

## The Father of Europe in China: Jean Monnet and creation of the C.D.F.C. (1933-1936)

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In the past twenty years, much research was devoted to understand Jean Monnet's contribution to European integration. However, few focused on his international activities before World War II, particularly his financial adventure in China.<sup>1</sup>

The core issue in this research is Monnet's role in the creation of C.D.F.C. (China Development Finance Corporation) First, I would like to go into the details of the early contacts between Monnet and the Chinese government. Then, the creation of the C.D.F.C. and M.M. & Co. (Monnet, Murnane, Co.) will be analyzed. In the end, I shall sum up the contribution of this research to 'Monnet Studies' in the international academia.

This paper is in a large part based upon historical research of the archives. Monnet's private archives at the Jean Monnet Foundation in Lausanne constitute the most important source of this inquiry. The French archives at the Quai d'Orsay, the British diplomatic archives in Kew, the American archives of the State Department, and Chinese archives at Academia Historica in Taipei are all indispensable for the understanding of Monnet's adventure in China in the 1930s. The Chinese *Shen Bao* and *Central Daily News* and the English *North China Herald* were three important newspapers published in Shanghai at that period. The *New York Times* and *The Times* are also useful in this research.

### First Contacts between Chinese Government and Monnet

#### *China's context*

Zealous to build a modern state but contained by its fear of colonization by reliance on any particular country, between 1928 and 1931 the Chinese government moved, little by little, towards the League of Nations. After a fierce debate throughout 1930, Chiang Kai-shek (C.K.S.), president of the Republic and T.V. Soong, the Finance minister, jointly wrote to Joseph Avenol, secretary general of the League, on 7 January 1931, to deposit an invitation to experts from the League. In April,

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1. This paper was particularly written in memory of Dr. Henri Rieben, late president of Jean Monnet Foundation for Europe in Lausanne. Its earlier version was presented at the international conference on the EU relationship with Taiwan and China on December 1-2, 2006, held by the Institute of European and American Studies at Academia Sinica, Taipei, Taiwan, R.O.C. The author thanks Li Chang, Tony Tam, Pascal Venesson, and Clifford Hackett for their helpful comments on the first version of the article; Clifford Hackett and Yuichiro Miyashita for the generous offer of their unpublished works; and Françoise Nicod for her help during his research stay at the Jean Monnet Foundation in Lausanne.

China began organizing the National Economic Council (NEC) as a partner to cooperate with the League. On 19 May, the Council of the League adopted Avenol's proposal to begin cooperation between the League and China throughout the thirties.<sup>2</sup>

Japan's attack on China (September 18, 1931) dramatically changed the context of this cooperation. The humiliating defeat of the Chinese army in all fronts obliged KMT leaders to strengthen their cooperation with the League. They now opted for

“a policy of cooperation with Western Powers for economic rehabilitation, in the hope that it may ultimately check Japanese expansion which the Chinese are confident has not yet reached its ultimate boundaries”.<sup>3</sup>

At the same time, taking into account the Sino-Japanese conflict, the League had to explicitly exclude financial and economic construction from its agenda for assistance to China, leaving to Soong and Ludwik Rajchman enough room to organize international cooperation outside of, but along with, the League for financial and economic assistance to China.<sup>4</sup> Though Chinese government had formally adopted a policy to approach Western expertise and capital, it was Soong's personal idea and insistence that an international financing group composed of American and European banks should be established to finance China's modernization. He explained to C.K.S. the importance of the coming transnational financing group for China.<sup>5</sup>

“As Japan was part of the Consortium, we shall have to establish a transnational consultative institution composed of British, French, American and German bankers and financiers in cooperation with our own financing groups to organize important investments in China following Dr. Sun's guidelines for Chinese modernization”.

Soong's proposal was endorsed by C.K.S. and premier C.W. Wang, both of whom reminded Soong to “be prudent and keep a low profile lest Japanese be infuriated”.<sup>6</sup> Asked by Soong, at some point in 1932, Rajchman recommended Monnet to help reconstruct China.<sup>7</sup>

Rajchman and Soong were keen partners in the cooperation between China and the League throughout the thirties. They first met during Rajchman's visit to China in December 1929, which initiated a fierce debate inside the KMT over cooperation with the League.<sup>8</sup> Both were leaders against Japanese militarist expansion in

2. L. CHANG, *International Cooperation in China* (in Chinese), IMH at Academia Sinica, Taipei, 2004, pp.129-187.

3. Confidential U.S. State Department Central Files, China 1930-1939, Reel 6, Legation from Peiping to the Secretary of State, 07.11.1933.

4. W. KOO, *Memoir*, Vol.IV, Quadrangle/New York Times Book, New York, 1975, pp.317 and 331.

5. AH [Academia Historica], No.002080200106079, T.V. Soong to C.K.S., 17.07.1933.

6. AH, No.002080200105100, C.K.S. to Soong, 18.07.1933.

7. M.A. BALINKSA, *Une Vie pour l'Humanitaire: Ludwik Rajchman 1881-1965*, La Découverte, Paris, 1995, pp.156-157; MAE [Ministère des Affaires étrangères], Série Asie 1918-1940, Sous-série Chine Finance, Vol.845, Wilden to ministry, 17.04.1933.

8. M.A. BALINKSA, op.cit., pp.138-141.

China, with Soong regarded by Japan as leader of those pro-Western forces inside the KMT that opposed Japanese interests; a view well-founded given that, against C.K.S.' advice, he refused to so much as take a step in Japan or meet with Japanese politicians while his ship was in Yokohama.<sup>9</sup>

Working colleagues at the League in the twenties, Monnet and Rajchman seemed to appreciate each other. The former admired the latter's universal humanitarianism while Rajchman was impressed by Monnet's "intense regard".<sup>10</sup>

In autumn 1932, C.K.S. sent H.H. Kung, former minister of Industry and Commerce, as special envoy of the Chinese government to the US and Europe with a mandate to contact industrialists and entrepreneurs for China's reconstruction.<sup>11</sup> While Kung stayed in New York in November 1932, he received a telegram from Soong, asking him to "approach Jean Monnet's bank [to see] if he could organize American European Bank groups to finance development in China. Monnet knows of my plans through a Geneva friend".<sup>12</sup> This 'Geneva friend' was undoubtedly Rajchman.

### *Monnet's business in the U.S.*

As it happened, Monnet was approached by Kung and Soong exactly at the moment when he began to be frustrated in his investments and activities in his American and European enterprises.

Monnet was appointed vice-chairman of the TransAmerica with a salary of US\$ 50,000 on February 8, 1930, while his friend Elisha Walker was nominated as chairman of the board.<sup>13</sup> After the Great Depression, in early 1932, Walker and Monnet both supposed that the general situation called for the contraction and liquidation of TransAmerica, which infuriated its founding father, Amadeo Peter Giannini.<sup>14</sup> Giannini counter-attacked in February 1932 in a proxy fight for control of TransAmerica and won the final victory. The board of directors was then reshuffled. Monnet was forced to resign as vice-president on March 15, 1932.<sup>15</sup> His salary, paid by TransAmerica, virtually evaporated. In 1930 and 1931, he obtained respectively an annual salary of US\$ 44,861 and US\$ 50,000 plus a bonus. In 1932, he was paid only US\$ 6,250, and received no bonus.<sup>16</sup>

Monnet also lost an important source of support as Ivar Kreuger committed suicide in March 1932. Monnet played a key role in Kreuger's loans to some

9. AH, No.002080200413108, C.K.S. to Soong, 18.08.1933; AH No.002010200091026, Soong to C.K.S., 25.08.1933.

10. J. MONNET, *Mémoires*, Fayard, Paris, 1976, pp.118-119; M.A. BALINKSA, op.cit., p.108.

11. *North China Herald*, 22.03.1934.

12. FJM [Fondation Jean Monnet pour l'Europe], AMD 1/1/1.

13. *New York Times*, 04.09.1931.

14. M. JAMES, B.R. JAMES, *Biography of a Bank: the Story of Bank of America*, Harper & Brothers, New York, 1954, p.317.

15. *New York Times*, 16.03.1932.

16. *New York Times*, 03.03.1934.

European governments,<sup>17</sup> and was the representative of Kreuger & Toll when Kreuger purchased the stock to obtain control of other companies.<sup>18</sup> At the peak of his career, the fortune of Kreuger was estimated at a value equivalent to approximately US\$ 100 billion today. However, after the stock market crash in October 1929, it became impossible for Kreuger to raise money to pay dividends, his empire collapsed, and he committed suicide. An audit in the aftermath revealed that assets were unreasonably overvalued.<sup>19</sup> On September 10, 1932, Monnet was elected one of two representatives of American creditors on the five-man board of liquidation of Kreuger & Toll. On February 3, 1933, all American creditors agreed to work together, and elect jointly Monnet to “represent American interests on the Swedish board of liquidators of Kreuger & Toll”.<sup>20</sup>

### *Monnet’s judgment of Sino-Japanese conflicts*

The Sino-Japanese conflict would confront Monnet with a dilemma similar to that of the League and Rajchman in their activities in China.

“To plan without consulting Japanese might precipitate a conflict between the League and Japan, whilst on the other hand, to consult Japan beforehand might [give] appearance of recognizing that she occupies a predominant position in Chinese affairs”.<sup>21</sup>

Nonetheless, Monnet was convinced that it was feasible to establish a compromise with Japanese on the issue of Chinese reconstruction loans.<sup>22</sup> First, he did not share Rajchman’s passion for China. He constantly denied that his activities in China were an integral part of Chinese preparations for resistance against Japan’s attacks. Second, he sympathized to a certain extent with Japanese expansion in China during the interwar period. He believed that Japan’s aggression resulted from its deeply rooted fear of its continental giant neighbour, even after its conquest in Manchuria.<sup>23</sup> He therefore concluded that Japan did not intend to launch total war against China, which was absolutely avoidable given a certain degree of appeasement from the Western powers, which should recognize the *faits accomplis* and accede to the privileges of the Japan in China.<sup>24</sup> “His aim is”, said a British diplomat in China,

“obviously to steer it as clear as possible away from the political rocks and place it on sound economic foundations, but that is no easy matter at the present moment”.<sup>25</sup>

17. *New York Times*, 12.02.1929.

18. M. JAMES, B.R. JAMES, op.cit., p.327.

19. *BusinessWeek*, 13.06.2002.

20. *New York Times*, 04.01.1933.

21. NA[National Archives], FO 371/18097, Cadegan to Foreign Office, 08.05.1934.

22. C. HACKETT, *Jean Monnet: A Complete Chronology*, unpublished work, p.68.

23. Y. MIYASHITA, *Jean Monnet et l’Extrême Orient (1933-1940)*, DEA Mémoire, IEP de Paris, 2005, pp.145-146.

24. Confidential U.S. State Department Central Files, China 1930-1939, Reel 6, Note, 18.07.1933.

25. NA, FO 371/18078, Beale to Foreign Office, 11.06.1934.

### Monnet's first successful lobbying for China

After Kung contacted Monnet in November-December 1932, Monnet did not promise to organize a financing group for China. He only agreed to work for an American loan at Soong's request.<sup>26</sup> In March 1933, he began contacting ceaselessly American officials in the ministry of Finance, the State Department, the White House and particularly the Reconstruction Finance Corporation and the Farm Board on the subject of possible loans to China, in pursuit of which he even intended to pay a visit to president Franklin D. Roosevelt.<sup>27</sup> Via Rajchman, Monnet and Soong had an intensive exchange of telegrams in April 1933, with the purpose of organizing their common work in lobbying the Americans for a loan to China.<sup>28</sup>

As Chinese representative at Washington before the World Economic Conference and at the World Economic Conference in London, Soong arrived in Seattle on May 2. He stayed in the US until May 30 when he left for London. Soong's true mission aimed to "obtain the cooperation from the three Western powers [France, Britain and the US] to begin participating in the Chinese reconstruction"<sup>29</sup> and to realize if the Western powers could jointly impose sanctions upon Japan.<sup>30</sup> In Europe, he intended to "organize a Europe group to finance economic development in China", mission unfulfilled by Kung.<sup>31</sup>

After Monnet met Soong in Chicago on May 5, 1933, he accompanied the Chinese minister of Finance in his negotiations with American officials on the new loans for China. Between 8 and 12 May, 1933, Soong and Monnet never ceased to contact important American figures in finances, all of which were immediately communicated directly to C.K.S. and Wang. On May 13, Soong received C.K.S. and Wang's telegram that accorded him 'total mandate' to sign a loan contract with the US government in order to purchase wheat and cotton in the US, of which the sum "should be no less than US\$ 47 million".<sup>32</sup> On May 19, Soong and the American Reconstruction Finance Corporation signed the wheat and cotton loan contract with a sum of US\$ 50 millions, guaranteed by the US ministry of Finance. Throughout the negotiations, Monnet kept the French embassy in the D.C. informed of all the developments.<sup>33</sup>

Though this loan was not universally applauded in China, it was a doubtless victory for the KMT diplomacy. First, the KMT government failed to obtain any international loans between its inauguration and Soong's visit to Washington. Since

26. FJM, AMD 1/1/4.

27. C. HACKETT, op.cit., pp.61-62.

28. FJM, AMD 1/1/4.

29. MAE, Série Asie 1918-1940, Sous-série Chine Finance, Vol.845, French embassy at Washington to ministry, 10.05.1933; AH, No.002080200106079, Soong to C.K.S., 18.07.1933.

30. AH, No.00208020008410, Wang to C.K.S, 09.05.1933.

31. FJM, AMD 1/1/1.

32. J.P. WU, *Chronology of T.V. Soong* (in Chinese), Fujien People's Publisher, Fujien (PRC), 1987, pp.262-265.

33. MAE, Série Asie 1918-1940, Sous-série Chine Finance, Vol.845, embassy at Washington to ministry, 06.06.1933.

Japan's invasion in Manchuria, any proposal for new loans to China met fierce opposition from Japan, member of the Consortium.<sup>34</sup> Second, the consensual golden rule among the great powers conditioned any new loan to China upon its full payment of the old debts (particularly the then unpaid Boxer debts), being strictly observed by the Consortium. The wheat and cotton loan explicitly denied this rule, leading to the end of the Consortium in May 1937, although it was not finally buried until December 1941.<sup>35</sup> Third, at Soong's request, Roosevelt and Soong issued a pro-Chinese joint statement on May 17. Both worried about "the serious developments in the Far East which have disturbed the peace of the world during the past two years".<sup>36</sup>

On the same day of the signing of the Sino-American loan, Soong and Monnet signed the memo that detailed Monnet's working conditions and benefits in China: Monnet would go and help China's economic reconstruction. For this, Soong would pay Monnet C\$ 150,000 a year, as well as funding Monnet's offices in China, Paris, London and New York related to the reconstruction plan and for cable and travel costs.<sup>37</sup> The same day, Monnet wrote to Kreuger & Toll liquidators that he was resigning as member of their committee.<sup>38</sup>

## Towards the creation of C.D.F.C.

### *A tripartite design*

In late May, Monnet presented his first ideas to Soong, which aimed "to investigate the question of raising fresh money for the purpose of large-scale undertakings in China".<sup>39</sup> He advised the Chinese minister to establish an international corporation "in which the Chinese Government would participate together with leading American and European groups including industries and/or Banks". This corporation "should be entrusted with centralization of all Chinese Government purchases abroad also with negotiation arrangements for imports into China of such raw materials as flour, cotton, etc."<sup>40</sup>

Based upon Monnet's ideas, Soong, on behalf of Chinese government, and Monnet signed another two memos in May 1933 that detailed their project to establish the above mentioned international corporation. This international corporation shall be formed with Chinese and foreign interests, "in direction of

34. Confidential U.S. State Department Central Files, China 1930-1939, Reel 7, Memorandum, 21.03.1934.

35. K.N. CHANG, *China's Struggle for Railroad Development*, Da Capo Press, New York, 1975, pp.93 and 125-126.

36. *North China Herald*, 24.05.1933.

37. FJM, AMD 1/1/6,10,14.

38. C. HACKETT, op.cit., p.63.

39. NA, FO 371/18097, Ingram to Foreign Office, 01.03.1934.

40. FJM, AMD 1/1/5.

which China and foreign persons of high standing will be invited to participate". On the one hand, it shall "be used as a means" to carry out the Chinese economic reconstruction; on the other hand, it shall be mandated to "purchase from abroad for the Government". Monnet was invited by the Chinese government to undertake the formulation of this plan, to negotiate the various participations, and to assume the direction of the future corporation when formed. To this end, Soong promised to establish a central purchasing organization in China and abroad after his return to China.<sup>41</sup> At the same time, an international consultative committee would be established to advise the KMT government on Chinese reconstruction. It would be composed of as many important financial and economic figures from the US and Europe as possible.<sup>42</sup> Monnet was invited to participate, but not to direct, this committee.<sup>43</sup> An international financing group, a centralizing purchasing system and a multinational consultative committee constituted a triangular network in Monnet's original plan for Chinese reconstruction.

Monnet then accompanied Soong throughout the latter's visits to various European capitals in June and July 1933. They were nonetheless forced to abandon their project to create an international corporation soon after their first contacts with the City. The Foreign Office and British bankers doubted the planned international financing group as Japan was excluded and it contradicted the spirit of Consortium. Chinese Foreign minister reported to C.K.S. on June 30 that Monnet's tripartite design was crippled owing to loss of its financial arm.<sup>44</sup>

### *A strengthened international consultative committee*

In order to compensate for this loss, Monnet revised the original plan by strengthening the role of the planned consultative committee in July 1933. First, the committee's headquarters were moved from Shanghai to London, to be close to the world financial centres in the City. This would strengthen the financial functions of the committee, though at the expense of its consultative role vis-à-vis the Chinese government. Second, Monnet would assume the direction of this committee.<sup>45</sup> Third, the committee would be a non-governmental organization composed of important financiers and industrials, excluding all governmental participation from any country, including that of China. Fourth, this committee would explicitly promote peace, not war.<sup>46</sup> In order to satisfy the Japanese, Monnet once insisted that Japan participate in the committee, but Soong held that it was politically

41. FJM, AMD 1/1/8.

42. FJM, AMD 1/1/16; MAE, Série Asie 1918-1940, Sous-série Chine Finance, Vol.845, Soong to ministry, 20.07.1933.

43. FJM, AMD 1/1/16.

44. AH, No.00208200100148, Lo to C.K.S., 30.06.1933.

45. MAE, Série Asie 1918-1940, Sous-Série Chine Finances Vol.848, Corbin to Paul-Boncour, 28.07.1933; Idid., Vol.845, "Lettre de Soong au Ministre des Affaires étrangères, le 20 juillet 1933", Soong to ministry, 20.07.1933.

46. Ibid., Note, 01.08.1933.

impossible for him to invite the Japanese to participate. It was finally agreed between him and Monnet that they might

“form an original group with the idea of subsequently inviting Japan to join when political relations between China and Japan had improved”.<sup>47</sup>

On August 9, 1933, Soong issued the following communiqué:

“I have been considering possibility of forming international group of high standing and wide experience to advise Chinese Government as to how Chinese and foreign capital can cooperate to best advantage in reconstruction China. Chinese people recognize its magnitude and realize fully that reconstruction can be carried out only with cooperation of world. Everything being done to establish community of interest between ourselves and all foreign interests which wish cooperated in the work”.<sup>48</sup>

“The last phrase of this communiqué”, said Monnet to Henri Cosme of the Quai d’Orsay, “was deemed to incite the Japanese financiers to cooperate in the reconstruction of China”. It was formulated under Monnet’s insistence.<sup>49</sup>

President Roosevelt gave a favourable opinion to Monnet’s revised project.<sup>50</sup> However, other powers and their financiers still hesitated to sign on to Monnet’s plan. The French minister of Finances, taking into account the Chinese financial situation, advised the Quai d’Orsay to adopt a prudent attitude to Monnet’s proposal.<sup>51</sup> According to the French Legation in China, Monnet’s project was in contradiction of “the established principles and the rules of the Consortium” and it was “difficult to believe that the European powers will adopt a policy for Chinese reconstruction with which Japan shall not be associated”.<sup>52</sup> The London Office of the China Consortium gave the same advice to its participating banks.

“Our obligations to our Japanese associates are considered to be a bar to our participation in the proposed new international organization for operation in China from which the Japanese are excluded”.<sup>53</sup>

As regards Japan, its Foreign minister asked its representative to the World Economic Conference, Kikujiro Ishii, to make extremely clear to European governments and Monnet himself Japan’s absolute opposition to the latter’s projects. On August 22, Ishii and Monnet met in Paris. Monnet argued that the proposed committee was in no way to compete with the Consortium, it shall be a non-governmental entity, neither he nor Soong intended to use this committee to isolate Japan, and Soong’s communiqué made it clear that Japan could be invited to the committee. None of Monnet’s arguments was convincing to Ishii. Japan would not tolerate any joint efforts from which it was excluded among powers in China. As China evidently had no intention of inviting Japan, Ishii demanded that Monnet

47. NA, FO 371/18078, Drummond to Francis, 27.04.1934.

48. MAE, Série Asie 1918-1940, Sous-Série Chine Finances, Vol.848, New York to Paris, 08.08.1933.

49. Ibid., Note, 09.08.1933.

50. Ibid.

51. Ibid., Minister of Finance to ministry, 28.07.1933.

52. Ibid., Vol.845, Note, 01.08.1933; Vol.848, Vibien to minister of Commerce and Industry, 01.08.1933; Vol.848, Note, 10.01.1934.

53. Ibid., Vol.848, China Consortium to de la Chaume, 31.07.1933.

suspend immediately his project until Japan was formally invited to participate by the Chinese government. On this point, Monnet kept silent and the discussion came to an end.<sup>54</sup>

Under such circumstances, none of the leading European financiers approached by Monnet between July and August 1933 agreed to participate in the proposed consultative committee. Sir Charles Addis, governor of the Hong Kong & Shanghai Bank, declined Monnet's invitation on July 27, 1933.<sup>55</sup> Cosme made the same decision in early August and wanted Monnet to encourage the Chinese leaders to be "more realistic".<sup>56</sup> Thomas W. Lamont, then the president of J.P. Morgan, who had once hesitated owing to the report that Roosevelt supported Monnet's project, decided not to participate no later than August 28.<sup>57</sup>

In October 1933, on his way to China, Monnet told Stanley Hornbeck, director of the department of the Far Eastern affairs in the State Department, that the proposed consultative committee could do nothing to help China solve its debts and re-establish its credits in the international financial market. Other solutions were deemed necessary.<sup>58</sup>

### *The creation of C.D.F.C.*

Accompanied by David Drummond, Monnet arrived in Shanghai with Sir Arthur Salter on November 21, 1933, who was immediately received by Soong in his private residence.<sup>59</sup> A few weeks ago, the KMT government had been reshuffled; Soong had resigned as deputy Prime minister and minister of Finance, and was nominated minister without portfolio, with instructions to concentrate on national economic reconstruction.<sup>60</sup>

Though frustrated by the failure to organize an international corporation and a consultative committee as well as by power struggle inside the KMT leadership,<sup>61</sup> Monnet showed a striking ability to set out a plan of action and finally find a useful solution. It was in his conversation with an official of the British legation on February 27, 1934 that the idea of organizing a purely Chinese financing corporation, with which any international financial group could cooperate, came into existence. Monnet was reported to be convinced that

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54. Y. MIYASHITA, op.cit., pp.54-56.

55. MAE, Série Asie 1918-1940, Sous-Série Chine Finances, Vol.848, Addis to Kindersley, 27.07.1933.

56. Ibid., Ministry of Foreign affairs to ministry of Finances, 11.08.1933.

57. Y. MIYASHITA, op.cit., pp.57-58.

58. FRUS [Foreign Relations of the United States], 1933, Vol.III, pp.444-445.

59. *Central Daily News*, 22.11.1933.

60. AH, No.002080200124029, Kung to C.K.S., 28.09.1933; AH, No.002060100073026, C.K.S. to Wang, 28.10.1933; Confidential U.S. State Department Central Files, China 1930-1939, Reel 6, Memorandum, 27.10.1933.

61. It was reported that Soong was forced to resign because he failed to finance integrally C.K.S. anti-communist campaign in the South. *Shen Bao*, 30.10.1933.

“it was necessary to form here some kind of financial corporation to be organized by a combination of the principal banks themselves. This was to be a body to deal with finance as opposed to banking --- a body with which financial interests in London, Paris, New York, Tokyo etc. could deal when it came to any question of large scale of operation in China”.<sup>62</sup>

In brief, Monnet’s new idea was based upon two principles “which might be termed Chinese self help and freedom for any foreign interests to collaborate in the economic reconstruction”. He intended to create a financial house in China such as Morgans or Kuhn Loeb’s in America, or Lazard and Schroeder in London.<sup>63</sup>

On March 6, Monnet presented this idea to the British commercial counsellor in Shanghai, Sir Louis Beale. He told the British diplomat that four principal banks in Shanghai<sup>64</sup> and Mr. Ming Li, the largest Chinese financier,<sup>65</sup> had agreed to support his project. Within one or two weeks, Monnet believed, these Chinese banks and financiers “will come into the fold”.<sup>66</sup> Even though Monnet was also alerted to rising Japanese pressure that threatened to bring his plan to a premature end, he made up his mind to “be retained in China sufficiently long to finish the proposition of his plans regarding the Finances Corporation and Railway Reform”.<sup>67</sup>

In order to dispel Japanese hostility, on March 10, Monnet and Drummond invited Yakichiro Suma to dinner, at which Monnet explained to the Japanese general consul his plan. Monnet repeated that Japan shall not be systematically excluded from, but also not included in all projects, like any other foreign countries. Suma refused categorically Monnet’s ideas and concluded that Monnet’s plan to modernize China with the help of international financing would lead to a colonization of China. Rebuffing Suma’s criticism, Monnet told the latter that “[m]y trip to China will achieve nothing if I follow your way. I will begin with what seems to me possible”.<sup>68</sup> This put an end to the entente between Monnet and Suma as the latter was convinced from the very beginning that Monnet’s plan was but a part of the international plot to exclude Japan from China.<sup>69</sup> For Japanese leaders, Monnet, Rajchman and Soong constituted the axis of this plot.<sup>70</sup> Even the meeting between Soong and Suma one week later did nothing to help arrive at a solution.<sup>71</sup>

As regards Drummond, he was charged to explain Monnet’s plan to the foreign legations in China. As it was a purely Chinese financing group that favoured foreign

62. NA, FO 371/18078, Ingram to Foreign Office, 06.04.1934.

63. NA, FO, 371/18078, Dodd to Cadogan, 08.05.1934.

64. The ‘Big Four’ governmental banks of the period were the Central Bank of China, the Bank of China, the Bank of Communications, and the Farmers Bank of China. See F.M. TAMAGNA, *Banking and Finance in China*, Institute of Pacific Relations, New York, 1942, pp.121-149.

65. Ming Li was then the president of the Bank of China and president of the Shanghai Native Bankers Association. Ibid.

66. NA, FO 371/18078, Minister on tour to Foreign Office, 10.03.1934.

67. Ibid.

68. Y. MIYASHITA, op.cit., pp.67-68.

69. NA, FO 371/18078, Dodd to Foreign minister, 12.06.1934.

70. NA, FO 371/18098, Drummond to Foreign Office, 21.05.1934.

71. NA, FO 371/18078, Beale to Foreign Office, 26.06.1934.

investment, Western legations in China were inclined to support the C.D.F.C., “which would tend to make the investment of foreign capital in China more secure”.<sup>72</sup>

Monnet himself was concentrating on persuading foreign financiers to cooperate. He ceaselessly invited the Paribas, Lazard Brothers & Co., the Banque Franco-Chinoise and the Banque d’Indochine to create a joint group in cooperation with the future C.D.F.C. to invest in China, in which the Paribas shall play a leading role. As future cooperation would be undertaken on a case by case basis, all agreed to give their support to Monnet’s project.<sup>73</sup> The Hongkong and Shanghai Bank was also sympathetic, and “even enthusiastic” on Monnet’s new idea.<sup>74</sup> As for the Shanghai bankers, with Soong’s full support, Monnet succeeded in persuading all the important bankers, including those who were pro-Japanese. The latter, however, remained pessimistic over the future of C.D.F.C. Ming Li revealed that they were forced to support the C.D.F.C. under the political pressure from Soong and Chinese government.<sup>75</sup>

In the end, C.K.S. needed to make the final decision on the creation of C.D.F.C. He did not want to enter into an open conflict with Japanese; however, he was convinced that economic reconstruction could never be completed without foreign investment. Between late March and mid May, Monnet and Drummond travelled three times to Nanjing and Nanchang to meet and to have long talks with C.K.S. It was, meantime, rumoured that Monnet’s project was meeting with obstacles and was to be abandoned.<sup>76</sup> But C.K.S. finally decided to support Monnet’s project, but insisted that Soong’s younger brother, T.L. Soong, replace Soong as general manager of the future C.D.F.C.<sup>77</sup> C.K.S. adopted a double-handed policy vis-à-vis Japan. He supported firmly Soong and Monnet’s project for Chinese economic modernization as part of Chinese preparation for final war with Japan. At the same time, he was trying to avoid upsetting the Japanese by dissuading his government from talking about the Manchuria question in public,<sup>78</sup> agreeing to negotiate a Sino-Japanese financing grouping,<sup>79</sup> and upgrading Sino-Japanese relationship to the ambassadorial level on May 17, 1935.<sup>80</sup> On April 17, the *Central Daily News*, KMT’s official journal, reported for the first time that, under Soong’s leadership, a Chinese financing group was coming to existence.<sup>81</sup> On April 26, Monnet cabled to his London office that “this Corporation nearing completion”.<sup>82</sup> On June 2, the first meeting of the board of directors was held, electing Kung, the minister of Finance,

72. NA, FO 371/18078, Cadogan to Alexander, 11.06.1934.

73. FJM, AMD 2/2/3,12.

74. NA, FO 371/18078, Dodd to Cadogan, 08.05.1934.

75. NA, FO 371/18078, Pratt to Shanghai, 26.06.1934; NA, FO 371/18079, Cadogan to Foreign Office, 29.10.1934.

76. *The Times*, 04.04.1934.

77. AH, No.002010200114032, C.K.S. to Kung, 23.05.1934.

78. AH, No.002010200091026, C.K.S. to Soong, 24.08.1933.

79. NA, FO 371/18078, Cadogan to Alexander, 11.06.1934.

80. *Central Daily News*, 18.05.1935.

81. *Central Daily News*, 17.04.1934.

82. NA, FO 371/18078, Foreign Office to Simon, 04.05.1934.

as the president, Soong and his close associate Tsu-Yi Pei as executive directors, and T.L. Soong as general manager.<sup>83</sup>

As Monnet's project was coming into existence, Japanese government decided to counter-attack. Its Foreign ministry issued the 'Amau Declaration' on April 17, 1934, interpreted as 'hand off China' warning in response to Monnet's efforts for China.<sup>84</sup>

"We oppose therefore any attempt on the part of China to avail herself of the influence of any other country in order to resist Japan;

Any joint operations undertaken by foreign Powers even in the name of technical or financial assistance at this particular moment after Manchurian and Shanghai incidents are bound to acquire political significance".<sup>85</sup>

This statement startled the world as Japan explicitly condemned all cooperation between China and other powers and the League. Afraid of infuriating the Japanese, Western powers decided to react individually and discreetly, though they had consulted each other.<sup>86</sup> Aware of the Western appeasement toward Japan, the Chinese government issued a declaration on April 20 "as moderate and dignified in tone".<sup>87</sup> It refused Japan's self-defined privileged role in the Far East, and insisted on its sovereign right to cooperate with any other countries.<sup>88</sup>

It is argued that, Eiji Amau, spokesman of the Japanese Foreign ministry, made his declaration without being authorized by Japanese government or the Foreign minister.<sup>89</sup> Nonetheless, the following official note offered by Tokyo to foreign legations did not modify any point of the declaration.<sup>90</sup> On May 18, the Japanese legation in Beijing condemned openly Monnet's project.<sup>91</sup> The real reason might be that Tokyo intended to help those pro-Japanese forces inside KMT put an end to all cooperation between China and other powers; however, the effect of this statement made it more difficult for the KMT to proceed with its policy of rapprochement with Japan.<sup>92</sup> In May, Japan sent a group of Japanese financiers to Shanghai under the leadership of count Uchida, the executing director of the East Asia Industrial Co., Ltd. It was reported that Uchida's mission was to establish another international financial group in Shanghai as opposed to the coming C.D.F.C.<sup>93</sup> But Japan was never prepared to go so far. In the following years, its government and

83. Pei's son is the famous architect, Ieoh Ming Pei.

84. W. KOO, op.cit., p.363.

85. NA, FO 371/18097, Secretary of State for Dominion affairs to the secretary of State for External affairs Canada, the Prime minister of the Commonwealth of Australia, etc., 21.04.1934.

86. NA, FO 371/18097, Lindsay to Foreign Office, 24.04.1934; NA, FO 371/18097, Foreign Office to Lindley, 23.04.1934; NA, FO 371/18097, Aide-Memoir from the U.S., 04.05.1934; NA, FO 371/18097, Simon to Foreign Office, 04.05.1934; *North China Herald*, 06.06.1934.

87. NA, FO 371/18097, Cadogan to Foreign Office, 26.04.1934.

88. *Central Daily News*, 20.04.1934.

89. Y. MIYASHITA, op.cit., pp.73-74; AH, No.002080200434219, Foreign Ministry to C.K.S., 25.04.1934.

90. NA, FO 371/18097, Lindley to Foreign Office, 23.04.1934.

91. MAE, Série SDN, Sous-série Chine Finances, Vol.2034, Hoppenote to ministry, 18.05.1934.

92. NA, FO 371/18097, Memorandum, 26.04.1934.

93. MAE, Série SDN, Sous-série Chine, Vol.2034, Note, 15.06.1934.

bankers only intended to break or invalidate the C.D.F.C. by offering the KMT government some capital and readjusting China's old debts to Japan.<sup>94</sup> In the end, Japan's efforts did not frustrate the creation of C.D.F.C.

From the very beginning, Monnet kept Rajchman well informed of all his activities in China, to the extent that Rajchman detailed Monnet's efforts for China in his annual report to the League. Those paragraphs relating to Monnet's efforts in China were later omitted from the published version of the report as presented at Geneva on May 9, 1934, lest the League be regarded as engaged in Monnet's financial activities in China and upset the Japanese.<sup>95</sup>

### ***Monnet's role in the activities of C.D.F.C.***

With a capital of C\$ 10 millions, the C.D.F.C. was created

“to assist and to cooperate with the Government organs, foreign and Chinese banks and other organizations in supporting various public and private enterprises, developing agricultural, industrial and commercial interests, handling loans for the benefit of the above, and executing such business as handled by trust concerns”.<sup>96</sup>

Monnet and T.L. Soong, on behalf of the C.D.F.C., signed a contract on July 3, 1934.<sup>97</sup> Monnet was appointed by the latter as the ‘exclusive representative’ of the C.D.F.C. in Europe and the United States, where his mission was to establish and maintain financial relationship with main financial markets there for the corporation. However, all of Monnet's commitments on behalf of the corporation would need to be endorsed by the C.D.F.C. All deals with the ex-Soviet Union, Nazi Germany and Italy would be reviewed and endorsed by the C.D.F.C. ‘case by case’. The contract came into force on July 1, 1934 for three years and was renewable. In order that Monnet be able to execute his work, he was authorized to appoint ‘adequate representatives’ in Europe and the US for the C.D.F.C., whose charges shall be Monnet's own responsibility with exception of the expense of communication by telegraph. In return, Monnet would be paid an annual salary of C\$ 50,000 plus ‘a proper and fair share’ of profits of the business. Monnet would also have rights to 7.5% of the C.D.F.C.'s profits or the right to profits from syndicating businesses, which “are alternative and not to be effective concurrently”.<sup>98</sup>

Seizing this opportunity to forward his financial ambitions, after leaving China in July 1934, Monnet began establishing a network in the US and Europe to exploit any possibilities in financing Chinese modernization via the C.D.F.C. On February 18, 1935, Monnet and Gerge Murnane announced the formation of a partnership to be known as Monnet, Murnane & Co. under Canadian law. With a head office at his private residence in New York, Monnet created soon branches in

94. *North China Herald*, 15.05.1935 and 22.05.1935.

95. NA, FO 371/18098, Drummond to Randall, 21.05.1934.

96. Article 11 of the Statute of the C.D.F.C. FJM, AMD 2/1/1.

97. *Central Daily News*, 05.07.1934. FJM, AMD 6/1/1.

98. FJM, AMD 6/1/1.

Paris, London and Shanghai, which were represented respectively by Pierre Denis, David Drummond and Henri Mazot. “[This network] affords me”, he wrote to R.H. Brand of Lazard Brothers in London, “a basis which will enable me to carry on my work in an organized way”.<sup>99</sup> M.M. & Co. was created to exploit any opportunities in the international financial market, of which China was only part.<sup>100</sup> Payment from the C.D.F.C. was only one among the eleven sources of its income for the years 1935-1936, whose amount represented only 12.6% of the predicted total income of the corporation. Among the seven cases targeted by the M.M. & Co., only the negotiations for the Lunghai Railroad Bonds and the Telephone Syndicating were Chinese affairs.<sup>101</sup> Nonetheless, Monnet was concentrating all of his energy to exploit opportunities in China in the aftermath of the creation of M.M. & Co. He targeted three Chinese markets. First, the M.M. & Co. should be accepted as being the ‘Chinese Finance House’ through which Chinese participation in international credits or loans would be arranged and “no international loan for China, or the working of the consortium in any form, can be really successful without Chinese partnership [as represented by M.M. & Co.]”. Second, Monnet targeted those industries that could be invested in with foreign capital in China. “Industrialists who want to establish special factories in China”, he wrote, “should be sought with a view to prepare action on the basis of partnership with the Corporation”. Last but not least were the Chinese railways. Monnet elaborated a project for “the settlement of all railways [debts] in one bunch”. which was, however, refused by financiers in Europe. He then opted for a solution ‘railway by railway’, the priorities of which were the Lunghai and Tientsin-Pukow lines.<sup>102</sup>

M.M. & Co. was reorganized in July 1937 as another M.M. & Co. was created in Hong Kong. Monnet began consulting the Hong Kong authorities about the relevant procedures in February 1937.<sup>103</sup> On July 19, the M.M. & Co., Hong Kong was formally incorporated with C\$ 10,000.<sup>104</sup> At its first meeting of directors, Monnet was elected as chairman.<sup>105</sup> After he left Hong Kong, M.M. & Co. Hong Kong decided that “Paris will become the real administrative centre”.<sup>106</sup> In the beginning, the Hong Kong Company was occupied with all business outside of the US, where the activities were conducted by the original M.M. & Co,<sup>107</sup> but in the long run, it was created to replace the Canadian M.M. & Co. as the headquarters of Monnet’s activities in the international financial politics.<sup>108</sup> Preparations to liquidate the Canadian Corporation begun immediately after the creation of Hong Kong Company, and no later than October 1938 the Canadian Company was

99. FJM, ADS 4/1/1.

100. FJM, ADS 10/1/36.

101. FJM, ADS 4/1/9.

102. FJM, ADS 6/1/4.

103. FJM, ADS 5/1/5.

104. FJM, AMD 10/2/16.

105. FJM, ADS 5/1/10.

106. FJM, ADS 5/2/5.

107. FJM, ADS 5/2/6.

108. FJM, AMD 10/2/16.

liquidated.<sup>109</sup> The Hong Kong Company gave Monnet so immense a mandate that it looked more like a one-man orchestra. Monnet was given “power to perform all acts necessary for the running of the Company’s business” and would enjoy “all necessary financial powers including those of borrowing on behalf of the Company subject to certain statutory limitations”.<sup>110</sup>

Why replace the M.M. & Co. with a Hong Kong Company? The core reason was to avoid heavy taxation in the U.S. and Canada. As early as January 1935, in a note submitted to Murnane, it was suggested that M.M. & Co. create a company in Hong Kong, which adopted a favourable taxation policy and imposed nearly no restrictions upon the nationality of directors.<sup>111</sup> In March and April 1938, Drummond and Mazot wrote intensively to C.D.F.C., urgently asking that two statements be signed and be returned, indicating that the majority of Monnet’s benefits for the precedent year paid by C.D.F.C. belonged to Hong Kong Company after August 1, 1937, not to the Canadian Company as before July 31, 1937.<sup>112</sup>

## Conclusion

Monnet’s adventure in China was an extension of his financial ambitions in the thirties, which were deeply frustrated in the U.S. during the Great Depression. Aid from the League created an atmosphere that facilitated Monnet’s work in China. Owing to increasing Japanese aggression in China, the League had in the end to exclude financial and economic construction from its agenda for the assistance to China, leaving Soong and Rajchman enough room to organize the international financing group for Chinese modernization. Monnet was then approached by Kung and particularly by Soong with Rajchman as intermediary in 1932. Different from Rajchman, Monnet was never a Sinophile. Insisting upon the purely private and commercial nature of his enterprises in China, Monnet was doing his best to reach a compromise with the Japanese government. He even expressed some sympathy for Japan’s expansion in China.

Monnet’s active and fruitful participation in the negotiations for American wheat and cotton loans for China in April-June 1933 convinced Soong that he could contribute to the international financing that China was thirsty for in its modernization efforts. Accompanying Soong to Washington and later to Europe, Monnet presented to the Chinese minister a tripartite design to create a central purchasing unit in the Chinese government, an international financing group consisting of Chinese government and Western financiers, and a multinational consultative committee. This tripartite plan soon proved futile owing to Japan’s opposition and other powers’ reluctance. Monnet then ceded the field and proposed

109. FJM, ADS 5/3/7 and 10/2/36.

110. FJM, ADS 5/2/8.

111. FJM, AMD 9/12/6.

112. FJM, AMD 6/1/18.

strengthening the planned consultative committee as an alternative, which should now be purely private and could be open to Japanese participation. Monnet's compromise did not, however, soften Japanese opposition. The creation of the C.D.F.C. was consequently Monnet and Soong's last choice, which shed light on Monnet's amazing wisdom and pragmatism. Wholly financed by Chinese banks, the C.D.F.C. was immune from Japanese official condemnation. Based upon a case-by-case joint enterprise, the C.D.F.C. was equally searching for Western partner to finance Chinese modernization projects. In parallel to the creation of the C.D.F.C., Monnet established the M.M. & Co. first in Canada and later in Hong Kong, while keeping effective headquarters in New York and Paris. With M.M. & Co., Monnet intended to play the role of a channel between China and Western financiers and industrialists. He was the 'exclusive representative' of the latter abroad, but Chinese business was only part of activities of M.M. & Co. The latter would benefit from all loans it negotiated for China and all consulting services it offered to Chinese government.

He finally failed to maintain neutrality in Sino-Japanese conflicts as he had wished. Little by little, he became engaged in China's construction projects to arm the country against Japan's invasion. He was, therefore, targeted by a Japanese government that regarded him as Rajchman's financial partner and never ceased to condemn his activities in China. For the same reason, he was thanked by the KMT government of the period<sup>113</sup> and even the People's Republic of China. The latter named a high school 'Jean Monnet' in 1985 to honour his contribution to China in the thirties.<sup>114</sup>

Monnet's approach in creating the C.D.F.C. corresponds to his methods in the foundation of the European Communities twenty years later. Throughout the whole process, he was discrete, maintaining low-profile, but retained influence and was able to directly approach key decision-makers. Behind the scenes, he left the glory to Soong for the creation of C.D.F.C. as he would leave glory to Robert Schuman in the declaration of Schuman Plan in 1950. In order to facilitate his work for China, he created M.M. & Co. which gave him a free hand to operate as he would. While incorporated in Canada and Hong Kong for taxation reasons and due to restrictions on the nationality of directors, M.M. & Co. maintained its effective headquarters in Paris. Twenty years later, Monnet created the *Action Committee for the United States of Europe*, which was incorporated in Lausanne for the same reasons, and whose de facto office was in Paris. Both M.M. & Co. and Action Committee provided Monnet with a team, and more importantly, a network of personal linkages that were mobilized to achieve his ambitions. Surely Monnet's pre-war adventure in China differs fundamentally from his post-war efforts for Europe: the latter was not undertaken for any personal financial ambition, but rather for the public interest of all Europeans.

113. FMJ, Historical paper.

114. Translator's preface. J. MONNET, translated by H.S. SUN, *Memoirs* (in Chinese), Chen Du Publisher, Chen Du (PRC), 1993.