

CONFIDENTIAL

AIRMAIL

Dear Ray:

We returned to Hong Kong on Christmas morning after having spent eight days in Shanghai. It was nice to get your cable of Christmas greetings on our arrival.

The office in Shanghai has been working very well indeed, and Mr. C. G. Copley who is in charge, and who as you may recall used to be Mr. Dyer's secretary, is an excellent person. Mr. Copley is 42 years old and has had quite a business experience in the Orient. He is a good stenographer and typist and besides that understands bookkeeping and has considerable executive ability and good judgment. I gave him a material raise in salary retroactive to September 1st and he is acting as a sort of office manager. I believe that when Grant comes back he will find it very valuable to keep Copley on as his secretary. With Grant, Copley, the accountant and office boy, the staff will be entirely adequate to take care of the work in China and elsewhere in the Orient for the time being at least.

The business and banking men whom I met in Shanghai were all rather optimistic with regard to Shanghai's coming back again after the present war has ended. They felt that even if China should be divided into a series of autonomous regions, Shanghai would still be the logical center for work throughout China. They, of course, realize that the situation of foreigners in Shanghai may be somewhat modified and business in certain directions more difficult and less lucrative. The lease of our office in Shanghai expires May 31, 1938, so the question of re-

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moval of the office elsewhere is one that can be decided later on if necessary.

With my departure from China in early March it will no longer be necessary for me to retain the services of my secretary, Miss Margaret Seals, as I do not feel that there will be any opportunity or need for her to continue in connection with our work here. She has been an excellent secretary, and I shall be sorry to lose her. I am hoping that perhaps I may be able to find a position for her here before leaving, although this of course is not certain.

The accountant, Mr. Yuan, and the office boy, Mr. Wang, have done quite well. I arranged with Haskins & Sells before I left to audit the Shanghai books as soon as possible after the first of the year.

Shanghai itself is pretty dismal and gloomy, and Carroll and I were both glad to get out of it. I made a business of seeing a good many people, both foreign and Chinese, when in the city in order to get their general impressions. I am sorry to say that there is almost a unanimous condemnation of the Chinese. The language used by many thoughtful and important Americans and British was more than strong. Our Chinese medical friends came in for pretty serious criticisms, referring to their lack of patriotism, callousness, personal ambitions, and worse. It is a thoroughly discouraging picture and unfortunately tallies up with what is to be seen in Hong Kong and the news which I have received from Hankow and other places in the interior.

With regard to the military, the remarks of the American

newspaper men and others were practically uniform. With the exception of the stubborn resistance shown in Shanghai, there has been little, if anything, creditable to the Chinese forces. They have sold out repeatedly to the Japanese, and this is one of the reasons why anticipated resistance in many places was replaced by mass retreats.

The looting by the Chinese troops in many of the large cities was on a large scale, and in some instances the looting was accompanied by wholesale murder and other terrible acts. You have doubtless read the news dispatches concerning the looting of Nanking by the Chinese. When the Japanese arrived in Nanking, they were actually welcomed by the Chinese until the Japanese in turn ran amuck and slaughtered, raped and looted on a perfectly tremendous scale. Foreign eye witnesses of persons in Nanking unfortunately brought incontrovertible evidence with regard to the behavior of both Chinese and Japanese. Nanking, of course, was only one city and horrible scenes were enacted in other large cities such as Soochow, etc. There seems to be no doubt that some of the Japanese troops, perhaps under direct order of their immediate officers, took matters in their own hands and disobeyed completely the orders of the high command. There is no good recounting all of the details that I heard, but I am afraid that I am pretty seriously disillusioned by the Chinese. The general attitude of foreigners is that they detest the Japanese military and despise the Chinese officials, bankers, doctors, and many so-called intellectuals. It is not a pretty picture.

It would appear that there are very grave differences of opinion existing at the present time between the different groups represented in the Central Government, or more particularly the Kuomintang Party. You have doubtless read that important members of the Party have recently "resigned" and are said to be leaving for trips abroad. Stories around Hong Kong would indicate that orders for the arrest for some of them have been issued by the government. The unification of China has proven itself to be mythical.

That China can carry on a guerilla warfare for a long time appears to be agreed by all. Any large military operations against Japan in any sector would now appear to be out of the question even if desirable. Channels for war materials to come into China are now limited to Hong Kong and French Indo-China by sea and overland from the U.S.S.R. Competent people here doubt if all of these means of communication should remain open, which is by no means assured, that they would be able to supply an adequate quantity of war materials. This group of thinkers believe that the war will end by the middle of March. However, many others who are counting primarily upon the continuation of guerilla war, are of the opinion that the war may be protracted for years. The recent statements by the Generalissimo also would indicate the determination of the Chinese Government to carry on and weaken Japan through a long war. It is dubious if the Japanese will be foolish enough to get themselves into such a position.

It is not believed by competent persons in Shanghai that the Japanese high military and naval authorities deliberately planned the PANAY and LADY BIRD incidents, and it would appear that these attacks were planned and put through by certain elements of the Japanese armed forces who were acting on their own hook without orders. I understand that the Japanese high authorities are attempting now to control these unruly and insubordinate elements, but if they are unable to do so, we may anticipate other incidents of equal or greater significance than those which have taken place. One wonders just how far the United States and British governments and people will be willing to go on accepting apologies, however abject. While Russia is actively helping China with airplanes and military and other advisers, I do not sense any feeling on the part of the foreigners that the U.S.S.R. is planning to actively go to war against Japan at this time. Apparently the best Japanese troops (300,000) and finest equipment are being held in Manchukuo north of Harbin. Some of the British in Hong Kong are very jittery, and war with Japan within two or three months is predicted by many. If the Japanese attempt to blockade Hong Kong, local incidents are almost bound to arise, particularly if Japan persists in not declaring war against China. Some of the observers believe that Japan probably will stop some British vessel carrying munitions into Hong Kong and make a sort of test case out of it. If they don't get away with it, then Japan will declare war against China and be in a better legal position to blockade Hong Kong.

However, all of this is probably not news to you, as I am

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convinced that you get much more information concerning the situation in China than we do here. The newspapers in Shanghai and also in Hong Kong are extremely poor as far as news is concerned. I had an opportunity when I was in Shanghai to read a number of the cables sent by Hallett Abend to the "New York Times" with regard to the situation at that time, and most of the material which he had was not published in the local newspapers.

The outlook for the China Program, of course, is pretty wretched, but I am purposely not attempting to make a prophecy at this writing as to what may be the situation by the time I get to New York.

Brian Dyer is due in Colombo on January 15th where he is to await orders with regard to his proceeding to China or not. My guess is that it would be useless to have him come here, particularly under the conditions which Dr. Sawyer has set up as being necessary. Dr. Borcic, now in Hankow, is due here January 2nd. I expect that he will bring me the latest news with regard to the public health situation, and I shall probably cable the New York office before long, giving my opinion with regard to Dyer's return.

When I was in Shanghai I received a cable from Houghton expressing serious disappointment because I had decided not to proceed to Peiping. He suggested the possibility of his seeing me in Shanghai when I am enroute home. I felt that I could not afford the amount of time necessary to make the trip to Peiping as we have a constant stream of correspondence, much of which

requires immediate action, and furthermore, Hong Kong is still the best center for work. More people pass through here than anywhere at the present time.

A couple of P.U.M.C. staff members who were granted fellowships and then recalled to Nanking, have now returned here, and I am making arrangements to send them to America next month. According to all reports there are very large numbers of unemployed doctors and nurses in Hankow. It is rather curious, however, to note that a couple of days ago six Austrian doctors arrived in Hong Kong at the invitation and expense of the Chinese government to take care of the wounded. At the same time, there are many unemployed Chinese doctors and others leaving the country such as the two fellows I have just referred to!

Two of the anti-epidemic units being financed by the League of Nations out of the special two million Swiss franc appropriation are due here in a day or two from Europe. It is highly problematical just what these units are going to be able to accomplish. It seems to some of us that it is rather like throwing money away. I hope we are wrong. I certainly would not want to invest a cent in this type of activity at the present time. Borcic, who is keen to get home as he feels the whole League program is a political gesture rather than anything else, is completely fed up with both the Chinese and Geneva.

When in Shanghai I saw amongst others Mr. Charles Bennett, formerly of the National City Bank in Peiping. He told me that he and others were much exasperated by the activities of Roger Greene in America. He stated that Greene and others were advocat-

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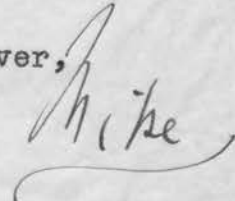
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ing that in view of the emergency, the entire American Boxer funds should be made available for the Ministry^{er} of Education for his general budget. Bennett was of the opinion that if such a plan were adopted, it would be like throwing the money "into the Whangpoo."

I realize that this is a pretty discouraging letter and wish that I were in a position to be more cheerful.

Yours as ever,



Selskar M. Gunn

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