had assumed prior to the war. In the early 1930's, Germany claimed a certain detachment from Far Eastern political questions. In June 1936, Oskar Trautmann broached the topic of German political neutrality in the Far East and argued that German interests might best be served by cultivating good relations with both Far Eastern powers.[1] Germany would pursue neither a Japanese nor a Chinese policy, but rather a Far Eastern policy coordinating economic, and to a lesser degree, political activities.[2] Trautmann's policy was adopted in July 1937 when it appeared that Japan might quickly overcome China and present Germany with an unenviable position. Germany's arms sales to China

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[1]Trautmann to Dieckhoff, 10 June 1936, DGFP C V, 604.

[2]Political Report, 27 January 1937, DGFP C VI, 327.

would not be favorably viewed by a victorious Japan and continued relations with China might threaten future commercial benefits from Japan when the war was over. Because of these threats to commercial interests, Germany assumed a neutral policy and halted arms sales to China.[3]

Germany, by assuming a policy of neutrality, certainly appeared to favor Japan, but other issues decided the adoption of this policy. Primarily, Germany feared that Chiang Kai-shek, having received arms, might refuse any Japanese peace overtures. Germany did not want Chiang to continue fighting Japan because Chiang might weaken himself vis-a-vis the Chinese Communist Party. Germany believed that the Chinese Communist Party was exceptionally close to Chiang Kai-shek. The Communists cooperated with Nanking in the Second United Front. The Reich dreaded this and feared that if China continued to fight Japan, Chiang would seek closer relations with the Chinese Communists and the Soviet Union.[4] This fear seemed well grounded in July 1937 because most resistance to the Japanese invasion appeared in the north, where the Chinese Communists were most active.[5]

Postwar studies have shown that the Chinese Communist Party's role in resisting Japan was minor. They concentrated

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[3]Weisz cker to Embassy in China, December 1936, DGFP C VI, 124.

[4]Schmieden, 30 July 1937, DGFP D I, 744.

[5]Foreign Ministry to Embassies in the Far East, 31 July 1937, DGFP D I, 747.

on spreading their own influence rather than combating Japan.[6] However, Japan utilized increased evidence of communist activity in north China to plead for Germany's support. They argued that their war in China, a crusade against Bolshevism, was in Germany's best interest and required Germany's support.[7]

Japan's claims of crusading against communism did not influence Germany. For one, Germany felt that Japan's reports of intense Chinese-Communist alliance were illusory, exaggerated, or fabricated.[8] For another, Germany correctly sensed that German support for Japan might force Chiang to seek aid from the Soviet Union.[9]

By mid-July 1937, the Japanese offensive in China was losing momentum. In Shanghai, German-trained forces, the best formations that Chiang Kai-shek possessed, upset Japanese timetables and forced them to utilize their reserves. Germany's policy towards the Far Eastern crisis immediately shifted. Oskar Trautmann cautioned Germany against hasty

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[6]"Our fixed policy should be 70 per cent expansion, 20 per cent dealing with the Kuomintang, and 10 per cent resisting Japan," Mao Tse-tung qtd. in Immanuel C.Y. Hsu, The Rise of Modern China, (New York: Oxford University Press, 1975), 710.

[7]Weiszäcker, 28 July 1937, DGFP D I, 744; Weiszäcker, Memoirs, 116.

[8]Hassell to Foreign Ministry, 21 July 1937, DGFP D I, 735; Trautmann to Foreign Ministry, 1 August 1937, DGFP D I, 748.

[9]Weiszäcker, 28 July 1937, DGFP D I, 744.

disparagement of China's ability to defeat the Japanese. He agreed that it was too early to decide a victor in the war, but he also noted that a Japanese victory was not certain because Japan would now have to mobilize the bulk of its army to defeat China. This was a remote possibility because of the poor state of Russo-Japanese relations.[10] Even Herbert von Dirksen, whose loyalties were with Japan, and Joachim Ribbentrop, who formed the Anti-Comintern Pact for the Nazis, noted the growing Japanese military problems and doubted their chances for a quick victory.[11]

Because of the renewed possibility that China would resist the Japanese attack and force Japan to seek a peaceful solution, Germany redefined its policy towards China. In redefining policy, it appears that Germany tried to seek a middle ground between China and Japan. The reason for this reserved position was that Germany feared supporting the war's loser. The Reich created an alternate definition of neutrality. Germany defined neutrality as maintenance of the prewar status quo. With irate Japanese representatives, German spokesmen argued that any reposition of Germany vis a vis China amounted to a hostile attitude towards Nanking. Germany defended its military advisor mission, the presence of

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[10]Trautmann to Foreign Ministry, 21 July 1937, DGFP D I, 736.

[11]Joachim Ribbentrop to Adolf Hitler, 24 July 1937, DGFP C VI, 963; Dirksen to Foreign Ministry, 3 August 1937, DGFP D I, 748.

which Japan protested most vehemently, and contended that its presence in China was integral to relations with China and that its withdrawal would constitute a hostile act against Chiang Kai-shek's government.[12] Germany also defended arms sales to China and argued that Germany, showing no support for either Japan or China, was equally willing to sell them to Japan.[13]

Hitler also redefined Germany's policy. Instead of supporting either China or Japan outright, he, too, sought the middle ground. He obviously wanted to maintain commercial relations with China, but he also wanted to limit them to mitigate Japanese complaints. During a mid-August conference with the War Ministry and the Foreign Ministry in Nuremberg, Hitler proposed policy in which China received preferential treatment from Germany. Arms and industrial sales to China would secretly continue as long as Chinese payments were immediate and in raw materials or foreign exchange.[14]

Adolf Hitler's intervention in developing Germany's policy at this time is important for it marks a turning point. Until August 1937, Hitler did not directly intervene in Germany's relations with China nor the Far East. He and the

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[12]Foreign Minister to Embassy in Japan, 28 July 1937, DGFP D I, 742.

[13]Ibid; Foreign Minister Neurath, 28 July 1937, DGFP D I, 744.

[14]Neurath, 17 August 1937, DGFP D I, 750; Mackensen, 20 August 1937, DGFP D I, 753.

Nazis had a hand in some policy decisions, especially in granting commissions to Heye and Klein. However, the Nazis and Hitler were usually unsuccessful in seeing their aspirations realized. A reason for this was Hitler's inattention to the Far East. He was more concerned with affairs in Germany and in Europe. Hitler paid a great deal of attention to the affair of rearmament in Germany and the development of European policy, but he had very little grasp of the realities and the intricacies of the Far East. In 1936, for example, Herbert von Dirksen and Oskar Trautmann met the Führer in separate audiences. Unfortunately for them, Hitler was hesitant to discuss the Far East or was thoroughly unconcerned. Herbert von Dirksen noted:

> Shortly after my arrival in Berlin he [Hitler] had received me at the Chancellery of the Reich. I had been looking forward to this event with great expectation, hoping to get a chance of giving him a full account of the political situation in the Far East...after only two or three minutes he began to move uneasily in his chair, and suddenly he apologized for having to interrupt our conversation as he had some other urgent duties to perform.[15]

Another reason for Hitler's and the Nazis' absence from foreign policy was that they did not fully control Germany. From 1933 to 1938, the Nazis pursued Gleichschaltung ("synchronization") which synchronized the political and social aspects of German life with the plans of the Nazis. In 1937, Gleichschaltung neared its completion and only the Reichsbank, the Foreign Ministry, and the Army remained beyond

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[15]Dirksen, 172.

Nazi control. The Nazis seized these three institutions during the winter of 1937-1938 when Hitler's goals changed from abrogating the Treaty of Versailles and dominating Germany, to world domination.[16]

Germany's policy towards China and the Far East did not appreciably change immediately after Gleichschaltung overcame the traditional instruments of policy making. Political and ideological concerns, defined as those issues attractive to the Nazis such as a political understanding with Japan (for geo-political reasons), or closer relations with Japan (because Japan and Germany were no longer members of the League of Nations), did assume increased weight in decision making. However, these did not dictate policy. Commercial interests retained a primacy in German decision making and were a counter-balance to political and ideological issues.

Although the Chinese army successfully resisted the initial Japanese attack at Shanghai in 1937, increased Japanese pressure and Chiang Kai-shek's strategy of trading space (and lives) for time, led to Chinese withdrawal. In Germany, there was apprehension over Chiang's ability to wage a successful campaign. The bulk of the Chinese army was unaffected by the German military mission, and those units which had been trained were worn from the fight at Shanghai.

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[16]Alan Bullock, Hitler, A Study in Tyranny, (New York: Harper & Row Publishers, 1964), 411-420; Joachim Fest, Hitler, Trans. Richard and Clara Winston, (New York: Random House, 1975), 542-544.

They could regain their effectiveness after a brief respite, but Germany doubted that China could resist Japanese pressure in time to reorganize.[17]

Germany was also concerned with Chiang's attempts to bolster China's position by creating ties with the Soviet Union. In late 1937, a Chinese-Russian Non-Aggression Pact was signed. One month later, in September, negotiations between Chiang and Russia for Soviet aircraft also began.[18] Political relations appeared closer also as Sun Fo, the son of former Chinese revolutionary Sun Yat-sen, visited Moscow to discuss relations and trade rights between China and the Soviet Union.

If Germany had been guided by political or ideological concerns and sympathized with Japan, Chiang's increased relations with the Soviet Union would have drastically altered Germany's position toward China. For a short time, Germany did change its position. Hitler halted arms deliveries to China and ordered the military mission to cease operations detrimental to Japan.[19] These orders were rescinded by Joachim Ribbentrop two days later after German industrialists

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[17]Dirksen to Foreign Ministry, 23 August 1937, DGFP C I, 754; Dienststelle Ribbentrop to Adolf Hitler, 19 September 1937, DGFP D I, 758.

[18]Trautmann to Foreign Ministry, 25 September 1937, DGFP D I, 763.

[19]Mackensen, 19 October 1937, DGFP D I, 767; von der Heydn-Rynsch, 19 October 1937, DGFP D I, 768.

complained of the orders' impact on trade.[20] Moreover, instead of admonishing Chiang for his relations with the Comintern, Germany requested that he join an Anti-Comintern Pact with Japan.[21] Such an agreement would serve two purposes. First, it would antagonize the Soviets, with whom Chiang seemed to grow closer, and second, it would wrest from Japan its claim that it was fighting communism in China. If Japan truly tried to fight communism in China, an Anti-Comintern Pact would force it to cooperate with China.

German dependence on the Chinese market is evident in the attempts Germany undertook to limit the spread of war and its impact on commercial interests in China. Germany had been hesitant to intervene directly in the Sino-Japanese conflict, but the war's impact on commerce required German involvement. Europe had attempted to broker a peace settlement through a peace conference in autumn 1937. Germany did not make an effort to join this conference because it felt that the costs for its attendance were too high. First, it appeared to Germany that nothing beneficial would result from the conference since the Europeans were not enthusiastic themselves about the conference's prospects. Second, Germany feared that given the less than enthusiastic attitude towards the conference, its result might tarnish Germany's reputation

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[20]Ibid; von der Heydn-Rynsch, 22 October 1937, DGFP D I, 772.

[21]Dienststelle Ribbentrop to Adolf Hitler, 19 September 1937, DGFP D I, 758.

in the Far East and threaten Germany's position there.[22]

Germany hesitated to be part of an international peace effort, but it attempted to directly mediate peace. Even before the prospects for a European conference had diminished, officials in Berlin discussed plans to utilize Germany's military mission in China to urge Chiang to seek peace. Germany did not plan to be intimately involved in negotiations, but wanted to be a courier of peace plans between China and Japan.[23] It also provided advice to Japan and China on the peace plans. For example, Germany warned Japan that its demands were usually too humiliating to China and would force Chiang to continue fighting.[24] Germany advised China, too, and urged Chiang Kai-shek to seek peace with Japan.[25]

There were problems with mediation, but they did not contribute to mediation's failure for Germany sincerely desired a quick end to the war. Chiang hesitated in accepting Japanese peace proposals because of their harshness and he feared that submission to Japan would result in revolution by

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[22]Foreign Ministry to Embassy in China, 14 October 1937, DGFP D I, 765.

[23]Dirksen to Foreign Ministry, 3 November 1937, DGFP D I, 778; Foreign Ministry to Trautmann, 3 November 1937, DGFP D I, 779.

[24]Trautmann to Foreign Ministry, 5 November 1937, DGFP D I, 780.

[25]Trautmann to Foreign Ministry, 9 November 1937, DGFP D I, 784.

the Chinese population against the Chinese government.[26] Germany, also, hesitated during mediation. Because Japan often changed the text of its demands and provided China little time to reflect upon these demands, the Reich feared that China held Germany responsible for the changes.[27] Yet, despite these problems, Germany hoped a settlement between China and Japan could be reached. It retained its faith in Chiang Kai-shek's government, and though other foreign dignataries had left China, Oskar Trautmann retained his post in China and maintained German relations.[28]

Mediation efforts by Germany ceased in early 1938 after Japan refused to pursue peace further. The reason for the abandonment of mediation efforts was that Japan showed it did not sincerely desire peace in the Far East. Japanese peace plans were designed to dominate China. In their proposal in December 1937, for example, Japan informed Germany that the Japanese would discuss peace with China only after it had received a crushing blow from Japanese armies.[29] The peace plan that Japan offered was tantamount to a Chinese renunciation of its administrative and territorial integrity.

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[26]Trautmann to Foreign Ministry, 3 December 1937, DGFP D I, 787.

[27]Foreign Ministry to Dirksen, 10 December 1937, DGFP D I, 800.

[28]Neurath, 22 September 1937, DGFP D I, 760.

[29]Dirksen to Foreign Ministry, 3 December 1937, DGFP D I, 789; Hassell to Foreign Ministry, 7 November 1937, DGFP D I, 782.

It required that China pay an indemnity to Japan and create de-militarized zones. Military operations against China would cease only after China had "sue[d] for peace." When the notes bearing the demands were delivered to China, Japan did not allow China sufficient time to consider them.[30] As the Japanese forces resumed their advance in the spring of 1938, Japan declared mediation a dead issue.[31]

The failure of mediation signaled to Germany that the threat to its commercial interests had reached a high-water mark, for Japan controlled areas vital to German commercial interests, and Chiang Kai-shek's ability to withstand Japanese pressure appeared tenuous. Japanese attacks in 1931 and 1937 left most of China's urban areas, Peking, Nanking, and Shanghai, to name a few, under Japanese domination. The bulk of Germany's commercial interests were situated in these regions. Wilhelm Pustau & Company, one of Germany's largest private trading firms in China, had offices in Shanghai, Hong Kong, and Canton.[32] Hapro and government-controlled commercial interests also appeared threatened because the Chinese government seemed to be falling. Chiang Kai-shek's

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[30]Dirksen to Foreign Ministry, 16 January 1938, DGFP D I, 819-20; Dirksen to Foreign Ministry, 17 January 1938, DGFP D I, 821.

[31]Neurath, 22 September 1937, DGFP D I, 760.

[32]"Aus den Anfangszeiten deutscher Überseehäuser in Ostasien," Ostasiatische Rundschau: Dei Zeitschrift für Ost und Sudostasien, Australien und die Sudsee 25 (Oktober 1944): 91.

grip on power appeared to be weakening.

Germany responded to its decaying position in China by seeking relations with Japan. Because mediation had failed, and Japan controlled important regions of China, Germany felt that it was necessary to pursue a policy that would strengthen its economic and commercial interests in the Far East. Herbert von Dirksen noted Germany's declining commercial position in China. It was in the Reich's own interests, he argued, for Germany to adopt a conciliatory attitude toward Japan. Though Hapro and German businesses would initially suffer from this policy, Dirksen noted that if this action occurred immediately Germany might be able to gain economic benefits from Japan.[33]

The first economic benefit seemed forthcoming from Japan in the form of commercial privileges in Manchukuo. The question of German recognition was never absent from the Far East, and Japan's failure to obtain German recognition in 1934-35 was followed by renewed Japanese efforts in 1937. This effort assumed increased importance to Japan because of the Sino-Japanese War. Japan placed increased pressure on Germany to recognize the puppet state and offered Germany appealing prospects for its commerce in Manchukuo.[34] In late October 1937, for instance, a German representative in

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[33]Dirksen to Foreign Ministry, 26 January 1938, DGFP D I, 826.

[34]Neurath, 22 November 1937, DGFP D I, 785; Weiszacker, 20 November 1937, DGFP D I, 784.

Manchukuo was plied by Japanese financial circles who welcomed German exploitation of Manchukuo.[35] Japan offered Germany the position of most-favored-nation in the Manchukuo market to make recognition more attractive.[36]

The second economic benefit that Japan offered Germany for recognizing Japan's legitimacy in Manchukuo was Japanese recognition of Germany's claims to the South Sea Mandate islands. These were the former island colonies that Japan had seized from Germany during the First World War. Adolf Hitler considered their return essential to Germany's development of a colonial empire. In January 1938, Japan informed Germany that it wished to solve the South Sea Mandate problem.[37] This offer was important to Germany for Japan promised to return the islands and also because the promise implied that Japan recognized Germany's legitimate claims to a colonial empire.[38]

Because Japan promised commercial benefits and the return of the South Sea Mandate islands to Germany, Hitler ordered that Germany recognize Manchukuo in February 1938. However, even this did not end Germany's commercial interests in China.

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[35]"Comment on Current Events, 20 October-6 November 1937, (Military, Roll 2, Frame 0392).

[36]Raumer, 23 June 1938, DGFP D I, 879.

[37]Dirksen to Foreign Ministry, 15 January 1938, DGFP D I, 818.

[38]Foreign Ministry to Dirksen, 18 January 1938, DGFP D I, 822.

The military mission remained in China and continued to organize arms contracts. Also, Germany stabilized its remaining business interests in China by soothing the Chinese who were upset by Germany's recognition of Manchukuo.

Germany hesitated in severing ties with China because it did not trust Japan's vague promises of economic benefits in Manchukuo. Although the benefits in Manchukuo that Japan offered to Germany surpassed the economic benefits provided by the Chinese market, Germany did not want to lose the remnants of the market in China that it possessed. It feared that Japan might rescind its promises after Germany had severed all relations with China. Japan already provided evidence that it could not be trusted. In Pootung district, near Shanghai, a light railway company owned by Siemens & Company was seized by the Japanese after a weapon was found on a train passenger. A German was entrusted with tending to the firm's finances and affairs, but the Japanese refused to grant him access to the firm's resources.[39]

Germany severed relations with China after Japan gave Germany concrete promises of commercial and economic benefits in Manchukuo. In a Pro Memoria signed by Germany and Japan on

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[39]Comments on Current Events, February 21-March 24, 1938, (Military, Roll 2, Frame 0840, passim). Adolf Hitler foresaw the possibility that this would occur. In November 1937, when Japan's campaign to receive German's acquiescence in recognition reached a fever pitch, Hitler considered demanding from Japan a promise that it would not interfere with German businesses operating in Japanese-occupied China. (Foreign Ministry to Embassy in Japan, 27 November 1937, DGFP D I, 786).

Manchukuo, Germany concentrated its efforts in China proper.

German commercial interests in China were extremely beneficial for the Reich. Through Hans Klein's Hapro arrangements, German industry obtained arms contracts from the Chinese which benefitted German industry by providing profit and strengthening Germany's armament production capacity. Hapro also provided China credit to purchase German military and civilian goods. Hapro and German commercial interests in China were essential to Germany because from China, it received metals vital to rearmament which were unavailable elsewhere.

The importance of Germany's commercial interests in China dictated its policy in the Far East. Three major events with which German policy was concerned were the recognition of the Japanese puppet Manchukuo, the Anti-Comintern Pact, and the Sino-Japanese War. Germany's commercial interests dictated its position regarding these three issues. First, Germany did not recognize Manchukuo because of the commercial and economic consequences of recognition. Second, the Anti-Comintern Pact had little to do with Germany's legitimate foreign policy in the Far East. It was created by the Nazis who, in 1936, had little bearing on the course of German Far Eastern policy. Third, Germany's position regarding the Sino-Japanese War was decided by the character of its commercial interests in China. As long as it appeared that Chiang Kai-shek could stabilize China and protect German markets and interests there, Germany

continued to support him. Germany's attempt to mediate the crisis was an effort to protect Chiang's hold on power and maintain commercial stability in China.

Nazi ideological and geopolitical issues certainly played a part in framing Germany's position in the Far East. The Reich debated policies that might have been construed as pro-Japanese or pro-Chinese. The Anti-Comintern Pact, for example, can be interpreted as evidence that Germany was deliberately pursuing close relations with Japan to the exclusion of relations with China. Germany's severing of ties with China immediately upon the outset of the Sino-Japanese War in 1937 can also be interpreted as a German political attempt to placate Japan. Germany, it appears, sought close relations with Japan in accordance with grand geopolitical designs.

This was not the case, however. The infusion of ideological and political matters into Far East policy creation was the result of the Nazi seizure in the winter of 1937-38 of the instruments which decided Germany's policy in the Orient. Since 1933, the Nazis had shown an interest in moving Germany closer to Japan. They were sympathetic to Japan for geopolitical reasons and romantic notions of historical kinship. But these ideological and political motives did not exert a decisive influence on Germany's position in the Far East. During the Sino-Japanese War, Germany continued selling arms to China even though Japan

demanded that the sales cease.

Germany oriented its policy toward Japan and ignored China in 1938. This was not due, again, to ideological or political issues, but from commercial concerns. Germany's trade prospects in China were poor in 1938. First, it appeared to Germany that China might lose the Sino-Japanese War. Second, most German business concerns were situated along China's coastal-urban regions and these were dominated by the Japanese military. Because the Chinese market no longer had the vitality that it once possessed, and because Germany believed that supporting Japan might bring renewed economic and commercial privileges, Germany acquiesced in Japanese demands and recognized Manchukuo. This act resulted in the close of German trade with China.

Examining Nazi Germany's commercial interests in China and their impact on Germany's Far East policy is intriguing for it provides an alternate view of Nazi foreign policy formulation and motives. Certainly, the broad Nazi foreign policy was dictated by political concerns. In the Far East, however, commercial interests dictated policy. It must be realized, thought, that the Far East was peripheral to broad German policy concerns. German foreign policy, on the whole, was primarily geared to creating a favorable political position for Germany vis-a-vis its European neighbors. Germany's commercial interests in China were designed to facilitate realization of these political goals. The Chinese

market provided goods and credits necessary for Germany to exercise foreign policy in Europe and its plans for European domination.

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