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British Economic Imperialism in China

in the 1930s: The Leith-Ross Mission

Peter Cain*

Introduction

Whether Britain ever had an 'informal empire'⁽¹⁾ in China and, if so, in what ways this imperialism manifested itself in China is a topic which continues to excite the attention of historians. Most of the attention of British historians interested in imperialism in China has been focused on the pre-1914 period: but this essay will be mainly concerned with 1934-7 and with the nature and intent of Britain's economic appeasement of Japan in China.⁽²⁾ It will be centrally concerned, therefore, with the different approaches to policy adopted by the Treasury, by the Bank of England and by the Foreign Office. It involves a re-working of the ideas set out in the second volume of Cain and Hopkins, *British Imperialism*.⁽³⁾ One of the main contentions of the second volume was that, in the wake of the collapse of the gold standard in 1931, the emergence of a sterling area composed of those countries dependent on British trade and British banking and finance provided Britain with a new means of recovering its global financial position and of re-asserting the importance of the City in world affairs. The United States was much more severely affected by the Great Depression of the early 1930s than was Britain and its recovery was much slower than that of the latter. American trading and financial influence in the world was consequently much diminished: and the British

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authorities tried to take advantage of this not only to consolidate the sterling area but to extend it.⁽⁴⁾ Attempts to overthrow American financial dominance in Latin America and Canada met with some limited success.⁽⁵⁾ In 1993, we claimed that, as part of the same drive to recover ground lost in the war of 1914-18 and in the subsequent decade, Britain also made a successful attempt, between 1935 and 1937, to persuade the Chinese to enter the sterling area and, in doing so, we implied that not only was Britain pursuing an active policy of economic imperialism in China but that British influence was increasing at the expense of American. We also argued that British policy in China was aimed directly at Japan and its expansive designs and that the growing influence Britain had with China probably encouraged the latter to oppose Japan more strongly and thus contributed to war in 1937. The Japanese reaction was, of course, not one the British wished to encourage: but the fact that Japan felt provoked was used as evidence that Britain had pursued a positive policy of economic imperialism in China in the 1930s.

Criticisms of Cain and Hopkins interpretation

In an as yet unpublished critique,⁽⁶⁾ Professor Akita has questioned this interpretation of events in two main ways. In the first place, he claims that we put too much stress on the British role in helping Chinese economic reforms in the 1930s and therefore over-estimate the impact of British economic imperialism in China and in particular the influence of the Leith-Ross mission which was sent to advise the Chinese government on currency reform and tried to persuade the latter to adopt a sterling base for the Chinese dollar when the latter decided to abandon silver. Using current Japanese scholarly work, he says that we do not account for the significance of the United States in Chinese economic policy from the Kemmerer mission of 1929 through to the silver purchases of the American

government which helped keep the Chinese government solvent in the 1930s and which he believes had far more influence on the Chinese economy and polity than we account for. In this context, he also points out that China never actually joined the sterling area although the reserves of the Chinese government did contain sterling assets. Secondly, he thinks that we exaggerate the strength of the British reaction to Japanese imperialism in China. Referring back to more traditional interpretations of British policy in the Far East, he argues that Britain was unwilling to confront Japanese aggression in China because of its global defence problems and lack of allies. Professor Akita clearly believes that the so-called appeasement policy directed by the Foreign Office was a more powerful influence on British attitudes to China and Japan than were the forces represented by the Leith-Ross mission and its supporters in the Treasury and at the Bank of England.

Response to the criticisms

Taking first the question of the relative importance of British and American influence on China in the 1930s, I must agree that one of the weaknesses of our 1993 interpretation is that we did not sufficiently consider the role of the United States. In particular, Professor Akita is quite right to say that American silver policy had a big impact on the evolution of China's monetary policy and on its economic development and this should have been considered by us. Nonetheless, I would like to argue here that taking American policy into account does not fundamentally change the story we told.

Britain had no great objection to the Kemmerer mission's attempt to get China to join the gold standard in 1929 because that was seen to be beneficial to all parties. At that time Britain was on the gold standard and had no intention of leaving it. Moreover, in the late 1920s, at least

while Benjamin Strong was in charge of the Federal Reserve Bank, Britain and the United States made some attempt to co-operate on policies to maintain the gold standard though, admittedly, the co-operation was wearing thin by 1929 and broke down completely in the next few years.

Moreover, although Professor Akita is correct in saying that Chinese monetary policy was crucially influenced by American silver purchases (the purchases of 1934 were vital to the success of Chinese monetary reforms at the time) he does leave the impression that American policy in China was consistent and powerful and this is not the case. In the first place, the policy of purchasing silver was dictated almost entirely by domestic considerations. The price of silver fell heavily in the 1930s and powerful lobbies in silver-producing states used their influence from time to time to persuade the American government to buy silver to boost its price on world markets. Occasionally, too, Henry Morgenthau at the American Treasury showed an interest in wrestling with Britain for financial supremacy in China: but his ability to act was frequently circumscribed by a failure to maintain his authority with President Roosevelt. China was certainly influenced by American economic policy but its impact was random and unsystematic rather than consistent.⁽⁷⁾

Professor Akita's case is also weakened by the fact that the currency reforms in China were decided on and implemented before the USA decided to buy Chinese silver. However, his arguments about American policy have forced us to recognise more clearly than we did before that the Chinese reforms were well under way before Leith-Ross had really had time to make an impact in China. Indeed, it seems to me that one very valuable outcome of Professor Akita's comments is that it has brought to light the fact that China was capable of acting independently of both Britain and the USA and this raises a question mark over any previous assumption (including our own) that China was subject to

either British or American economic imperialism in the mid-1930s.

However, it still seems to be the case that British influence in China did increase relative to American in the period under review. Apart from occasional bouts of silver buying, USA policy towards China was timid, contradictory and hesitant. Convinced that the American voting public would refuse to support any policy which might result in war, the State Department's appeasement of Japan was far more complete than Britain's. For example, they refused to support the idea of lending money to China for fear of offending Japan.⁽⁸⁾ In fact, I would argue that it is because Britain offered a more active policy, and also one more inclined to help China to oppose Japan, that their influence with the Chinese government increased in 1934-7. There is no doubt that the aim of the Leith-Ross mission was to get the Chinese to accept sterling as their monetary base and this was never achieved in the manner hoped. In that sense, the mission was a failure. What must be remembered, however, is that subsequent British efforts in 1936-7 to reform the central bank and arrange for debt repayment on defaulted loans did help to restore some confidence in the Chinese economy in the City of London and thereby increased British economic influence in China.

British appeasement in the Far East

To properly understand Britain's position in China, it is necessary to see it in the context of British foreign policy in general. My argument here is that it is important to recognise that there was more than one kind of appeasement on offer in the Far East in the 1930s. The British Foreign Office espoused one version, Neville Chamberlain another. The Foreign Office was very aware of the coming German menace, of the limited nature of British naval and military resources and the extent of the imperial borders that had to be defended. As a result, they felt that it

was impossible to do anything positive as regards China for fear of provoking Japan and the United States, thus extending Britain's defence commitments and aggravating the problem of 'imperial overstretch'. This was very similar to the attitude adopted by the American State Department and had the same weakness: a policy of doing nothing was just as likely to encourage Japanese advances on China as to prevent them.

The second line of approach was that adopted by Neville Chamberlain, Chancellor of the Exchequer in the mid 1930s, and clearly the strongest force in the British government long before he became Prime Minister in 1937. Chamberlain's initiatives were strongly supported by the Treasury. Here the emphasis was on finding some basis for an agreed settlement of differences which would appease Japan in China while protecting and even enhancing British economic interests there and lowering defence costs. This was the purpose of the Leith-Ross mission in 1935. Chamberlain's initiatives brought some bitter disputes with the Foreign Office but a case can be made for saying that what Chamberlain was trying to do in China was within a tradition of British appeasement going back into the 19th century. It had long been recognised in Britain that its dependence on international trade and finance made it very vulnerable in war and that, besides maintaining a strong navy, it was in Britain's interests to find workable compromises in disputes rather than risk war.⁽⁹⁾ Chamberlain consistently followed this kind of appeasement policy during his career: he adopted precisely the same attitude to Hitler and Germany between 1937 and 1939 as he had taken towards Japan in 1934-5 and it can be argued that his approach was as embedded in British tradition as was the more negative stance adopted by the Foreign Office.

Chamberlain's attitude in 1934 was starkly simple: Japan could be appeased in China by finding ways to revive the Chinese economy which would lead to greater co-operation between all three parties and then bring

mutual economic benefits.⁽⁴⁰⁾ In return for help on the economic front, the Chinese were to accept the Japanese occupation of Manchukuo. There is no doubt that Chamberlain espoused his appeasement policy in China partly as a means of limiting American influence since he was deeply suspicious of the United States. The proposals alarmed the Foreign Office who believed that China would never accept Japanese occupation of its territory and that both Japan and the United States would be offended by a British initiative which would increase the British economic presence in China. On the other hand, Chamberlain's policy was enthusiastically supported by business interests in Britain, who were keen to exploit the Chinese market, and by the Treasury. Encouraged by Chamberlain, the latter felt that one important step towards the rehabilitation of the Chinese economy would be to encourage reform of the monetary system and the creation of a central bank and to offer the prospect of loans to China if the reforms were carried out in a manner satisfactory to Britain. When the Chinese government showed an interest in the British initiative the Leith-Ross mission was born. It was announced in June 1935 and encouraged by the new Foreign Secretary, Samuel Hoare, who was very much a Chamberlain man. He wrote in July 1935:

'Ought we not to be considering the possibilities of a more positive policy in China, e.g. an arrangement under which we should accept the obvious fact of Japanese predominance in the North and by accepting this fact strengthen our position in the South'.⁽⁴¹⁾

Clearly, Hoare had in mind the kind of 'spheres of interest' deals which had been characteristic of great power diplomacy in China before 1914 and which a successful Leith-Ross mission would help to promote.

The Leith-Ross mission and its outcome

Leith-Ross, a leading Treasury official, was described as a 'big gun' by the

Foreign Office⁽¹²⁾ and his appointment is an indication of how seriously Chamberlain and the Treasury looked on the mission. Leith-Ross relied heavily on the Bank of England's advice in international financial matters. Montagu Norman, the famous Governor of the Bank, was extremely sceptical about the possibilities of currency reform in China but he felt that, if China were to abandon silver, its best policy would be to adopt a sterling base for its currency because of China's trade links with Britain and because of London's position as 'the most important money market in the world'. He also pointed to sterling's stability and warned that an alignment with the American dollar would be a 'dangerous gamble' because American policy was 'incalculable'. Norman also recognised that the other powers, including the United States and Japan would be hostile to a sterling standard and that raising a loan for China would be difficult. Persuading China to adopt sterling would make other powers reluctant to subscribe to a Chinese loan but, left to itself, Britain would find a loan a 'heavy burden'.⁽¹³⁾ Somehow, Leith-Ross had to guide China towards a sterling standard while working towards 'effective co-operation' within the guidelines set by Chamberlain's appeasement policy. No wonder he told Norman before he left that 'the difficulties of the job fill me with dismay'!⁽¹⁴⁾

Norman's advice had great weight with Leith-Ross as his general strategy indicated. Before leaving for China, he wrote to the British ambassador, Sir Alexander Cadogan, saying that Britain would help China with loans in return for 'a properly considered scheme' of currency reforms. Nonetheless, loans would only be forthcoming if China decided to stabilise its currency on sterling, while at the same time, there was a danger that the other great powers would react badly to such a stabilisation. He went on:

It may be hoped, therefore, that the Chinese government will themselves decide to adopt a sterling basis as it is important that we should not give other interested countries the impression that it is we who are, for motives of our own, pressing China to adopt sterling as compared with any other currency, and we must trust that other interested countries will recognise the expediency of helping China to stabilise on sterling, if that be the eventual decision of the Chinese government, rather than risk a complete financial breakdown'.⁽¹⁵⁾

Success or Failure ?

Britain was not strong enough to pressurise China into accepting sterling. Instead, she had to hope that the promise of loans would steer China in London's direction and that the other great powers would accept this and cheerfully subscribe to any loan to China which followed. The chief officials at the Foreign Office were quite right to recognise that such a favourable set of circumstances was unlikely to appear. China took its own initiatives on currency aided by American silver purchases and Leith-Ross got nowhere in his negotiations in Tokyo. In practice, the Chamberlainite strategy within which the Leith-Ross mission had its part was fatally flawed. British attempts to play off recognition of Japan's special position in the north of China against Japanese help in the reconstruction of the Chinese economy could not work. Apart from the fact that China would never recognise Japan's territorial claims, the latter felt no need of British support for its position in Manchuoko and feared, rather than hoped for, a revived Chinese economy. The strategy of appeasement might have worked better if Chamberlain had been able to address Japan's grievances about its exclusion from British colonial markets after the Ottawa preference agreements were signed in 1932. But he was an avid supporter of imperial tariffs and had no room to manoeuvre. Chamberlain himself had lost interest in the Japan question by 1936 and the replacement of Hoare by Anthony Eden as Foreign secretary

in December 1935 also undermined what little support there had been for the original strategy at the Foreign Office.

There is no question that the Leith-Ross strategy did not work and was soon 'quietly forgotten'.⁽¹⁶⁾ Nonetheless it is important because it acted as a trigger for a series of initiatives which were more successful and which have often been forgotten. The mission led to a Bank of England advisor being sent to help the Chinese to reorganise their banking system and to a whole series of negotiations which ended in a settlement of Chinese railway debt obligations. This together with the rapid economic growth in China in the mid-1930s revived interest in China in the City of London. By 1937, Addis and Leith-Ross were contemplating a possible £15m. railway loan and a £20m. loan to the Chinese government issued in London with great power participation.⁽¹⁷⁾ In the same year, Sir Louis Beale, Britain's commercial councillor in Shanghai claimed that British economic prospects in China had never been greater and the British Ambassador agreed with him.⁽¹⁸⁾ Nonetheless, this was not because Britain had persuaded China to join the sterling family but because of China's own successful policies and Britain's increasing recognition that, as the *Economist* put it, business was best done in China

'through co-operation with joint undertakings, in which the Chinese hold the control; and it is eminently desirable that foreigners should develop their interests in that way, instead of by the old method of foreign concessions and monopolies protected by extra-territorial rights'.⁽¹⁹⁾

Britain had been adjusting to the idea of co-operation slowly since 1918 and it was probably this rather than overt or covert imperialism which increased British influence in China. Somewhat fortuitously, the Leith-Ross mission encouraged that process.

Conclusions

What conclusions might be drawn from this? Firstly, Professor Akita was right to say that we neglected American influence on Chinese policy in the mid-1930s in *British Imperialism* but that influence was not as strong as he suggests. Secondly, he is also right to remind us of the importance of British appeasement of Japan in China but that appeasement policy was in a long tradition of British foreign policy and rather more positive than he thinks. Thirdly, there is no doubt that the Leith-Ross mission was a failure initially and that Britain never quite succeeded in integrating China into the sterling area. However, despite its limitations, the mission did set in motion initiatives which increased Britain's influence in China between 1935 and 1937 although they may also have been a factor in provoking Japan into war in 1937. Fourthly, the long run tendency in British strategy appears to be to give up the more obvious forms of imperial influence, to encourage more Sino-British economic co-operation, and to try for a position of guidance of China's economy via monetary management and sterling area membership. This did not work as well as Chamberlain and Leith-Ross hoped. In *British Imperialism* it would have been better if we had pointed out more clearly that sometimes Britain's imperialist *intentions* were greater than its *achievements*.

ENDNOTES

- (1) The term 'informal empire' was first given currency by J. Gallagher and R. E. Robinson, 'The Imperialism of Free Trade, 1815-1914', *Economic History Review* VI (1953).
- (2) The best background studies are by A. Trotter, *Britain and East Asia, 1933-1937* (Cambridge, 1975) and S. L. Endicott, *Diplomacy and Enterprise: British China Policy, 1933-1937* (Manchester, 1975).
- (3) P. J. Cain and A. G. Hopkins, *British Imperialism: Crisis and Deconstruction, 1914-1990* (London, 1993), ch. 10.
- (4) Cain and Hopkins, pp. 83-93.

- (5) Cain and Hopkins, pp.138-44, 154-61. See also P. J. Cain, 'Gentlemanly Imperialists at Work: the Bank of England, Canada and the Sterling Area, 1932-6', *Economic History Review* XLIX (1996).
- (6) S. Akita, 'British Informal Empire in the Far East, 1880s-1930s: a Japanese Perspective', in R. Dumett (ed.) *British Imperialism: the Cain-Hopkins Thesis* (forthcoming).
- (7) D. Borg, *The United States in the Far Eastern Crisis of 1933-1938* (Cambridge, Mass., 1964). ch 4.
- (8) Borg, pp. 523-4.
- (9) This is one of the main themes of P. M. Kennedy, *The Realities behind Diplomacy: Background Influences on British External Policies, 1865-1980* (London, 1981).
- (10) G. Bennett, 'British Policy in the Far East, 1933-1937: Treasury and Foreign Office, 1933-1936', *Modern Asian Studies* 20 (1992).
- (11) Quoted in Bennett, p. 566.
- (12) S. L. Endicott, 'British Economic Diplomacy in China: the Leith-Ross Mission, 1935-1937', *Pacific Affairs* 46 (1973-4), p. 482.
- (13) Bank of England Archive, G1/300/2525/2, file 13: 'Provisional Answers to Questionnaire on China', 17 July 1935.
- (14) Bank of England Archive G1/300/2525/2, file 1: Leith-Ross to Norman, 11 June 1935.
- (15) British Documents on Foreign Policy, Series 2, Volume 20 (1984), Doc. no. 329: Foreign Office to Cadogan, 9 August 1935. It is worth noting in this context that one authority on British policy argues that both the Bank of England and the Treasury saw American purchases of silver not as a threat but as an aid to Chinese recovery which would facilitate the British attempt to gain greater financial control in China. See R. A. Dayer, *Finance and Empire: Sir Charles Addis, 1861-1945* (London 1988), p, 293.
- (16) Bennett, p.568.
- (17) On this see Endicott, 'British Economic Diplomacy in China' and Dayer, ch 11.
- (18) J. Osterhammel, 'Imperialism in Transition: British Business and the Chinese Authorities', *China Quarterly* 98 (1984), pp. 260-1.
- (19) *Economist*, 16 January 1937, p. 107.